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President Obama's 2013 Budget Delivers Tax Hikes, More Spending, More Debt

Abstract
The President's 2013 budget, released on February 13, repeats the stale and unsuccessful policies of the past three years. The Administration's apparent vision is one of bigger government, more spending, higher taxes, and deeper deficits. At a time when runaway spending and swelling deficits must be reversed, President Obama increases both. Moreover, he neglects to deal with the biggest drivers of spending and debt: the entitlement programs. In his first post-debt-ceiling budget, President Obama appears to have offered an election-year campaign document, not a credible blueprint for addressing the nation's fiscal and economic problems. Heritage Foundation experts analyzed the President's FY 2013 budget, offering their insights on a wide range of policy issues in an "immediate-reaction roundup" blog. This Backgrounder *is a compilation of their contributions.*

This paper, in its entirety, can be found at **http://report.heritage.org/bg2656**

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Higher Taxes and More Spending and Debt

Patrick Louis Knudsen

In President Barack Obama's fiscal year (FY) 2013 budget[1]—delayed by a week without explanation—spending rises inexorably from today's $3.8 trillion to $5.8 trillion in 2022. Throughout the decade, outlays hold stubbornly above 22 percent of gross domestic product (GDP), more than twice the New Deal's share of the economy in its peak years. In constant dollars, outlays are more than three times the peak of World War II.

The President is proposing to increase spending immediately in 2012; while delaying proposed saving until later. The President's budget delivers a fourth consecutive annual deficit exceeding $1 trillion, and then makes it worse with another round of not-so-shovel-ready construction projects and government "investments" totaling $178 billion. Among these are the typical road, bridge, and school construction—then they go alarmingly beyond the usual "infrastructure" arguments to fund teachers' pay.

Obama's future deficit reduction comes mainly from Budget Control Act cuts already in place, $848 billion in discredited phantom "savings"

Talking Points

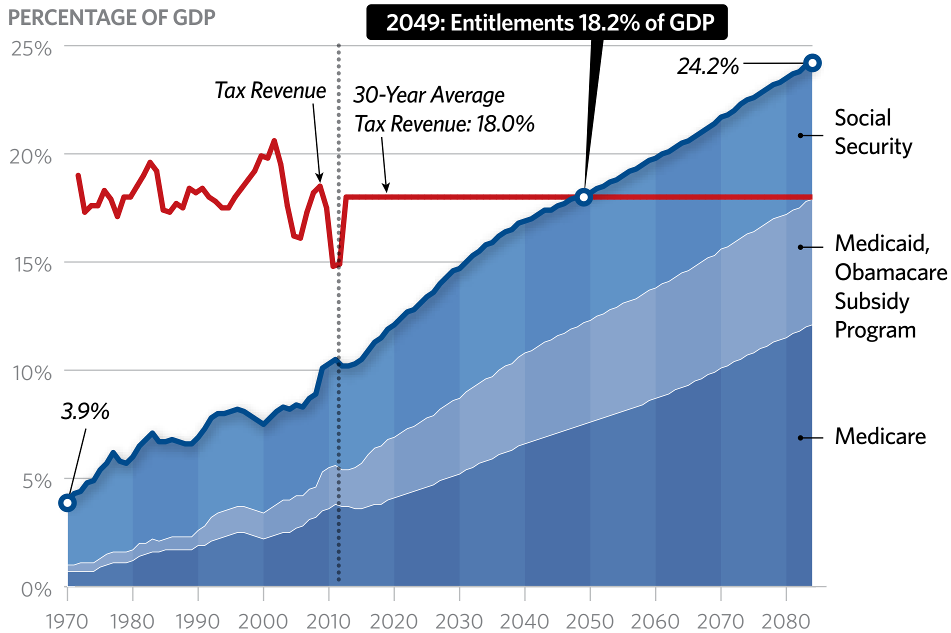
- President Obama's FY 2013 budget is an election-year campaign document, embodying the President's vision that big government is the solution to any perceived national ailment. It taxes away certain peoples' money to manage the lives and businesses of others, and will create more of the cronyism that delivered the failed Solyndra to taxpayers.
- In 2012, the President delivers the fourth consecutive year of deficits exceeding $1 trillion, with federal spending rising from $3.8 trillion in 2012 to $5.8 trillion in 2022—more than three times the peak of World War II spending.
- The President proposes $2 trillion in tax hikes, from ending the 2001 and 2003 tax cuts to a barrage of new increases, all of which hurt investment and job creation.
- The President fails to deal with the biggest drivers of federal spending and debt—the Medicare, Medicaid, and Social Security entitlement programs.

CHART 1

Medicare, Medicaid, and Social Security Will Consume All Tax Revenues by 2049

If the average historical level of tax revenue is extended, spending on Medicare, Medicaid and the Obamacare subsidy program, and Social Security will consume all revenues by 2049. Because entitlement spending is funded on autopilot, no revenue will be left to pay for other government spending, including constitutional functions such as defense.

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, at *http://www.cbo.gov/doc.cfm?index=12039* (February 14, 2012).



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from the wind-down of operations in Iraq and Afghanistan,[2] taking credit for reductions in 2011 appropriations, and roughly $1.8 trillion in unnecessary tax increases[3] for those earning more than $250,000 and for the oil and gas industries.

Yet even with the hefty tax increases and illusory savings, the President's deficits over the next decade only fall below $575 billion once (in 2018) and climb back to $704 billion (in 2022)—again, only assuming the tax increases and mystical savings cited above.

Debt held by the public in the President's budget rises from 74.2 percent of GDP today to 76.5 percent of GDP in 2022. These are historically high debt levels: The post–World War II average is just 43 percent. Moreover, the President's debt estimates are low because of the unreal nature of much of his proposed deficit reduction.

A Pass on Entitlements. Regarding the most critical fiscal challenge of the day—the need to restructure Medicare, Medicaid, and Social Security—the President has once again taken a pass. By the middle of this century, these three programs and Obamacare will consume about 18 percent of GDP, soaking up all the historical average of federal tax revenue. The notion of "protecting" them through benign neglect only ensures their collapse, and the longer that Congress and the President wait to address the problem, the more wrenching the consequences will be. But the President merely reruns previous ideas, such as more cuts to medical providers, ignoring the need for fundamental reform.

For other entitlements, the President repeats a range of mere chipping-around-the-edges proposals from last year's budget, many of which are really tax or fee increases, not spending reductions.

In short, the President's budget is the same worn-out collection of higher spending and higher taxes that he has offered three times before—with the same inevitable result of more spending, higher taxes, and still more government debt.

1. Office of Management and Budget, "The President's Budget for Fiscal Year 2013," February 13, 2012, at *http://www.whitehouse.gov/omb/budget* (February 17, 2012).
2. Patrick Louis Knudsen, "Note to Congress: Swear Off Phony War Savings, Now and Forever," Heritage Foundation *The Foundry*, February 2, 2012, at *http://blog.heritage.org/2012/02/02/note-to-congress-swear-off-phony-war-savings-now-and-forever/*.
3. Curtis S. Dubay, "CBO Once Again Proves Tax Hikes Unnecessary to Lower Deficit," Heritage Foundation *The Foundry*, February 6, 2012, at *http://blog.heritage.org/2012/02/06/cbo-once-again-proves-tax-hikes-unnecessary-to-lower-deficit/*.

A Barrage of Economy-Slowing Tax Hikes

Curtis S. Dubay

To no one's surprise, President Obama's FY 2013 budget contains a multitude of tax increases. In total, they add up to over $2 *trillion* in new levies over 10 years.

This is a net total after subtracting for the roughly $88 billion in new tax cuts the President proposes. Many of the tax increases are recycled policies from previous budgets that Congress has repeatedly rejected.

The small amount of tax cuts that the President offers are mostly incentives for engaging in behaviors (including "green activities") that the President favors. These are the types of economy-distorting tax policies that tax reform would wipe out. However, one beneficial tax policy that the President proposes is auto-enrollment in IRA plans.

The average revenue collected by the federal government since World War II is around 18 percent of GDP. President Obama's budget would blow past this upper bound of what Americans will tolerate their government taking from them. Under his budget, revenues would surpass the average revenue mark in 2014. By the end of the 10-year window, revenue would be 20.1 percent of GDP—well above the historical marker and almost equal to the all-time high revenue number set in 2000.

Reverses Bush Tax Cuts, Introduces New Hikes. Included in the President's tax hikes are his old favorites, such as raising tax rates on families who earn more than $250,000 a year to the level at which they were before the 2001 and 2003 tax cuts. President Obama would also curtail their deductions and personal exemptions, hike the capital gains tax to 20 percent (23.8 percent when including the new Obamacare surtax), and raise the death tax.

Tax hikes on oil and coal companies are back again, as are higher taxes on U.S. multinational companies, which would only increase these businesses' incentives to locate jobs in more competitive countries.[4]

The biggest new tax is President Obama's proposal to tax dividends at the same rate as regular income: 43.4 percent (the top income tax-rate increase to 39.6 percent added to the 3.8 percent Obamacare surcharge). Of course, the dividends tax is a double tax, since the corporate income that generates dividends is are already taxed 35 percent at the business level. The effective rate on dividends would stand at more than 63 percent if President Obama's misguided policy became law. This would significantly curtail investment and slow economic growth.

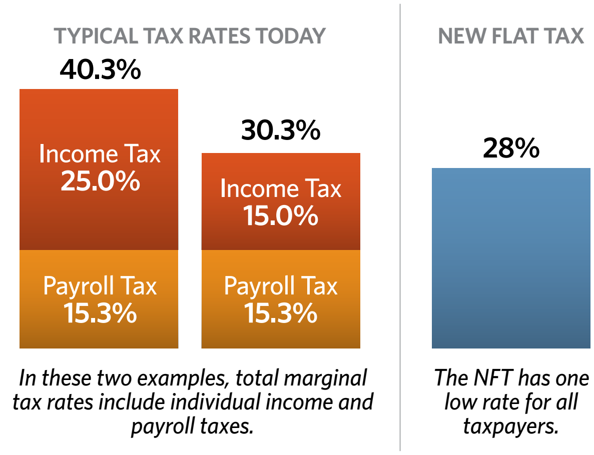
The President's much-touted "Buffett Rule" is not a fleshed-out policy in the budget, but paid lip service in a half-hearted outline for tax reform. The President envisions his misguided rule[5] as replacing the Alternative Minimum Tax as part of a broader redo of the tax code.

Another policy the President hints at in his tax reform outline is

CHART 2

The New Flat Tax

The New Flat Tax (NFT) replaces all income, payroll, and death taxes along with a slew of excises. It will improve economic growth and simplify the tax code. The NFT rate is comparable to or significantly below the typical rate facing an individual or family today.



Source: Heritage calculations based on data from the Internal Revenue Service, "Individual Statistical Tables by Tax Rate and Income Percentile," Tax Year 2009, Table 3.4, at *http://www.irs.gov/taxstats/* (February 17, 2012), and Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, at *http://savingthedream.org/about-the-plan/plan-details/* (February 21, 2012).

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4. For an in-depth analysis, see Curtis S. Dubay, "Obama's 2012 Budget: Higher Taxes, Slower Growth," Heritage Foundation *Backgrounder* No. 2533, March 21, 2011, at *http://www.heritage.org/research/reports/2011/03/obamas-2012-budget-higher-taxes-slower-growth*.
5. Curtis S. Dubay, "The Buffett Rule: Fair to No One," Heritage Foundation *WebMemo* No. 3381, October 3, 2011, at *http://www.heritage.org/research/reports/2011/10/the-buffett-rule-fair-to-no-one*.

eliminating deductions for families earning more than $1 million a year. Such a policy would eliminate their deductions for mortgage interest, saving for retirement, and health care expenses.

True Tax Reform Needed. The still frail economy cannot withstand the barrage of tax hikes the President proposes. Nor would it benefit from his vision of tax reform. Tax reform first and foremost is revenue neutral. The President's outline calls for it to raise another $1.5 trillion for the government to spend.

Congress should disregard the President's tax proposals, as it wisely has in previous years, and focus on true tax reform like the plan laid out in The Heritage Foundation's New Flat Tax.[6]

Obama's Budget Shortchanges America's Vital National Security

Baker Spring

President Obama's budget proposal for FY 2013 and beyond will produce a military that is too small and lacking in the modern weapons and equipment needed to defend the vital interests of the United States.

If these policies are enacted, the Navy might not be able to prevent Iranian aggression in the Strait of Hormuz and safeguard its other interests at sea at the same time. The Coast Guard might not be able to protect U.S. sovereignty at sea and its borders. The U.S. will have to contemplate missions where the Air Force cannot guarantee that it can control the skies. The Marines will not have access to enough ships to deploy their force. The Army will scramble to find the resources to meet all its tasks for training and supporting missions worldwide.

The President's request also does not provide U.S. service members the support they need because it limits their options for obtaining health care coverage and providing for retirement. Specifically, the budget proposes limiting future pay raises and increasing fees and co-payments for health care.

The better approach is to pursue systemic reform of these programs in a way that expands the options available to military service members and their families. The guidance for this reform can be found in the Heritage Foundation's *Saving the American Dream*.[7]

Overall, President Obama's budget proposal reduces total defense spending in budget authority from $721.3 billion in FY 2010, to $647.4 billion in the upcoming fiscal year and ultimately to $601.3 billion in FY 2017. Total defense spending covers all the accounts under budget function 050, which includes funding for the core defense program within the Department of Defense, overseas contingency operations run by the Department of Defense, and elements of the defense program not under the Department of Defense.

President's 2013 Budget Guts Military on Top of BCA Cuts

Michaela Bendikova

The 2013 budget would not equip the U.S. military to adequately address future adversaries, including a rising China, a resurgent Russia, and the uncertain direction of the Arab Spring countries. Proliferation of ballistic missiles and weapons of mass destruction is worsening, including expanding programs in North Korea and Iran. Now is not the time to curtail America's stabilizing presence around the world.

In addition, the proposed budget does not account for additional cuts that would be imposed under the Budget Control Act of 2011 (BCA).[8] These could be about half a trillion dollars over the next nine years, a period covered under the act. According to Secretary of Defense Leon Panetta, these cuts would be devastating for the Department of Defense. Yet President Obama categorically stated that he would veto any legislation that would preclude this sequestration from happening.

Congress should reverse these wrongheaded policies. To provide for the common defense is one of the primary responsibilities of the

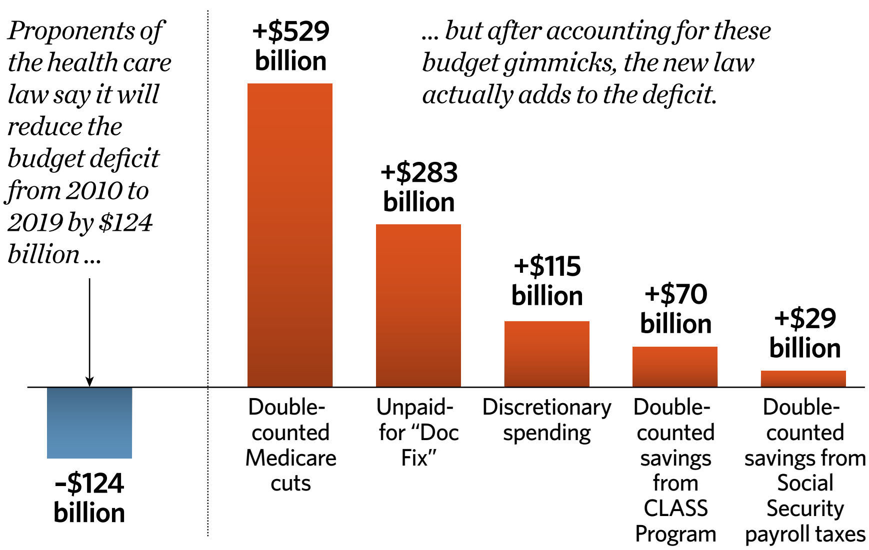
6. J. D. Foster, "The New Flat Tax—Easy as One, Two, Three," Heritage Foundation *Backgrounder* No. 2631, December 13, 2011, at *http://www.heritage.org/research/reports/2011/12/the-new-flat-tax-easy-as-one-two-three*.

7. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, at *http://www.heritage.org/research/reports/2011/05/saving-the-american-dream-the-heritage-plan-to-fix-the-debt-cut-spending-and-restore-prosperity*.

8. Baker Spring, "Debt Ceiling Defense Cuts Will Happen," Heritage Foundation *The Foundry*, August 8, 2011, at *http://blog.heritage.org/2011/08/08/debt-ceiling-defense-cuts-will-happen/*.

CHART 3

Obamacare's bundle of budget gimmicks



Source: Heritage calculations based on Senate Budget Committee Republicans, "Budget Perspective: The Real Deficit Effect of the Democrats' Health Package," March 18, 2010, at *http://blackburn.house.gov/UploadedFiles/CBO_HC_3.pdf* (February 21, 2012), and Congressional Budget Office, H.R. 4872, "Reconciliation Act of 2010 (Final Health Care Legislation)," March 20, 2010, at *http://www.cbo.gov/publication/21351* (February 21, 2012).

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government. Defense accounts for less than 20 percent of the federal budget—and is already bearing half the deficit-reduction cuts.

On Health Care: Too Little, Too Late, Completely Wrong Direction

Kathryn Nix

The President's 2013 budget correctly identifies health care as "the major driver of future deficit growth" but does not include the right policies to reverse the problem. The President claims that Obamacare will bring down health care costs and reduce the deficit by $1 trillion over the next decade, when, in fact, the health care law significantly *increases* deficit spending once all of its budget gimmicks are taken into account. The first step to fiscally sound health policy is a repeal of the unpopular and harmful health care law.

Next, with an unfunded liability of nearly $37 trillion, controlling the growth in Medicare spending is a priority. Transforming Medicare from a defined-benefit into an intensely competitive defined-contribution—"premium support"—program is the best way to control costs. The President's budget does not do that. It does include small changes that deliver relatively modest savings, some of which are positive, including the introduction of a co-payment for each home health care visit, a policy endorsed by The Heritage Foundation.

Other changes are less desirable, such as the imposition of a Medicare Part B premium tax on supplemental plans that provide "near" first-dollar coverage of Medicare benefits. To reduce costs of first-dollar coverage, a better alternative is to streamline Medicare co-payments and deductibles for Parts A and B, while substituting catastrophic protection for first-dollar coverage through supplemental plans.

Likewise, the President's proposals to increase Medicare Part B deductibles and increase means testing for B and D premiums of high-income retirees by 15 percent, effective in 2017, go in the right policy direction, but the five-year delay in their implementation guarantees only modest savings, far short of what is needed to secure Medicare's future.

Bureaucrat-Driven Changes to Medicare. Unfortunately, the rest of the changes to Medicare included in the President's budget go in the opposite direction of consumer-driven reform. The White House proposed expanding the powers of the Independent Payment Advisory Board (IPAB), a board of 15 unelected officials created under Obamacare to exert top-down control on Medicare spending growth. The budget reduces IPAB's target growth rate and gives the board additional tools to limit patient choice and access to care. As Heritage fiscal-policy expert J. D. Foster has explained, this is one of the most radical and harmful ways to bring down Medicare costs.[9]

The President's budget also proposes new government price controls in Medicare Part D, which has displayed superior cost-containment precisely because it operates as a

9. J. D. Foster, "Premium Support Is Incremental, Not Radical Medicare Reform," Heritage Foundation *Backgrounder* No. 2649, February 7, 2012, at *http://www.heritage.org/research/reports/2012/02/premium-support-is-incremental-not-radical-medicare-reform.*

marketplace free of government meddling. The White House claims that Part D costs are rising faster than the rest of Medicare, but this is a meaningless, apples-to-oranges comparison. Market forces in Part D have led costs to come in well below projections, and seniors' drug costs have dropped even further than those for the population at large. Introducing failing government price controls will affect beneficiaries by either raising premiums, reducing access to drugs, or both.

Finally, the President's budget would introduce a single blended match rate to Medicaid and CHIP. As Heritage expert Nina Owcharenko has explained, this policy misses the point of Medicaid reform.[10] It lacks the ability to put the program on a true budget, fails to offer states additional flexibility, and ignores one of the biggest and most costly problems facing Medicaid today: Obamacare's addition of 20 million Americans to its rolls.

President Obama and Congress need to tackle rising costs and other problems in government health programs, but introducing more bad policies like most of those put forth in the White House budget is unacceptable.

Energy Budget is Antithesis of a Market-Driven Energy Economy

Nicolas D. Loris

If only entrepreneurs had President Obama's vision of which technologies are going to be successful and profitable in the future. Sadly, the President's vision seems to suggest that America's innovators lack the ingenuity and expertise to meet the country's needs, leaving the taxpayer to pick up the dropped ball.

In a nutshell, that is President Obama's FY 2013 Department of Energy (DOE) budget. It completely rejects the notion of a market-based energy industry and wastes taxpayer dollars at a time when the country desperately needs to curtail out-of-control spending. Whether renewable energy, energy efficiency, nuclear, or fossil fuels, the President's blueprint is all wrong.

Not Government's Role to Make Energy Technologies Cost-Competitive. Each year, the President's budget has moved further from basic research and more into commercializing politically preferred technologies.

For instance, the 2013 budget proposes to spend $310 million on the SunShot Initiative, a program to make solar energy cost-competitive without subsidies by 2020. The oxymoronic part of this proposal is that the program itself is a $310 million subsidy. And, it is a perfect example of the President's attempt to hand America's energy economy over to the DOE. Such an attempt has been tried, and failed, before. It is not just solar energy that is receiving a handout—there is money for wind and geothermal power, biofuels, advanced vehicles, energy efficiency, nuclear energy, and even natural gas.

Government has no business trying to make private-sector projects cost-competitive. That is neither appropriate nor necessary. There is a robust demand for energy domestically and globally that is met by a wide variety of energy sources. According to analysis by HSBC Holdings PLC, the global market for low-carbon energy and energy efficiency will reach $2.2 trillion in the next decade. That is all the incentive that the solar-power industry needs. If a technology or a company cannot capture part of that market, it does not deserve to be in business; and it certainly needs no help from the taxpayer.

Consumers and Businesses Know How to Save Money. Energy-efficiency spending programs and legislation have largely enjoyed bipartisan support because the practices of being resourceful and saving money are inherently good practices. It is precisely because they are inherently good things that government mandates, rebate programs, or spending initiatives to make businesses and homeowners more energy efficient are unnecessary.

The President's overview emphasizes that "the Budget provides DOE with $290 million to expand R&D on innovative manufacturing processes and advanced industrial materials that will enable U.S. companies to cut the costs of manufacturing by using less energy, while improving product quality and accelerating product development."

Businesses do not need taxpayer dollars to improve efficiency and cut costs; they make those investments regularly with their own money. Nestlé's newest water bottle uses 60 percent less plastic than the one it first introduced in the mid-1990s.[11] Businesses make these investments

10. Nina Owcharenko, "Medicaid Blend Rate Misses the Point," Heritage Foundation *The Foundry*, July 13, 2011, at *http://blog.heritage.org/2011/07/13/medicaid-blend-rate-misses-the-point/*.

11. Press release, "Nestlé Waters North America Continues Plastic Reduction Efforts with New, Lighter Bottle," Nestlé Waters North America, December 16, 2009, at *http://www.press.nestle-watersna.com/press/Nestle-Waters-North-America-Continues-Plastic-Reduction-with-New-Lighter-Bottle.htm* (February 14, 2012).

every day in order to be more competitive and pass the savings on to consumers to capture a larger market share.

Energy-efficiency programs take an overly simplistic view of how the economy works and fail to take into account the trade-offs that energy consumers and businesses consider when making decisions.

Subsidize One Fossil Fuel, Punish Another? In his 2012 State of the Union speech, President Obama claimed that the country's natural gas boom was largely the result of public funding. While this claim could not be further from the truth, the President wants to unnecessarily dump money into an already booming industry.

The budget proposal includes $421 million in fossil-energy research and development, including $12 million "aimed at advancing technology and methods to safely and responsibly develop America's natural gas resources." Much of the $421 million consists of subsidies for the fossil-fuel industry for research and spending that can be done by the private sector. Most of this funding focuses on technologies that will reduce carbon dioxide emissions.

The DOE's approach to fossil-fuel energy includes a clean-coal power initiative, research on fuels and power systems to reduce fossil-fuel power plant emissions, innovations for existing plants, integrated gasification combined cycle, advanced turbines, carbon sequestration, and natural gas technologies. All of these programs need to go.

The Administration proposed a phase-out of fossil-fuel subsidies, significantly cutting funding for the DOE's Office of Fossil Energy. The Administration is cutting this spending less because this proposal is, in fact, good economic policy, and more to promote an environmental policy of Administration-preferred energy sources. When the Administration does talk about eliminating fossil-fuel subsidies, it is not actually removing subsidies but imposing targeted tax hikes on the oil industry by removing broadly available tax deductions.[12] The President's anti-subsidy rhetoric is on track, but defining a subsidy is a different story.

Unsurprisingly, President Obama's budget proposal for energy is largely a carbon copy of last year's, with an even stronger government push for renewable energy and energy-efficiency programs. It hands the DOE unprecedented control over America's energy economy, which has successfully been driven by the private sector. The DOE budget proposal does not need a scalpel taken to it; it needs a hatchet.

Infrastructure Spending Would Not Create Jobs, Revive Economy

Emily Goff and Romina Boccia

When it comes to infrastructure spending, the President is once again using the term "investment" as a synonym for "spending." The billions of dollars the President wants to "invest" in infrastructure in his FY 2013 budget would do little to spur job creation in America. Neither would his proposal to establish a national infrastructure bank aid economic revival.

The President's "job-creating infrastructure investments," or spending on the transportation budget, cover $50 billion to "jumpstart" transportation projects in 2012, and a six-year, $476 billion proposal for surface-transportation projects, including high-speed rail. This would amount to a $135 billion increase in spending, which the President proposes to pay for with phony war savings. As taxpayers painfully learned during the past few years, stimulus spending does manage to rack up deficits and debt, but it does little to grow the economy and create jobs. Ditto infrastructure "investing."

After reviewing a series of studies on the relationship between infrastructure spending and economic activity, former Heritage Foundation analyst Ronald Utt concluded that any impact of increased infrastructure spending on jobs would be modest and delayed. An influential study commissioned by the U.S. Department of Transportation suggesting that $1 billion of federal highway spending would produce the equivalent of 47,576 jobs for one year should be viewed with caution. As Utt explained:

> Regardless of how the federal government raised the additional $1 billion, it would shift resources from one part of the economy to another, in this case to road building. The only way that $1 billion of new highway spending can create 47,576 new jobs is if the $1 billion appears out of nowhere as if it were manna from heaven.[13]

12. Nicolas D. Loris and Curtis S. Dubay, "What's an Oil Subsidy?" Heritage Foundation *WebMemo* No. 3251, May 12, 2011, at *http://www.heritage.org/research/reports/2011/05/whats-an-oil-subsidy*.
13. Ronald D. Utt, "More Transportation Spending: False Promises of Prosperity and Job Creation," Heritage Foundation *Backgrounder* No. 2121, April 2, 2008, at *http://www.heritage.org/research/reports/2008/04/more-transportation-spending-false-promises-of-prosperity-and-job-creation*.

Moreover, Utt also explained why an infrastructure bank is not truly a bank, but another means of using taxpayer dollars to fund transportation projects:

> [T]he common meaning of a "bank" describes a *financial intermediary* that borrows money at one interest rate and lends it to credit-worthy borrowers at a somewhat higher interest rate… the Obama proposal is not a bank, and it relies entirely on congressional appropriations—thus, on deficit finance and taxpayer bailouts. (emphasis in original)[14]

A more productive policy would be creating public–private partnerships to address infrastructure needs as a step in the right direction. These partnerships amount to a non-tax means of financing transportation projects, focusing on private-sector involvement and user fees where possible.

The President also proposes spending $47 billion over six years, plus $6 billion in 2012, to fund the development of high-speed rail and other passenger rail programs. High-speed rail is a costly form of transportation, and it is afflicted with lower-than-expected ridership rates, rising ticket prices, and exorbitant government subsidies. Other countries' experiences with high-speed rail systems—such as Japan's, the U.K.'s, and France's—should serve as a lesson to the United States. Domestically, California is an example of how the costs for high-speed rail projects often surpass original projections and further burden taxpayers, who are already struggling with a weakened economy and increasing budget deficits.

More infrastructure spending is not the way to get the economy back to running at full speed. Increased government spending only diverts resources from the more efficient private sector to the public sector and fails to deliver the jobs its supporters claim it will. Americans would simply get more spending and more debt.

Budget Grows Yet More Bureaucracy at Department of Education

Lindsey Burke

The President's budget request includes a 3.5 percent increase (over FY 2012 levels) for the Department of Education—the largest increase for any domestic agency in this budget. The Department of Education, a 4,200-person agency, has enjoyed dramatic funding increases year after year in the three decades since its creation. Unfortunately, schools and families have not enjoyed commensurate increases in student achievement. The bloated bureaucracy has layered red tape on states and school districts, and served as little more than a filing cabinet for the reams of paperwork that local schools must complete to demonstrate compliance with the department's 151 education programs.

With the release of his 2013 budget request, President Obama is proposing to grow this bureaucratic boondoggle at a time when American taxpayers are calling for fiscal restraint in Washington, including restraint at the Department of Education. The budget includes a $1.7 billion increase over 2012 levels, increasing spending on programs such as Race to the Top ($850 million in new grants), and providing $80 million in federal funding for STEM (science, technology, engineering, and mathematics) teacher training.

On the higher education front, the proposal includes $8 billion in new spending for the Community College Career Fund, a program designed to expand certification programs and job training at community colleges. The spending will be divided between the Education and Labor Departments over the next three years. Consistent with the Obama Administration's disdain for the private sector, for-profit colleges will be prohibited from receiving any of the new grant money.

The President's proposal also increases the maximum Pell Grant award, and includes a significant increase in the Perkins Loan Program (from $1 billion to $8 billion) if the loans are reauthorized. It includes a $1 billion higher-education Race to the Top grant to provide more federal money to traditional universities that keep costs low—a proposal outlined in the President's State of the Union address. The move, however, will provide no incentive for colleges to reduce costs in the long run, since federal net spending on college subsidies, grants, and loans will continue to increase.

Ends Funding for D.C. Opportunity Scholarship Program. The President's 2013 budget request zeros out funding for the highly successful D.C. Opportunity Scholarship Program, which was revived in 2011 thanks to the hard work of House Speaker John Boehner and the thousands of D.C. families who received scholarships to attend

14. Ronald D. Utt, "Obama's Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival," Heritage Foundation *WebMemo* No. 3346, August 30, 2011, at *http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery*.

a private school of choice. This move signals that the President and his Administration are more interested in propping up a government school system than providing options for children to receive a quality education. If the move is not a concession to education special interest groups, the Administration should explain why it has placed this critical school-choice program on the chopping block.

In all, President Obama's budget request increases spending at the Department of Education to $69.8 billion. It is a continuation of the failed policies of the past, and a perennial liberal agenda that claims that spending more taxpayer dollars through more and more federal programs will improve education. It has not, and it will not, and this latest increase once again puts taxpayers on the hook for profligate Washington spending that grows bureaucracy while removing parents from the education decision-making process even further.

Automatic IRA Builds Retirement Security and Reduces Dependence on Government Programs

David C. John

While many aspects of the 2013 budget are just plain wrong, there is one bright spot. The budget does recognize the need for more Americans to be able to save for retirement by proposing the creation of the Automatic IRA, which will give up to 80 million workers a simple and easy way to save for retirement. The proposal has support from publications as diverse as *National Review* and *The New York Times,* and it is part of Heritage's *Saving the American Dream* plan.

In addition, the budget proposes doubling the tax credit for employers who start 401(k) plans, from the current $500 for three years to $1,000 for three years. Both would enable Americans to better provide for their own retirement security rather than depending on government programs.

The easiest way to save for retirement is through an employer-sponsored payroll-deduction savings plan. While 401(k) plans have been available for several decades, only about half of all employed Americans work at companies that offer such a plan. The other half of the workforce does not have that option, making it harder to save; these workers also face a higher likelihood of dependence on an underfunded Social Security program for their retirement income.

The Automatic IRA automatically enrolls employees who do not have any other pension or retirement savings plans in a payroll-deduction IRA. Under automatic enrollment, an individual always has full control of his or her savings, contributing a preset amount of pay to a set investment option. The account owner is always free to save more or less, change investments, or even to decide not to save at all. Automatic enrollment greatly increases participation among all employee groups, but especially enables younger employees, women, lower-paid employees, and members of minority groups to increase their savings.

Obama Budget's Deafening Silence on Fannie Mae and Freddie Mac

David C. John

While the new budget mentions just about every significant new and current program that the Administration supports, it remains conspicuously silent on both Fannie Mae and Freddie Mac, two government-sponsored enterprises (GSEs). The two housing-finance giants have so far consumed well over $150 billion in taxpayer money. The Administration announced its plan to eliminate both almost a year ago, but no further details have emerged.[15]

Earlier this month, Treasury Secretary Tim Geithner said, "We also want to make progress this year in building the foundation for reforms to the mortgage market in the United States, including a path for winding down the GSEs."[16] However, a search of the new federal budget turned up nothing.

Building a healthy housing finance system will take time, but doing nothing is a sure way to return to the bad old days that resulted in one of the most spectacular collapses in American financial history. Ending Fannie Mae and Freddie Mac can be accomplished, but only if the Administration is willing to take the first step and present a detailed plan for doing so. Judging by the new

15. Lorraine Woellert, Nicholas Johnston, and Rebecca Christie, "Fannie Mae, Freddie Mac Could Be Phased Out Under Treasury's Housing Plan," Bloomberg, February 9, 2011, at *http://www.bloomberg.com/news/2011-02-09/fannie-mae-freddie-mac-could-be-phased-out-under-treasury-s-housing-plan.html* (February 15, 2012).

16. Press release, "Remarks by Treasury Secretary Tim Geithner on the State of Financial Reform," U.S. Department of the Treasury, February 2, 2012, at *http://www.treasury.gov/press-center/press-releases/Pages/tg1408.aspx* (February 15, 2012).

budget, fixing housing finance is not a high priority.

Obama's Big Bank Tax Is Still Bad

David C. John

The new 2013 budget contains another attempt at instituting a $61 billion "Financial Crisis Responsibility Fee" to be imposed on the largest financial firms that will supposedly "compensate the American people for the extraordinary assistance that they provided to Wall Street, as well as to discourage excessive risk taking."

To be sure, the bailouts were riddled with problems. However, the government made a fairly sizeable profit on the Troubled Asset Relief Program (TARP) money that went to the largest financial institutions. As the budget chapter on the Treasury Department notes: "TARP's banking programs have generated a positive return for taxpayers—with almost $258 billion recovered as of December 31, 2011 compared to the $245 billion originally invested in the banks."

The proposed Financial Crisis Responsibility Fee is a tax on major financial entities, pure and simple. If it were a fee, it would be assessed on those who caused the losses to the TARP program. TARP did lose an estimated $68 billion, but the details show that losses from the TARP program for the most part came from the automobile bailout, failed housing programs, and the bailout of insurance giant AIG.

It is also important to remember that while the top banks all received money from TARP, the largest of them received it under duress at the insistence of former Treasury Secretary Hank Paulson. There is a bit of irony that certain banks were forced to take taxpayer dollars and are now taxed for taking it.

The real reason that the Obama Administration wants the Financial Crisis Responsibility Fee is that the Administration desperately needs revenue to pay for its massive spending programs. If the Administration wanted to be candid about its reasoning for placing a "fee" on big banks, it could quote famed bank robber Willie Sutton, who, when asked why he robbed banks, purportedly answered, "Because that's where the money is."

Spectrum Availability Is Crucial for Growth

James L. Gattuso

The President's budget includes some $31 billion in revenue from the auction of spectrum licenses for mobile broadband use.

Of this amount, $10 billion would be spent on a public-safety broadband network, with the rest purported to reduce the deficit, although the amount received is far outweighed by new spending elsewhere in the budget and is only a one-time revenue infusion.

But setting that aside, the auction of these frequencies, now used by broadcasters, deservedly has widespread support. The wireless industry is one of the few booming areas of the U.S. economy; but with demand skyrocketing, it is rapidly running out of spectrum to provide service. Making more spectrum available is crucial to maintaining that growth.

Legislation is already moving in Congress to authorize such auctions. But there is a snag: The Obama Administration, as well as the Federal Communications Commission (FCC), whose chairman is an Obama appointee, is insisting that any such legislation must allow the FCC to exclude the two biggest current users of spectrum—Verizon and AT&T—from bidding. The result would be not only to reduce the revenue gained but to starve the two leading providers of wireless service from the resources they need.

Rather than pre-select the winners and losers, regulators at the FCC should conduct an open process, letting all participate and letting the market decide how this valuable resource is allocated.

Budget Economic Forecast Adds Extra Year of Growth

J. D. Foster, Ph.D.

There is an extra year in the President's 2013 budget. It shows up in the economic assumptions, specifically, his assumptions for economic growth.

Every budget rests on two basic pillars: the President's policy proposals in conjunction with current law, and the economic assumptions that drive tax receipts and much of federal spending. A President can be forgiven a little optimism in formulating these economic assumptions, as every Administration believes its policies would produce a stronger economy.

Even so, a budget's economic forecasts rarely diverge substantially from the conventional wisdom as evidenced by the Blue Chip forecast, essentially an average of selected private-sector forecasters. It is not that the Blue Chip forecast is more likely than any other to be right, but it does, at least, reflect something of a safe, prudent consensus.

The January Blue Chip forecast as reported in the budget shows growth of 2.2 percent in real output in 2012, which agrees with the Congressional Budget Office forecast.[17] The Administration shows a substantially higher forecast of 2.7 percent. That is a big difference for the most important year—the current year.

A pattern of the Administration projecting substantially stronger growth continues in the forecasts for every year until 2017—what would be the end of President Obama's second term if re-elected, when, at last, the Administration's forecast returns to earth.

The net effect of these *über*-strong annual economic growth forecasts is that from 2012 to 2017, the Administration projects a whopping 3.9 percent higher cumulative growth than does the Blue Chip forecast. In economic terms, that is like adding an extra year of growth—an extra *very good* year of growth.

The effect of this irrational economic forecasting exuberance on the deficit in 2017? The budget explains that, too, in a "sensitivity table."[18] According to the President's own budget, the deficit would jump by about $195 billion in 2016, from $649 billion to about $844 billion, if the Administration used the more conservative Blue Chip forecast.

If only Americans could count on this magical economic year of growth, perhaps they could wish the country's fiscal troubles away.

What Would Obama Do? Insights from His Budget

J. D. Foster, Ph.D.

What is President Obama's vision for America, truly? What would he intend in a second term if re-elected? Americans need not wait for yet another soaring presidential speech to illuminate and clarify. They now have much of the answer to these questions in black and white from his Administration. The answer is provided in the budget he released on February 13. The answer, in short, is more of the same—only more, and less.

In summary, Obama's vision for America according to his own budget is:

- To add about $3 trillion more in national debt to the roughly $5.5 trillion he added in his first term;
- To increase federal spending by half a *trillion* dollars between 2012 and 2016, from $3.8 trillion to $4.3 trillion;
- To ignore the 2012 budget deficit (projected at $1.3 trillion), allow spending to grow substantially in the years immediately following, and then take sterner measures in some distant future. (Read: He intends to leave the pending fiscal disaster to his successor.);
- To step up his economy-defeating and ideological tax-hike war;
- To hope Congress ignores his tax policies and that the economy somehow continues to strengthen on its own; and
- Ultimately, to live up to the moniker of a tax-and-spend liberal.

There is more, like a tax plan to turn America's largest companies over to foreign ownership. Once again the President has trotted out the liberals' favorite lines about "investment" when referring to huge jumps in infrastructure spending. The budget also includes a smattering of public-relations-oriented micro policies like a community college proposal that gives the President a chance to talk about something on the campaign trail, indeed about anything, except the real issues facing America.

There is also some good news in the budget. While spending goes up rapidly over time, there are at least no new efforts to pump up the economy and waste taxpayer dollars with another debt-based stimulus. Has the Obama Administration learned this will never work, or is the deficit now simply too large to try it again?

In truth, a President's second term is rarely a time of bold initiative and action. For the most part, it is a period of marking time and continuing and completing policies laid out in the first term. It is also an exercise of denying power to the opposition. But there have been notable exceptions.

In his second term, President Ronald Reagan managed to slow the growth of spending substantially and to sign the country's last great tax reform into law in 1986. President Bill Clinton signed the landmark welfare reform into law, perhaps somewhat grudgingly, perhaps at the point of a Republican policy bayonet, but he signed it nevertheless. President George W. Bush tried mightily—and failed spectacularly—to turn Social Security from a fiscal disaster into a sustainable program for generations to come, but at least he tried.

17. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, at *http://www.cbo.gov/doc.cfm?index=12699* (February 17, 2012).

18. Office of Management and Budget, *The President's Budget for Fiscal Year 2013*, Table 3-1.

Missing Leadership. President Obama's budget strips away any pretense that a second Obama term would be marked by bold leadership to address high unemployment, massive budget deficits, and vital entitlement programs headed for financial disaster of Greek-like proportions. As this message sinks in, the Administration will no doubt try to establish an alternative narrative. But the true picture is painted in black and white in his own budget.