



U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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## The President's 2013 Budget: Focus on Jobs and a Balanced Approach to Deficit Reduction

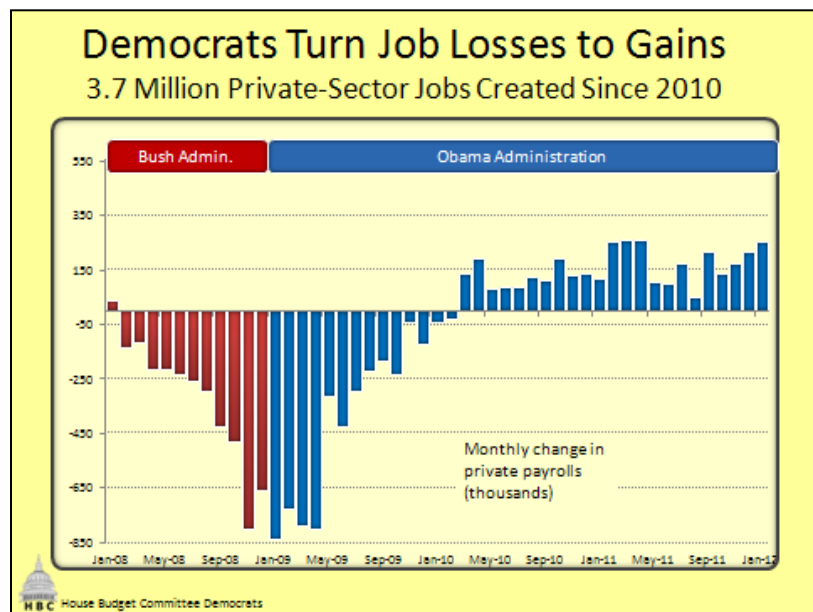
Today President Obama has sent Congress a budget for fiscal year 2013 that includes short-term initiatives to spur immediate job growth, pursues a balanced approach to deficit reduction in the medium-term, and makes investments to make the country stronger in the long-term. The budget exceeds the deficit reduction targets established in the Budget Control Act of 2011, consistently lowering the deficit as a share of the economy and stabilizing the debt as a percentage of the economy. The President reaches the targets not through an automatic sequester of spending, but instead with policy choices that balance the need to make wise investments to spur job growth and provide security for the middle-class with the need to put the budget on a fiscally sustainable path.

### Immediate Job Creation

After the worst recession since the Great Depression, the economy has now grown for ten straight quarters, and the private sector has added jobs for 23 consecutive months – 3.7 million jobs in total – since March 2010. More jobs were created last year than in any year since 2005. According to the Congressional Budget Office, the Recovery Act lowered the unemployment rate by up to 1.8 percentage points in calendar year 2010 and by up to 1.4 percentage points in 2011

relative to what it would have been had Congress and the President not taken action. In fact, the unemployment rate has dropped almost half a point since the Administration locked in the budget's unemployment forecast in November, so Administration officials believe the budget's forecast may be more pessimistic than warranted.

To continue to spur job growth, the budget includes elements of the President's American Jobs Act proposal. In total, the budget includes \$354 billion for short-term measures to create jobs, with



\$178 billion spent in 2012 and most of the rest in 2013 (all years are fiscal years unless otherwise noted). The initiatives include tax cuts for individuals and businesses, creation of jobs to rebuild and modernize our infrastructure and communities – including preventing teacher layoffs and employing first responders – and reform of the Unemployment Insurance program to provide more job training and make it easier for businesses to hire unemployed workers. Major elements include the following:

**Payroll Tax Cut Extension** — The budget extends the payroll tax holiday for one year, through December 2012, which costs \$63.2 billion in 2012 and \$31.2 billion in 2013.

**Unemployment Insurance Extension** — The budget extends for one year the emergency unemployment benefits to prevent millions of unemployed Americans from losing their benefits while they look for work. This extension and other initiatives for the unemployed cost \$22.6 billion in 2012 and \$22.9 billion over the 2013-2022 period.

**Surface Transportation** — The budget includes \$50 billion to fund jobs that address immediate surface transportation priorities, including funding for highways, transit systems, rail, and aviation. The budget also repropose the creation of a \$10 billion infrastructure bank.

**Education** — The budget provides \$60 billion for education jobs: \$25 billion to help states prevent teacher layoffs while the economy is still recovering; \$5 billion to support reforms in the teaching profession; and \$30 billion to create jobs upgrading at least 35,000 public schools, including elementary and secondary schools and community colleges.

**First Responders** — The budget provides \$5 billion to help states and localities rehire first responders.

**Veterans Job Corps** — The budget provides \$1.0 billion for an interagency initiative to employ up to 20,000 veterans over five years on projects to preserve and restore national parks and other federal, state, and local lands. The initiative seeks to help lower the high unemployment rate for post-Sept. 11 military veterans, which stood at 13.1 percent in December.

**Extension of 100 Percent Expensing** — The budget extends 100 percent first-year depreciation for certain property, at a cost of \$35.0 billion in 2012 but net savings of \$30.9 billion over the following ten years.

**Temporary Tax Credit for New Jobs** — The budget includes \$14.2 billion in 2012 and \$18.5 billion over the following ten years to provide a temporary 10 percent tax credit for new jobs and wage increases.

## Deficit Reduction in the Medium Term

As the economy continues to recover, the budget takes a balanced approach to reducing the deficit through a combination of targeted spending cuts and revenue changes that ask all Americans – especially those who have most benefitted from our economy – to pay their fair share. Under the President’s budget, the deficit for 2012 is \$1.3 trillion, reflecting enactment of policies that have \$200 billion of costs in 2012. For 2013 the deficit falls to \$901 billion and 5.5 percent of GDP. As spending declines and revenues rise as a share of the economy, the deficit reaches sustainable levels;

debt held by the public declines relative to the size of the economy beginning in 2015 and stabilizes through the projection period.

President's 2013 Budget Totals in Billions of Dollars											
(OMB estimates)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Receipts</b>	2,469	2,902	3,215	3,450	3,680	3,919	4,153	4,379	4,604	4,857	5,115
<b>Outlays</b>	3,796	3,803	3,883	4,060	4,329	4,532	4,728	5,004	5,262	5,537	5,820
<b>Deficit</b>	1,327	901	668	610	649	612	575	626	658	681	704
<b>% of GDP</b>	8.5	5.5	3.9	3.4	3.4	3.0	2.7	2.8	2.8	2.8	2.8

**Saves \$5 Trillion through a Balanced Approach to Deficit Reduction** — Counting savings already achieved during the 112<sup>th</sup> Congress, the budget reduces the deficit by \$5 trillion through 2022 through a balanced approach. For every \$1 raised in taxes from closing corporate loopholes and from those making more than \$250,000 per year, OMB estimates that the budget includes \$2.50 in spending cuts. The budget's new policies save a net total of \$3.0 trillion relative to the Office of Management and Budget's (OMB's) baseline estimates over the 2012-2022 period. The Administration accomplishes the savings through policy choices rather than the automatic sequestration cuts scheduled to begin in January 2013 under the Budget Control Act. Therefore, the President's budget cancels the scheduled sequester, reducing the budget's net savings by \$1.2 trillion.

The key new proposals include the following:

**War Funding** — Overall, the budget assumes \$0.8 trillion in savings over ten years from reducing and capping war funding instead of continuing war spending at the current level in real terms. The budget assigns most of the savings to deficit reduction, and uses some for surface transportation programs.

**Mandatory Spending** — The budget contains \$0.6 trillion in net savings from a variety of changes in mandatory programs, with about \$0.4 trillion from health care entitlements and \$0.3 trillion in other areas. Most of the proposals were also in the Administration's September plan for the Joint Select Committee on Deficit Reduction ("Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction") or in last year's budget request.

**Tax Proposals** — The budget includes \$1.6 trillion in net tax savings, of which \$1.0 trillion is from not extending the portions of the 2001 and 2003 tax cuts that benefit upper income taxpayers and returning the estate and gift tax to the 2009 parameters.

**Debt Service** — The budget shows \$0.4 trillion in debt service savings.

## Investments for Long-term Growth and Strength

The budget maintains investments to help create an economy that is not only built to last, but that also includes jobs that pay well and that provides security for the middle class.

### Higher Education

The budget helps make college more affordable by increasing aid through grants, loans, and tax breaks, and by working to keep tuition costs in check.

- **American Opportunity Tax Credit** — The budget includes \$137 billion over ten years to make permanent the AOTC, which helps more than 9 million students afford college.
- **Pell Grants** — The maximum Pell grant will rise to \$5,635 in 2013 under a provision enacted by the previous Democratic Congress that provides an annual inflationary adjustment. The budget includes \$14 billion in mandatory appropriations to help sustain the discretionary maximum grant in 2014 and 2015, when some existing funding ends. This additional Pell grant funding is offset with savings from Perkins loan reforms, lowered compensation to guaranty agencies for student loans, and ending in-school interest rate subsidies for undergraduates after 150 percent of the program length.
- **Student Loans** — The budget extends for one year the current 3.4 percent interest rate on subsidized student loans; the rate is scheduled to revert to 6.8 percent on July 1, 2012, raising costs for 7.4 million students.
- **Campus-based Aid** — The budget shifts campus-based aid (Perkins Loans, Work Study, and Supplemental Educational Opportunity Grants) away from colleges that do not keep net tuition costs down.
- **Race to the Top for College Affordability** — The President is creating a new \$1 billion “Race to the Top” grant competition for states that contain college costs.

### Transportation and Infrastructure

The budget includes \$50 billion for immediate infrastructure investments and \$10 billion for an infrastructure bank. It also includes a \$476 billion six-year highway bill that represents a \$135 billion increase in investments to modernize our transportation infrastructure. The initiative is paid for with a portion of the war savings from reduced funding for Overseas Contingency Operations. These savings are used to offset the new spending and close the gap between the baseline levels of highway program spending and revenues.

The budget also features a National Wireless Initiative to help build a next-generation wireless broadband network, including an interoperable system for public safety. This proposal is fully paid for with spectrum auctions and other funds that also provide \$21 billion for deficit reduction.

## **American Innovation**

The budget increases investment in research and development (R&D) and clean energy to help create the jobs of the future. The budget provides \$140.8 billion for R&D overall, including 5 percent more than the 2012 level for non-defense R&D. The National Science Foundation receives \$7.4 billion, which is nearly 5 percent above the 2012 level. The budget also includes a new \$6 billion HomeStar program, which invests in energy and home improvements, reducing families' energy bills and creating jobs for those who undertake these renovations and \$1 billion to establish the advanced vehicles community development challenge.

## **Tax Policy**

The budget includes a \$3.5 trillion permanent extension of the 2001 and 2003 tax cuts for those with incomes under \$200,000 (\$250,000 for couples), permanent estate tax relief at the 2009 parameters, and permanent Alternative Minimum Tax relief. The budget allows \$968 billion in Bush-era tax cuts for those making above \$200,000/\$250,000 to expire. To jumpstart the economy and generate jobs, the budget provides \$113 billion in tax relief and in 2012 and an additional \$25 billion over the 2013-2022 period. The budget also provides tax cuts for families and tax incentives for businesses and regional development, totaling \$359 billion in tax cuts and over ten years, and \$953 billion in revenue raisers and loophole closers.