



U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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## **FACT SHEET on the “Require a PLAN” Act (H.R. 444)**

### **Majority is pushing a political gimmick, not addressing the looming sequester.**

- In a few short weeks, sequestration is scheduled to impose meat-ax spending cuts across a wide array of critical federal services.
- Painful cuts will affect the Pentagon and Head Start centers, important research at NIH and law enforcement work at the FBI.
- In the meantime, agencies are being forced to spend scarce resources on developing contingency plans for sequestration.
- Yet instead of taking action to stop sequestration, Republicans are working to score political points by pushing a measure that does nothing to reduce the deficit, offers no solutions, and thus addresses none of the real fiscal issues facing this nation.
- Democrats are eager to find balanced solutions that address our fiscal challenges. The Van Hollen amendment would stop the 2013 sequester, replace it with a mix of spending cuts and revenue increases, and call for a balanced solution to stop the full multi-year sequester.

### **The President has offered concrete proposals to reduce the deficit in a balanced way.**

- President Obama inherited an economy and fiscal situation both in free fall. Before the President was even sworn in, GDP was already contracting at an annualized rate of 8.9%, private employers were laying off 821,000 workers per month, and both CBO and OMB projected a deficit for FY 2009 that had already ballooned to over \$1 trillion.
- His first order of business was getting policies enacted to save the economy. Then he turned his attention to improving the fiscal outlook over the budget horizon.
- Republicans are plain wrong when they say the President does not have a plan to reduce the deficit. He has continuously pushed for and proposed options for a large deficit reduction agreement that would stabilize debt by the end of the decade.
- His 2013 budget provided such a plan, with detailed proposals on both the revenue and spending side of the budget.
- Republicans have rejected the President’s approach, instead demanding deep cuts in key services and no increase in revenue – not even closing a single special-interest loophole.

### **Majority is targeting a specified date for reaching budget balance, regardless of the consequences.**

- The Republicans have suddenly decided that the budget must be balanced within ten years and are trying to force the President to buy into that goal.
- Yet even the Republican House-passed budgets of the last two years did not reach balance until after 2030.
- Too much austerity too quickly is what pushed the European economies back into recession – and the looming sequester is threatening to do the same here at home.
- The steep spending cuts the Republicans support would jeopardize vital services, including funding for infrastructure needs and protection of vulnerable citizens.

**Putting the federal budget on a sustainable path requires a balanced approach that considers both spending and revenues.**

- Both parties agree that the current fiscal outlook is not sustainable. The question is how to move forward.
- The President's plan stabilizes debt in the short run but acknowledges that managing our budgetary challenges will be an ongoing effort.
- Over the long term, the outlook is driven in large part by rising health care costs and the aging of our population.
- The Affordable Care Act put in place a number of approaches to address rising health care costs, and more work remains to be done on that front as we learn more about which approaches work best.
- We cannot permanently solve our deficit problems just by relentlessly cutting spending on health and retirement security, safety net programs, and other important federal services and investments.
- A balanced solution that is economically sensible and fair requires both spending cuts and additional revenues. Otherwise, we will lack the necessary resources to provide security for seniors and the investments necessary for a strong economic future.

**Summary of H.R. 444, the "Require a PLAN" Act:**

**Requires additional budget submission.** If the President's fiscal year 2014 budget request shows a unified budget deficit for all years, the President would be required to submit an additional budget by April 1, 2013. (Note that the unified deficit combines both the on-budget deficit and the off-budget surplus, which is primarily Social Security.) It is likely that the requirements will be triggered. Last year, neither the Republicans' 2013 budget resolution nor the President's 2013 budget ever reached balance. In the President's 2013 budget, deficits declined through the 10-year budget window to a point where debt was no longer growing relative to the size of the economy. The President acknowledged that our budget imbalance was not fixed on a permanent basis and that more changes would be needed in the future.

H.R. 444 does not require that the additional budget submission reach balance at any specified timeframe. However, it does require that the President identify the year at which balance is reached, and to explain the differences between this second budget submission and the President's original budget.

**Republican findings point to President and don't acknowledge true causes of deficits.** The bill's findings point out the significant increase in the debt during President Obama's term without mentioning the reasons for the increase. President Obama inherited a budget and economy that were in free fall. The large deficits of the last four years were largely the result of a weak economy and the financial crisis, and the necessary responses to them as well as the policy choices made in the previous Administration.

## **SUPPORT THE VAN HOLLEN SUBSTITUTE**

### **We must avoid sequestration and its meat-ax approach to deficit reduction.**

- Sequestration was included in the Budget Control Act as a deficit reduction mechanism that was so bad that it would encourage a fair and balanced, bipartisan agreement. While we would consider additional policy-based spending cuts as part of a balanced approach to deficit reduction, it is a big mistake to allow sequestration to make arbitrary and harmful cuts across-the-board.

### **Van Hollen substitute replaces the looming sequester.**

- Unlike the underlying Republican bill (H.R. 444), which does nothing to address sequestration, the Van Hollen substitute eliminates the 2013 sequester entirely while reducing the deficit by more than the amount of the scheduled across-the-board spending cuts. It makes specific policy choices that reduce the deficit in a balanced way, with a mix of spending cuts and revenue increases.
- The substitute also calls for a balanced solution to stop the full multi-year sequester.

### **Every bipartisan group considering our fiscal difficulties has recommended a balanced approach to deficit reduction.**

- Every bipartisan commission has recommended – and the majority of Americans agree – that we should take a balanced, bipartisan approach to reducing the deficit that increases revenue and decreases spending.
- However, Republicans insist that revenue increases are off the table for further deficit reduction. Instead, they have pushed for a lopsided approach that increases the tax burden on middle-income Americans, shreds the social safety net for vulnerable Americans, and fails to protect Medicare or student loans from sequester for even one year.

### **Van Hollen substitute takes a balanced approach to deficit reduction in the long term.**

Our amendment calls for replacing sequestration for all scheduled years with balanced, bipartisan legislation that:

- Reduces the deficit through both increasing revenues and decreasing spending,
- does not increase the tax burden on middle-income Americans,
- promotes economic growth while achieving deficit reduction, and
- maintains the Medicare guarantee and the social safety net for vulnerable Americans.

### **Van Hollen substitute takes a fair and balanced approach for 2013.**

- The substitute contains specific policy choices – a mixture of spending cuts and revenue increases – to replace the sequester in 2013. The savings include the following:
  1. **Repeal Subsidies to Big Oil and Gas Companies** – In a time of record oil profits and rising prices at the pump, this amendment repeals several costly tax incentives that subsidize the “Big 5” major integrated oil companies (e.g., Exxon-Mobil, Chevron, Shell, BP, and Conoco-Phillips) to do what they would do in any case: produce oil. These subsidies are:

- a. Section 199 deduction for domestic production activities, meant to subsidize the beleaguered manufacturing sector, but which has inadvertently been subsidizing highly lucrative oil production;
  - b. “Last-In, First Out” (LIFO) method of inventory accounting that lets oil companies deduct the cost of oil most recently added to inventories (which costs the most when oil prices are rising) from their taxable income; and
  - c. “Dual capacity taxpayer” rules that create a subsidy for foreign oil production by allowing oil companies to claim foreign tax credits against royalties paid to foreign governments for the right to extract oil (e.g., a cost of doing business for which a tax deduction rather than a tax credit is more appropriate).
2. **Implement a “Buffett Rule”** – Billionaire investor Warren Buffett has observed that he pays a lower effective tax rate than his secretary because he receives the bulk of his income in the form of capital gains, which enjoy preferential tax treatment. The Buffett rule is meant to ensure that middle class families will not confront higher effective tax rates than the wealthy. Starting in 2014, this amendment would impose a minimum effective tax rate of 30 percent on adjusted gross incomes above \$2 million (and to be phased in for taxpayers with AGI between \$1 million and \$2 million).
3. **Refocus farm subsidies** – The agriculture safety net must be better targeted, while continuing to help farmers effectively manage risk. Direct payments – made regardless of yields, prices, farm income or size – are difficult to defend in times of record crop yields and prices.