The Heritage Foundation
LEADERSHIP FOR AMERICA

BACKGROUNDER

No. 2794 | MAY 16, 2013

President Obama's 2014 Budget: A Second-Term Vision for Economic Decline

Abstract

The President's 2014 budget arrived on April 10, more than two months past its legal deadline of the first Monday in February. In the budget, the President laid out his vision for his second term in office. The President's vision is one of more government spending in areas better left to individuals and the states; higher taxes, especially on upper-income earners; and a continuation of policies that at best do not work, and more often than not harm the U.S. economy and Americans. Heritage Foundation economic and budgetary experts analyzed the President's 2014 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.*

Key Points

- President Obama's FY 2014 budget lays out a second-term vision for bigger government that meddles in affairs better left to individuals, the private sector, and the states. The President would spend more on a failed green energy agenda, repeat stimulus mistakes in infrastructure, and begin a massive preschool intervention.
- The President proposes more than $1.1 trillion in tax hikes for $0 in spending reductions, by capping deductions and certain exemptions for high-income taxpayers and implementing the misguided "Buffett Rule," among other new and higher taxes.
- On entitlements, the biggest drivers of spending and debt, the President maintains Obamacare, which creates two new entitlements and merely trims the edges with the chained CPI for Social Security and small tweaks to Medicare.
- The President's budget never balances and reports growing spending from $3.6 trillion in 2013 to nearly $5.6 trillion in 2023, while maintaining debt at an economically risky 76 percent of GDP.

Raising Minimum Wage to $9 Would Harm Most-Vulnerable Job Seekers

James Sherk

President Obama's budget proposes raising the minimum wage to $9 an hour. This would hurt the very workers the President wants to help.

When the price of something rises, people—both consumers and employers—purchase less of it. Americans responded to the higher cost of gas by driving less. Businesses similarly respond to higher minimum wages by hiring fewer low-skilled workers. The vast majority (85 percent) of the most reliable economic studies find that raising the minimum wage reduces employment.[1]

This paper, in its entirety, can be found at **http://report.heritage.org/bg2794**

Produced by the Thomas A. Roe Institute for Economic Policy Studies

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Liberals often respond by arguing that the benefits to the workers who get the raise nonetheless outweigh the costs to those who get laid off (or never get hired in the first place). These arguments miss the primary value of minimum-wage positions—they provide on-the-job training for unskilled and inexperienced workers. They teach workers basic employability skills, from the discipline of getting up for work on time to how to interact with customers. As workers gain experience and skills, they become more productive and command higher pay. That is why two-thirds of minimum-wage workers earn raises within a year.[2] The minimum wage is a learning wage, the first rung on many workers' career ladders. A higher minimum wage saws off this rung.

Raising the minimum wage reduces the availability of these entry-level positions. This makes gaining the skills necessary to get ahead harder. States that raised their minimum wages in the 1990s saw workers earning less a decade later.[3]

Worse, higher minimum wages particularly hurt the most disadvantaged. Most minimum-wage workers are between the ages of 16 and 24—many teenagers and college students working part time. These youth employees are secondary earners; their average family income exceeds $65,000 a year.[4]

Increasing the minimum wage encourages more teenagers and college students to apply for minimum-wage jobs—the higher pay makes working more attractive. These new workers crowd out adult applicants. Even the studies that find that minimum-wage hikes have small overall employment effects find very large substitution effects: Companies hire many more teenagers and many fewer adults.[5]

But teenagers do not need the work experience nearly as much as the disadvantaged adults do. A higher minimum wage makes it more difficult for the most vulnerable workers—those adults who do support themselves on minimum-wage jobs—to get hired and move up.

The President may have good intentions, but raising the minimum wage would make it harder for disadvantaged workers to get ahead.

Damaging Policies Add Up to $1 Trillion Tax Increase in Obama Budget

Curtis S. Dubay

There was little doubt that President Obama would propose a huge tax hike in his budget. It is a bit surprising, however, that the total increase he proposes is almost double what he claims it to be.

The revenue from all the tax increases he proposes, minus the minor tax cuts he proposes, add up to more than $1 trillion over 10 years.[6] This number is much higher than the $580 billion cited frequently in the media and claimed explicitly by the President.

The bulk of that revenue comes from capping deductions and certain exemptions for high-income taxpayers and applying the President's infamous and never-dying "Buffett Rule."[7]

Capping Deductions and Exemptions. The cap, since it applies to exemptions, would be a radical departure from long-established tax policy and would have serious negative consequences for retirement savings, employer-provided health insurance, and state and local bonds.[8]

The cap is bad policy because it treats all deductions as subsidies, when in fact many are necessary

1. David Neumark and William L. Wascher, "Minimum Wages and Employment," *Foundations and Trends in Microeconomics* Vol. 3, No. 1–2 (2007), http://www.socsci.uci.edu/~dneumark/min_wage_review.pdf (accessed April 23, 2013).
2. James Sherk, "Minimum Wage Workers' Incomes Rise When the Minimum Wage Does Not," Heritage Foundation *Backgrounder* No. 1181, July 28, 2006, http://www.heritage.org/research/reports/2006/07/minimum-wage-workers-incomes-rise-when-the-minimum-wage-does-not.
3. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," University of California, Irvine, February 2006, http://www.economics.uci.edu/files/economics/docs/workingpapers/2005-06/Neumark-26.pdf (accessed April 23, 2013).
4. James Sherk, "Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents," Heritage Foundation *Issue Brief* No. 3866, February 28, 2013, http://www.heritage.org/research/reports/2013/02/who-earns-the-minimum-wage-suburban-teenagers-not-single-parents.
5. Laura Giuliano, "Minimum Wage Effects on Employment, Substitution, and the Teenage Labor Supply: Evidence from Personnel Data," *Journal of Labor Economics*, Vol. 31, No. 1 (2013), http://ideas.repec.org/a/ucp/jlabec/doi10.1086-666921.html (accessed April 23, 2013).
6. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2014 Revenue Proposals," April 2013, p. 246, http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2014.pdf (accessed April 16, 2013).
7. Curtis S. Dubay, "Obama FY 2013 Budget Violates Basic Principles of Tax Reform," Heritage Foundation *Backgrounder* No. 2665, March 19, 2012, http://www.heritage.org/research/reports/2012/03/obama-fy-2013-budget-violates-basic-principles-of-tax-reform.
8. Curtis S. Dubay, "The President's 2013 Budget: More Troubling Tax Increases in the Fine Print," Heritage Foundation *Backgrounder* No. 2704, June 25, 2012, http://www.heritage.org/research/reports/2012/06/the-presidents-2013-budget-more-troubling-tax-increases-in-the-fine-print.

for good tax policy. The deduction for charitable contributions is a good example. Under an income tax, it is proper to allow a deduction for income donated to charity. If someone earns income and donates it, he should not have to pay tax on the donated amount. This is why The Heritage Foundation includes a charitable deduction in its proposed New Flat Tax.[9] President Obama would create a disincentive to donating by limiting the charitable deduction with his misguided cap. As a result, the cap would result in hurting those institutions of civil society that are best at serving the neediest Americans.

The "Buffett Rule." The Buffett Rule—which would apply a 30 percent minimum tax rate to those who earn more than $1 million a year—would also hurt middle-income and low-income families by depriving them of wage growth and better jobs.[10]

Indexing Tax Brackets to Chained CPI. President Obama also wants to change the way the IRS adjusts tax brackets each year for inflation. The new method would use the chained consumer price index (CPI)—a lower measure of inflation than the current one used to adjust tax brackets. Switching to the chained CPI would raise tax brackets less than the current measure of CPI in any given year. This would push taxpayers into higher tax brackets sooner, resulting in a tax increase. Congress should only move to the chained CPI through tax reform if it retains a misguided progressive rate structure. Through tax reform Congress can offset the revenue raised by the chained CPI with pro-growth policies. It should not be used to raise tax revenue, as the President proposes.

Increasing the Death Tax. One surprise in the Obama budget is that the President wants to significantly raise the death tax. Congress raised it to 40 percent with an exemption of more than $5 million in the fiscal cliff deal earlier this year. After the protracted fight leading up to the deal, one might have thought this was settled policy for the time being. Yet President Obama wants to raise the rate even higher, to 45 percent, and lower the exemption to $3.5 million. It is odd that President Obama would go back after the death tax since he himself signed its current parameters into law just this past January.

Capping Retirement Accounts. In another alarming move, the President would cap the amount families could save in their retirement accounts at $3.4 million. This would force families who want to save more to pay taxes on income they otherwise would have saved in tax-deferred retirement accounts. This will mostly affect high-income earners, so is another salvo in President Obama's never-ending class warfare. But as the President's surprising move on the death tax shows, it could end up being the first step on a slippery slope to further restrictions on retirement savings.

Taxes Hitting the Poor and Middle Class. President Obama did not leave out lower earners in his litany of tax increases, however. He also wants to raise the federal cigarette tax to pay for his "early childhood investments." The cigarette tax falls heavily on the middle class and the poor.

There are many other damaging tax hikes in President Obama's budget. Since President Obama was so late to the budget debate, his entire budget is entirely irrelevant to Congress's budget process. Hopefully, Congress will ignore these troubling tax increases the way it is sure to ignore the rest of the President's inconsequential budget.

Obama's Misleading Budget Marketing Exposed

Romina Boccia

President Obama is marketing his new budget by claiming it has "more than $2 in spending cuts for every $1 of new revenue."[11]

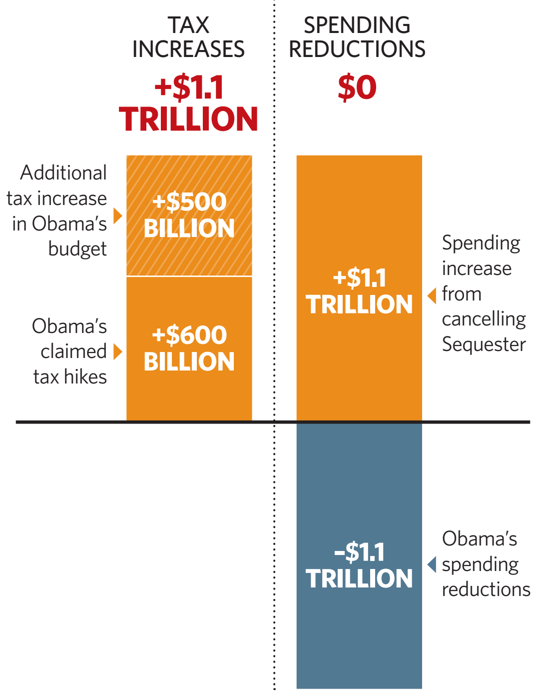
But the way the President is presenting his budget numbers is misleading. His spending increases and advertised spending cuts cancel each other out—leaving only a massive tax increase.

9. J. D. Foster, "The New Flat Tax: Easy as One, Two, Three," Heritage Foundation *Backgrounder* No. 2631, December 13, 2011, http://www.heritage.org/research/reports/2011/12/the-new-flat-tax-easy-as-one-two-three.
10. Curtis S. Dubay and Rea Hederman Jr., "The 'Buffet Rule' Returns," The Heritage Foundation, The Foundry, February 25, 2013, http://blog.heritage.org/2013/02/25/the-buffett-rule-returns/.
11. Office of Management and Budget, "Fiscal Year 2014 Budget Overview," http://www.whitehouse.gov/omb/overview (accessed April 23, 2013).

CHART 1

What's Really in the President's Budget?

President Obama claims $1.8 trillion in additional deficit reduction, including a $600 billion tax increase. But his budget actually increases taxes by $1.1 trillion and has zero additional spending reductions.



Sources: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2014*, Table S-2, "Effect of Budget Proposals on Projected Deficits," and U.S. Treasury Department, "General Explanations of the Administration's Fiscal Year 2014 Revenue Proposals," April 2013.

B2794 heritage.org

Here's the math:[12]

1. The President increases spending by $1.1 trillion by cancelling sequestration, the automatic spending cuts adopted in the Budget Control Act of August 2011. But sequestration is already in effect. Thus, cancelling these reductions in spending increases spending by $1.1 trillion over 10 years.

2. The President reduces spending by $1.1 trillion. The President lists a number of additional spending reductions based on a December 2012 offer to Speaker of the House John Boehner (R–OH). These total about $1.1 trillion and are completely offset by the cancellation of sequestration.

3. The President raises taxes by $1.1 trillion. The official total tax increase in President Obama's budget is available in the Treasury Department's "Green Book." Treasury scores the total net tax increase from all President Obama's tax policies at more than $1.1 trillion over 10 years.

The President highlights a $600 billion tax increase, and claims 1.2 trillion in spending reductions, arriving at a balance of $1 in tax increases to every $2 in spending cuts. The tax hikes, however, are nearly twice the size the President presents. The spending reduction figure includes a $100 billion tax increase from adopting chained CPI in the tax code, and the remaining spending reductions are completely offset by the President's cancellation of sequestration. The result is that President Obama's spending cut claim simply does not hold up, and that Americans would get stuck with an additional $1.1 trillion tax bill.

The President's Health Care Budget

Alyene Senger

Despite the current health care spending crisis, President Obama's budget does little to reform the existing entitlements (Medicare and Medicaid) and maintains the implementation of Obamacare—which creates two new entitlements and adds more than $1.8 trillion in new spending by 2023.

Obamacare. A few notable changes were proposed for Obamacare. They include a one-year postponement of Medicaid Disproportionate Share Hospital (DSH) payment reductions. DSH payments are for hospitals that provide care to disproportionate numbers of low-income and uninsured individuals. Obamacare reduced DSH payments on the assumption that coverage gains from the law would reduce the need for these funds. However, now that the Medicaid expansion is optional for states, this delay is a sign that the Obama Administration

12. Romina Boccia, "Morning Bell: Obama's Fake Budget Marketing Exposed," The Heritage Foundation, The Foundry, April 12, 2013, http://blog.heritage.org/2013/04/12/obama-budget-obamas-fake-budget-marketing-exposed/.

recognizes that the law will not cover as many people as it had anticipated.

The budget also includes increased funding for the Centers for Medicare and Medicaid Services' Program Management division, which will implement the Obamacare exchanges. The federal government is now charged with operating the exchanges in more than 30 states. Of $5.2 billion in total funding, supporting the exchange operations will account for $1.5 billion. As evidenced in other categories of spending, based on the projections of the Congressional Budget Office and others, the true cost of Obamacare continues to climb.

Lastly, despite the Obamacare small business tax credit's structural deficiencies, and despite its inability to attract an impressive take-up rate among small business owners, the budget expands it. In the budget language: "Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance." Expanding this flawed tax credit is still unlikely to help entice small employers into offering expensive health coverage.[13]

Medicaid. The budget makes no substantive changes that would reform in any consequential way the Medicaid program or slow its spending growth. This is unlike last year's budget, which changed federal Medicaid funding by combining Medicaid and the Children's Health Insurance Program into a single, blended match rate to states. While the blended rate may not be the best approach to resolving Medicaid's fiscal challenges, the current financing structure is not reliable nor does it address the current deficiencies in the program.[14]

Medicare. While Medicare is generating trillions in long-term debt and is in desperate need of structural reform, the President's budget offers merely small tweaks to the troubled program. These small tweaks would not guarantee Medicare's future for the next generations of retirees. They will only ensure that future budget decisions will be increasingly difficult.

Drug Rebates in Part D: A New Tax on Seniors. The President's budget proposes a mandatory drug rebate for low-income seniors enrolled in Medicare Part D, for a total savings of $123 billion over 10 years. On paper, drug manufacturers would be forced to pay the rebate—a kind of tax with the consequence of a price control. But like most corporate taxes (and price controls) this additional cost will simply be passed on to seniors in the form of higher Part D premiums.

Currently, Part D is a unique defined-contribution program that operates differently from the rest of Medicare. The President's budget proposal would distort the Part D market and undercut the very market efficiencies that have been so successful at controlling Medicare drug costs. As Heritage has explained before, "Today, pricing is determined entirely by a negotiation between private insurers and drug manufacturers focused on the value of prescription drug products for the patients. With rebates…[d]rug manufacturers would seek to use the rebate requirement to extract higher pricing from the insurers, even as they lobbied the government to base the rebates on the most inflated measure of 'average' price they could find."[15]

Part B "Surcharge"—Another New Tax on Seniors. In addition to applying a $25 increase in the Part B deductible in 2017, 2019, and 2021 for new beneficiaries, beginning in 2017, the budget also proposes to add a Part B surcharge equivalent to 15 percent of the average Medigap premium for new enrollees who purchase Medigap plans with low cost-sharing requirements.

While it is true that lower cost sharing leads to greater use of medical services, and thus higher Medicare costs, a new tax on seniors is not the way to fix it. A far superior policy would be to restructure Medicare's cost-sharing arrangements by combining Parts A and B with a unified premium, uniform co-insurance, and a single deductible. Also, adding a catastrophic benefit to Medicare would turn Medicare into true insurance and protect seniors

13. Alyene Senger, "Obamacare at Three Years: Failing Small Businesses," The Heritage Foundation, The Foundry, March 19, 2013, http://blog.heritage.org/2013/03/19/obamacare-at-three-years-failing-small-businesses/.

14. Kevin Dayaratna, "Studies Show: Medicaid Patients Have Worse Access and Outcomes than the Privately Insured," Heritage Foundation *Backgrounder* No. 2740, November 7, 2012, http://www.heritage.org/research/reports/2012/11/studies-show-medicaid-patients-have-worse-access-and-outcomes-than-the-privately-insured.

15. James Capretta, "Congress Should Not Undermine What Works in the Medicare Drug Benefit," Heritage Foundation *WebMemo* No. 3360, September 9, 2011, http://www.heritage.org/research/reports/2011/09/medicare-drug-benefit-model-for-broader-healthcare-reform.

from the endless out-of-pocket costs they face today. Restructuring traditional Medicare would sharply reduce or even eliminate the need to purchase Medigap or other types of supplemental coverage.

Increasing Parts B and D premiums for Upper-Income Beneficiaries. The budget also proposes increasing Parts B and D premiums for upper-income beneficiaries (starting in 2017 for new enrollees) and holds the income thresholds constant until 25 percent of all beneficiaries are paying the higher premium rate.

This policy moves in the right direction but it does not go far enough, fast enough, and thus falls short of meaningful savings. Premiums for all enrollees should be increased—gradually over five or 10 years—to cover 35 percent of total premium costs, while also further increasing premiums for upper-income seniors.

$100 Home Health Co-Payment in Certain Cases. Adding a modest co-payment to home health visits is a policy endorsed by The Heritage Foundation; the preferred policy would be a 10 percent co-payment on each visit.

Strengthens IPAB. Despite bipartisan opposition to the Independent Payment Advisory Board (IPAB), the President's budget once again would strengthen its power, lowering the targeted per capita growth rate from gross domestic product (GDP) plus 1 percent to GDP plus 0.5 percent.

Closes the Part D "Donut Hole" Early. As the budget states, "The Budget proposes to increase manufacturer discounts for brand name drugs from 50 to 75 percent in 2015, effectively closing the coverage gap for brand name drugs in 2015, five years sooner than under current law." Once again, closing the donut hole would certainly assist the small number of seniors who fall into it annually, but it also means that the drug benefit itself will be richer and more expensive and thus will result in increased Part D premiums.

Reduces Medicare Advantage Reimbursements. Consonant with the Obama Administration's enforcement of payment reductions to Medicare Advantage under the Patient Protection and Affordable Care Act (PPACA), the budget proposes to cut an additional $15.3 billion from the program by changing "the minimum statutory adjustment to their payment to account for differences in coding of medical conditions between Medicare Advantage and fee-for-service providers." These payment reductions, in conjunction with Obamacare's reductions, will guarantee reduced enrollment in Medicare Advantage plans.

Repeal of the Flawed Physician Payment Formula. The budget supports a permanent repeal of the illogical sustainable growth rate formula that governs Medicare physician payment updates. The formula, tying physician updates to economic growth, has called for cuts to Medicare physician payments since 2002. Congress, however, has overridden the application of the formula since 2003. While finding a sustainable solution to this annual debacle is important, the right policy is to replace it with a market-based payment for physicians' services, combined with transparency on physicians' fees. In no case should Congress substitute one method of bureaucratic pricing for another. Instead, Medicare physician payment should indeed be stabilized, as the President recommends, but then Medicare should be transitioned (over five years) into a premium support program, a structural reform that would allow the market to determine physicians' payment.

The Obama Philosophy in Numbers

Patrick Louis Knudsen

When President Obama's progressive ideology is translated into budget numbers, the results include the following:

- Spending in the President's fiscal year (FY) 2014 budget totals $3.78 trillion, a $151 billion increase from the Administration's own projection of spending under current policies. Spending rises to $5.66 trillion in FY 2023, or 21.7 percent of GDP, which is 1.5 percentage points above the historical average as a share of the economy—and that is before the explosion of entitlement spending in the next decade.[16]

- While the budget does include health and other entitlement savings that the Administration claims will save about $600 billion over 10 years, the policies fall far short of the structural reform needed to truly tame entitlements. Further, comparing the budget's total spending against the Administration's own "baseline"—the yardstick against which policies are measured—shows a reduction over 10 years of just $265 billion. Where are the other savings?

- Tax revenue rises from 17.8 percent of GDP in 2014 to a near-record 20 percent in 2023. Once again, these figures are significantly higher than the historical average of 18.5 percent, further demonstrating Obama's commitment to bigger government.

- Yet despite a net tax increase of more than $1 trillion, the budget never balances, and in fact adds $5.3 trillion in new deficit spending in 10 years. Deficits remain in the neighborhood of a half trillion dollars until the very end of the budget window. In 2023, the deficit reaches its "smallest" level: $439 billion. Gross federal debt soars from $17 trillion in 2013 to $25 trillion in 2023.

- Consequently, debt held by the public remains at economically risky levels of nearly three-fourths the size of the economy.[17] Its lowest point is an alarming 73 percent of GDP in 2023. The historical average is 37 percent of the economy.

Chained CPI Would Delay Drastic Social Security Benefit Cuts (But Just a Little)

Romina Boccia

President Obama's budget would replace today's outdated inflation index for non-means-tested federal benefits programs with the chained CPI—a more accurate measure of the impact of inflation on beneficiaries.[18] This change will have the greatest impact on Social Security. Contrary to liberal critics calling it a "cut," it only slows the growth in benefits by reducing excess payments.

First and foremost, adopting the chained CPI is a technical improvement in how to account for the impact of inflation on people's pocketbooks. The change would ensure that seniors' benefits continue to grow with inflation. But it would reduce excess payments, which are draining the trust fund sooner. At trust fund exhaustion, a drastic 25 percent reduction in benefits would take effect, so extending solvency is crucial, especially for those seniors who rely exclusively on Social Security benefits in retirement.[19] Adopting the chained CPI does not do nearly enough to fix Social Security's massive deficits, but it is a good start.

President Obama's proposal would reduce deficits by $230 billion over nine years starting in 2015, but only $130 billion would come from reductions in spending. The remaining $100 billion results from raising tax revenues. Adopting a different inflation index as part of tax reform—should be done so as to improve accuracy without raising taxes by lowering marginal rates, for example.

The President applies the chained CPI only to non-means-tested benefits and includes "protections for the very elderly and others who rely on Social Security for long periods of time." Using an incorrect inflation measure is a poor strategy to assist these populations. Instead, a minimum flat benefit level that ensures that no senior falls into poverty in retirement, as proposed in the Heritage plan *Saving the American Dream*, would be much more effective at assisting seniors in need.[20]

A Step in the Right Direction: Chained CPI

Rachel Greszler

Outside the President's general, grow-the-government, increase-the-debt, tax-the-rich budget themes lies a commonsense proposal to use a more accurate measure of inflation when calculating government benefit growth rates and changes in income tax brackets.

The purpose of inflation-based adjustments is to account for changes in prices over time. But current

16. Romina Boccia, "CBO Report Echoes Trustees on Medicare, Social Security," Heritage Foundation *Issue Brief* No. 3638, June 14, 2012, http://www.heritage.org/research/reports/2012/06/cbo-long-term-budget-outlook-on-the-nations-fiscal-future.
17. Romina Boccia, "How the United States' High Debt Will Weaken the Economy and Hurt Americans," Heritage Foundation *Backgrounder* No. 2768, February 12, 2013, http://www.heritage.org/research/reports/2013/02/how-the-united-states-high-debt-will-weaken-the-economy-and-hurt-americans.
18. Romina Boccia and T. Elliot Gaiser, "Three Reasons for Social Security to Use Chained CPI," The Heritage Foundation, The Foundry, March 25, 2013, http://blog.heritage.org/2013/03/25/three-reasons-for-social-security-to-use-chained-cpi/.
19. Romina Boccia, "Social Security: Runs Permanent Deficits, Benefit Cuts Loom," The Heritage Foundation, The Foundry, October 3, 2012, http://blog.heritage.org/2012/10/03/social-security-runs-permanent-deficits-benefit-cuts-loom/.
20. 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, http://www.heritage.org/research/reports/2011/05/saving-the-american-dream-the-heritage-plan-to-fix-the-debt-cut-spending-and-restore-prosperity.

inflation measures stop a step short. They fail to account for changes in purchases that people make as a result of changes in prices.

For example, if the price of bananas were to rise from $0.40 per pound (lb.) to $10 per lb., all but a small subset of the population would stop buying bananas and instead buy more apples and oranges. The current measure of inflation, however, functions as though everyone keeps buying the same allocation of fruit when bananas rise to $10/lb. as they did when they were $0.40/lb.

Most price changes are not nearly this drastic, but consumers do respond to changes in prices, and they are not necessarily any better or worse off as a result of changing their buying patterns.

Current inflation adjustments not only increase the size of beneficiaries' payments over time (such as Social Security retirees' checks), but also the purchasing power of those payments. The goal of inflation adjustments is to allow beneficiaries to purchase the same amount next year as they did this year, not more.

A more accurate inflation adjustment would seek to maintain the same overall quantity and quality of a basket of goods and services while not specifying precisely what individual products and brands of products must be included in that basket. This is precisely what the chained CPI attempts to track—a constant level of purchases that allows for small changes in items and brands based on consumers' responses to changes in prices.

While the President's recommendation to use the chained CPI is a move in the right direction, his budget fails to fully implement the new measure. By exempting certain "vulnerable" populations, the President inherently discredits the merits of his own proposal. If the chained CPI is a more accurate inflation measure, it should be applied universally, not selectively.

Democrats and Republicans alike should support a move to the chained CPI on pure policy grounds. Congress should offset the revenue it raises from moving to a chained CPI with pro-growth policies like lowering marginal tax rates. But it should not be used as a way to raise revenue.

Obama's 2014 Defense Budget Proposal: An Exercise in Obfuscation

Baker Spring

President Obama's budget proposes spending $100 billion less in the discretionary defense accounts over the budget period. In terms of total defense expenditures, the President's budget proposal requests almost exactly $3 trillion for the five-year period covering FYs 2014 through 2018. This is about $300 billion more for the period than permitted under the five-year portion of the automatic spending-restraint mechanism (sequestration) of the Budget Control Act of 2011, because the description of the budget states that the proposal ignores sequestration in the expectation that Congress will enact the President's unacceptable proposal for eliminating it. In actuality, this level of increase over the sequestration level of funding is likely to be less, because this proposal is incomplete insofar as it requires an amendment that replaces the current "placeholder" amount to fund overseas contingency operations in FY 2014. The placeholder in the budget is set at $88.5 billion, but will likely be reduced by a significant amount by the amendment.

Overall, this is an insufficient funding level for maintaining long-standing U.S. commitments. Even a more efficient Department of Defense will require about 4 percent of GDP to honor the commitments that keep Americans safe. The Obama proposal will put defense spending at 3.8 percent of GDP in FY 2014, when the placeholder is included, while bringing it down to about 2.9 percent of GDP in FY 2018.

Further, the proposal is largely irrelevant. This is because the overall budget proposal is all but certain to perpetuate the current impasse with Congress, which is why the sequestration process is being applied to defense now. Since sequestration is embedded in law, it will continue to apply unless and until the President no longer blocks efforts to replace it. While the President's defense budget proposal says that he is willing to spend more on defense than permitted by sequestration, the reality is that he is working to continue sequestration's application to the defense budget in FY 2014 and beyond.

The result is going to be a defense posture that is too small in terms of both personnel and force structure, does not include modern weapons and equipment, and does not provide adequate levels of training and maintenance.

Continuing to Fund the Failed Welfare System

Rachel Sheffield

The President's budget proposal claims that it "builds on the progress made over the last four years to expand opportunity for every American and every community willing to do the work to lift themselves up."

Promoting self-reliance through work, as the President suggests with this language, is precisely what is needed to help individuals thrive. However, over the past four years the Administration's policies have done anything but.[21] Unfortunately, the President's budget continues to build on the failed strategies of the past by pouring massive amounts of taxpayer dollars into a burgeoning number of means-tested welfare programs for the poor. Total government welfare spending now edges near $1 trillion annually and funds roughly 80 different means-tested welfare programs that provide cash, food, housing, medical care, and social services to low-income Americans.[22] The President's budget homes in on jobs programs, despite decades of funding similar types of programs.

The President does make an important point, however, by noting the crucial need to promote marriage by "addressing financial deterrents to marriage." Far too many means-tested programs include marriage penalties, and marriage is eroding in many American communities, leaving children in poverty and inhibiting their ability to thrive. It is crucial to strengthen marriage in order to help families and communities prosper.[23]

Overall, the President's budget continues to pour more dollars into the same failed welfare system of the past five decades. The President should focus on getting ever-burgeoning welfare spending under control. Additionally, he should support welfare policies that truly encourage work and self-sufficiency, such as those that undergirded the 1996 welfare reform. Finally, leaders at every level of society should seek to strengthen marriage—the bedrock of society—to promote greater prosperity for today's and future generations.

Growing Spending and Federal Intervention in Education

Lindsey Burke

The President's budget increases spending at the Department of Education by 4.6 percent over 2012 levels.

Federal education spending has increased significantly since President Jimmy Carter established the Department of Education in 1979. Since then, agency funding has more than doubled, with spending growing dramatically under the Obama Administration. Today, the Education Department has the third-largest discretionary budget of any federal agency, trailing only the Department of Defense and the Department of Health and Human Services. In 1980, the Department of Education's budget was $11.6 billion (which equates to approximately $31.7 billion in constant 2012 dollars).[24] By the time President Obama took office in 2009, the budget had increased to $67 billion (of which $41 billion was for elementary and secondary education). Today, the White House proposed further growing "Carter's Bureaucratic Boondoggle" with a budget of $71.2 billion.

Nearly a half century of ever-increasing federal education spending and control has failed to improve academic outcomes. The bloated bureaucracy has added layer upon layer of red tape on states and school districts, requiring school leaders to demonstrate compliance with more than 150 federal education programs.

21. Robert Rector, "An Overview of Obama's End Run on Welfare Reform," Heritage Foundation *Issue Brief* No. 3735, September 20, 2012, http://www.heritage.org/research/reports/2012/09/an-overview-of-obama-s-end-run-on-welfare-reform.
22. Robert Rector, "Examining the Means-Tested Welfare State: 79 Programs and $927 Billion in Annual Spending," testimony before the Committee on the Budget, U.S. House of Representatives, May 3, 2012, http://www.heritage.org/research/testimony/2012/05/examining-the-means-tested-welfare-state.
23. Robert Rector, "Marriage: America's Greatest Weapon Against Child Poverty," Heritage Foundation *Special Report* No. 117, September 5, 2012, http://www.heritage.org/research/reports/2012/09/marriage-americas-greatest-weapon-against-child-poverty.
24. Lindsey M. Burke and Rachel Sheffield, "Obama's 2013 Education Budget and Blueprint: A Costly Expansion of Federal Control," Heritage Foundation *Backgrounder* No. 2677, April 12, 2012, http://www.heritage.org/research/reports/2012/04/obamas-2013-education-budget-and-blueprint-a-costly-expansion-of-federal-control.

At a time when American taxpayers are calling for fiscal restraint in Washington, including restraint at the Department of Education, the budget creates a path to continued federal profligacy. This proposal worsens the existing bureaucratic maze of federal programs and further removes educational decision-making authority from state and local policymakers.

Massive New Government Preschool Initiative. The President has proposed a massive new Preschool for All initiative (allegedly offset by new taxes on tobacco products) to enroll all four-year-old children from low-income and middle-income families in government preschool programs. The budget proposes new federal spending to encourage states to enroll more four-year-olds in state preschool programs, and it creates new Early Head Start and child care partnerships to enroll infants and toddlers.

The White House's new preschool proposal would add to the long list of existing federal early education and child care programs (there are currently 45 such federal programs, according to the Government Accountability Office)[25]—despite little evidence of demand for such programs.

Across the country today, approximately three-quarters of the nation's four-year-olds are enrolled in some form of public or private preschool.[26] That includes state-run preschool programs, the federal Head Start program, church-based care, child care centers, and home providers. With some three-quarters of four-year-olds already enrolled in preschool programs across the country—and with publicly funded options available for low-income families—demand for new, large-scale government spending on early childhood education and care is not evident.

Moreover, the federal government's longest-running experiment with preschool, Head Start, has been an objective failure. According to the Department of Health and Human Services, Head Start had no statistically measurable effects on all measures of cognitive ability, including numerous measures of reading, language, and math ability of participating children.[27]

With the track record of Head Start, the last thing the federal government should be doing is further intervening in the education and care of the youngest Americans. Instead, Congress should eliminate or reform existing preschool programs, and reject the favoritism toward government preschool.

Obama's Irresponsible Infrastructure Plan: Spend, Spend, and Repeat

Emily Goff

President Obama's budget plan to funnel tens of billions of dollars into federally run infrastructure programs doubles down on failed stimulus policies of the past. A truly responsible strategy to help states meet their transportation needs—so that their economies can flourish and their workers can commute more easily—would scale back federal involvement and empower states with more flexibility and control.[28] At the very least, it would terminate spending on high-cost, low-value programs that are locally or regionally based, and instead deploy available resources to programs that cost-effectively increase mobility.

First, Obama's proposal to spend $40 billion on a "Fix it First" program amounts to massive levels of wasteful federal stimulus which, as Americans have seen firsthand, does not lead to economic growth. This one-size-fits-all approach ignores the fact that the states—not Washington—are best equipped to weigh whether new, capacity-expanding projects or maintenance and repair projects would be most cost-effective for them.

It is déjà vu regarding Obama's "peculiar obsession" with a National Infrastructure Bank.[29] He proposes spending $8.8 billion over the next 10 years to set up this allegedly independent and nonpartisan entity, which would be run by unelected transportation experts, presumably appointed by the

25. Ibid.

26. Lindsey M. Burke and Rachel Sheffield, "Universal Preschool's Empty Promises," Heritage Foundation *Backgrounder* No. 2773, March 12, 2013, http://www.heritage.org/research/reports/2013/03/universal-preschools-empty-promises.

27. Office of Planning, Research and Evaluation, *Third Grade Follow-up to the Head Start Impact Study: Final Report*, U.S. Department of Health and Human Services, October 2012, http://www.acf.hhs.gov/sites/default/files/opre/head_start_report.pdf (accessed April 23, 2013).

28. Emily Goff, "Transportation and Infrastructure Policy: More State and Less Federal Control," Heritage Foundation *Issue Brief* No. 3875, March 13, 2013, http://www.heritage.org/research/reports/2013/03/transportation-and-infrastructure-policy-more-state-and-less-federal-control.

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

Administration. The federal loans it would award would be nothing more than Administration earmarks. Under this approach, taxpayers could reasonably expect to see Solyndra-style failures in infrastructure projects[30]—and their tax dollars go down the tubes.

A National Infrastructure Bank would institutionalize a Washington-centric transportation program.[31] That this bank would finance projects that the private sector otherwise would not back raises a red flag that taxpayers cannot afford to ignore. While public-private partnerships (PPPs) are part of the transportation funding solution, these contracts should take place at the state level.[32] Congress should reject the National Infrastructure Bank idea and instead remove the barriers to PPP expansion.

Then there is high-speed rail (HSR). President Obama proposes spending $40 billion over five years on this costly form of transportation. Governors from several states have rejected federal HSR funds, because they were rightly concerned that their taxpayers would have to subsidize these projects ad infinitum. Conversely, California's leaders stubbornly insist on building HSR, despite costs that have tripled for a project that assumes ridership and revenue projections so optimistic that they have been roundly rejected by experts and the project spurned by private investors. In addition, there is the XpressWest line to Las Vegas, which Representative Paul Ryan (R–WI) and Senator Jeff Sessions (R–AL) have spotlighted as highly risky for taxpayers.[33] States and the private sector can finance and build high-speed rail if they value it, but the federal government should get out of that game.

Finally, the burning question: How does the President propose to pay for all of this new spending? With phony savings from overseas troop drawdowns.[34] In effect, then, President Obama would borrow the money and send the bill to America's children and grandchildren.

Mr. President, Americans have seen what federal "stimulus" does for them and their families: diddlysquat on the job front and higher levels of federal debt. This budget's flawed transportation policies would do the same.

Lipstick on a Failed Government-Centric Energy Policy

Nicolas D. Loris

President Obama's budget calls for more taxpayer investment for green energy, the "safe production" of natural gas, energy-efficiency investments, permanent tax credits for green investment, permanent tax hikes for oil companies, and an Energy Security Trust Fund that directs government revenue from oil and gas production on federal land toward spending on alternative fuel technology. The President's "all-of-the-above" strategy is nothing more than subsidizing the Administration's politically preferred sources of energy.

- **More subsidies for green energy.** It is not the government's role to reduce the costs of technologies, nor is it helpful to improve the long-term viability of the industry. Government investments reduce the role of the entrepreneur and create a dependence on government.[35]

- **Natural gas production is already safe.** The technological advancements in natural gas production have led to tremendous energy production and job creation. The processes of hydraulic

30. Nicolas D. Loris and Jack Spencer, "The Department of Energy Should Not Be the Green Banker," Heritage Foundation *Backgrounder* No. 2613, October 6, 2011, http://www.heritage.org/research/reports/2011/10/the-department-of-energy-should-not-be-the-green-banker.
31. Emily Goff, "Taxpayer-Funded Infrastructure Bank: The 'Investment' Isn't Worth It," The Heritage Foundation, The Foundry, January 28, 2013, http://blog.heritage.org/2013/01/28/taxpayer-funded-infrastructure-bank-the-investment-isnt-worth-it/.
32. William G. Reinhardt and Ronald D. Utt, "Can Public-Private Partnerships Fill the Transportation Funding Gap?" Heritage Foundation *Backgrounder* No. 2639, January 13, 2012, http://www.heritage.org/research/reports/2012/01/can-public-private-partnerships-fill-the-transportation-funding-gap.
33. Emily Goff, "Sessions and Ryan to LaHood: Halt the High-Speed Train to Vegas," The Heritage Foundation, The Foundry, March 8, 2013, http://blog.heritage.org/2013/03/08/sessions-and-ryan-to-lahood-halt-the-high-speed-train-to-vegas/.
34. Emily Goff, "Spending 'War Savings' Is Still a Budget Gimmick," The Heritage Foundation, The Foundry, October 4, 2012, http://blog.heritage.org/2012/10/04/spending-war-savings-is-still-a-budget-gimmick/.
35. Nicolas D. Loris, "Department of Energy Budget Cuts: Time to End the Hidden Green Stimulus," Heritage Foundation *Backgrounder* No. 2668, March 23, 2012, http://www.heritage.org/research/reports/2012/03/department-of-energy-budget-cuts-time-to-end-the-hidden-green-stimulus.

fracturing and horizontal drilling are already safe and have been successfully regulated at the state level for decades. Private-sector investments will continue to improve the safety and efficiency of the technologies.[36]

- **Tax credits for some, tax hikes for others.** Rather than continue to pick winners and losers with the tax code, Congress should eliminate economically unjustified tax credits for both conventional and renewable energy sources and technologies while lowering the corporate tax rate to encourage investment and spur economic growth.[37] This does not include removing the broadly available tax credits that the oil and gas industry receives, and which are often targets of drilling opponents.[38]

- **Trust fund or slush fund?** President Obama's Energy Security Trust Fund does not expand oil and gas production on federal lands, would duplicate tried-and-failed attempts to subsidize energy technologies, and ignores the fact that competition in the marketplace is most effective in driving technological innovation. Congress should reject the creation of a new pot of money for subsidies—whether tied to new exploration or not.[39]

- **Markets reward efficiency.** Americans already place a high value on saving money through energy-efficiency improvements, and when they do not, it is because they have overriding preferences or budget constraints. Having the government slowly take those choices away by subsidizing a portion of the cost with taxpayer money is dictating what should be a market choice by investors, entrepreneurs, and families.[40]

These policies move America's energy policy in the wrong direction by taking decisions away from producers and families and concentrating them in Washington.

Obama's No-Policy Nuclear Waste Policy

Jack Spencer

The President's budget perpetuates his kick-the-can-down-the-road nuclear waste energy policy.

First, it continues to ignore the 1982 Nuclear Waste Policy Act, as amended, by clinging to his determination that "Yucca Mountain was not a workable solution for disposing of the nation's spent nuclear fuel."

The fact is that no one outside the Nuclear Regulatory Commission (NRC) staff knows what the technical merits of the repository are, because the NRC has kept its findings from public view.

Perhaps such a no-policy would be acceptable if there were a real effort to find a replacement repository, but there is not.

The President's budget should provide money and direction for the NRC to complete its review of the Yucca repository application.

Second, the budget promotes the flawed idea of permitting a consolidated interim nuclear waste-storage site prior to permitting a permanent repository. The problem is that building the interim storage site now eliminates any incentive to build the permanent site that the nation needs. That is because moving the fuel to an interim storage site achieves the primary objectives of both the government and nuclear utilities, which is to move the waste away from nuclear power plants.

This makes sense given the deal that the utilities struck with the government in 1982, which essentially handed responsibility for waste management and disposal to the government. The utilities have since been paying the U.S. Treasury about $750 million per year

36. Nicolas D. Loris, "Hydraulic Fracturing: Critical for Energy Production, Jobs, and Economic Growth," Heritage Foundation *Backgrounder* No. 2714, August 28, 2012, http://www.heritage.org/research/reports/2012/08/hydraulic-fracturing-critical-for-energy-production-jobs-and-economic-growth.
37. Nicolas D. Loris, "EFEPA Eliminates Corporate Welfare and Corporate Dependence," Heritage Foundation *Issue Brief* No. 3828, January 15, 2013, http://www.heritage.org/research/reports/2013/01/energy-tax-credits-impact-of-energy-freedom-and-economic-prosperity.
38. Nicolas D. Loris and Curtis S. Dubay, "What's an Oil Subsidy?" Heritage Foundation *WebMemo* No. 3251, May 12, 2011, http://www.heritage.org/research/reports/2011/05/whats-an-oil-subsidy.
39. Nicolas D. Loris, "Trust Fund of Slush Fund? Energy Security Trust Has Fatal Flaws," Heritage Foundation *Issue Brief* No. 3884, March 25, 2013, http://www.heritage.org/research/reports/2013/03/energy-security-trust-fatal-flaws-in-alternative-fuel-subsidies.
40. Nicolas D. Loris, "Energy Efficiency, Not Efficiency Mandates," Heritage Foundation *Issue Brief* No. 3876, March 14, 2013, http://www.heritage.org/research/reports/2013/03/why-energy-efficiency-is-good-energy-efficiency-mandates-are-bad.

to take the waste. The problem is that the government completely defaulted on its obligation and is now accumulating somewhere around $500 million per year in liability costs that it owes the utilities.

Interim storage fixes both problems. It gets the waste off the utilities' sites and eliminates the Energy Department's growing liability. It does not fix the larger problem of nuclear waste management, however, because it does nothing to fix the misalignment of incentives, responsibilities, and authorities that emanate from a system that separates waste producer from waste manager.[41]

And this is where the third problem with the President's budget lies: It perpetuates the flawed notion that the federal government is the correct entity to manage spent nuclear fuel. The one common thread to nearly every system in the world where nuclear waste is being successfully managed is that waste producers are responsible for waste management. This is true in Finland, France, Japan, and Switzerland.[42]

By neither questioning the fundamental assumptions that underlie the current failed system nor clearly setting forth a path to build a permanent geologic repository, the President's policy on nuclear waste is no policy at all.

Permanent "Clean Energy" Credits Concede Obama Energy Policy Failure

Katie Tubb

President Obama's budget concedes that his policies will never lead to a competitive renewable energy industry. Supposedly, by making renewable tax credits permanent, President Obama's budget measure eliminates the "uncertainty" that was such an issue in last year's wind production tax credit (PTC) expiration debate. But this measure only increases the certainty that all Americans will be subsidizing renewable companies, while increasing the uncertainty that renewable energy sources will ever thrive on their own merits.

Targeted subsidies and policy favors only subtract from the market and misallocate taxpayer dollars. Subsidies channel investments to politically correct or well-connected technologies and companies. As with the wind PTC, uncertainty came only because the federal government involved itself in wind power production in the first place by giving it a special preference. Making federal subsidies permanent institutionalizes government dependence.

What renewables need is market fairness, where the first and final arbiter of success is the consumer, not the federal government. Market fairness does not mean giving subsidies to the renewable energy industry as "reparations" for years of subsidies to conventional energy. It is pursuing broader, market-based energy reform. This means cutting any tax measure or policy that supports the production or consumption of one good over another.[43]

41. Jack Spencer, "Yucca Mountain and Nuclear Waste Policy: A New Beginning?" Heritage Foundation *WebMemo* No. 3085, December 16, 2010, http://www.heritage.org/research/reports/2010/12/yucca-mountain-and-nuclear-waste-policy-a-new-beginning.
42. Jack Spencer, "Blue Ribbon Commission on Nuclear Waste: Missing Opportunity for Lasting Reform," Heritage Foundation *Backgrounder* No. 2600, August 22, 2011, http://www.heritage.org/research/reports/2011/08/blue-ribbon-commission-on-nuclear-waste-missing-opportunity-for-lasting-reform.
43. Nicolas D. Loris, "No More Energy Subsidies: Prevent the New, Repeal the Old," Heritage Foundation *Backgrounder* No. 2587, July 26, 2011, http://www.heritage.org/research/reports/2011/07/no-more-energy-subsidies-prevent-the-new-repeal-the-old.

This means letting the wind PTC expire, just as much as it means cutting the marginal well-production tax credit that subsidizes oil production when the price of oil falls.[44] This does not mean a crusade against tax breaks for oil and gas that are also broadly available to other energy, mineral, and manufacturing companies.

The Obama Administration greatly desires success in dispatching renewable technology and hastening renewable innovation, but the government has at best settled for a short-term modicum of success where freedom could offer so much more.

Three Times Not a Charm When Paying for a Government Nuclear Mess

Jack Spencer

Buried deep within the President's budget is a proposal to "reauthorize the special assessment from domestic nuclear utilities."

Translation: The President wants to place an additional tax on nuclear utilities that will result in higher energy prices for consumers.

The money would be placed into a special fund that was created in 1992 to pay for the decontamination and decommissioning of the Department of Energy's old uranium enrichment sites in Ohio, Kentucky, and Tennessee. Although these plants were built in the 1940s and 1950s to support national security activities, they were also used later to provide enriched uranium for commercial purposes. Thus, collecting a fee from nuclear utilities to help pay for cleanup costs seems to make sense.

The problem is that these fees have already been paid—twice!

The first payment came when utilities first purchased enrichment services from the U.S. government. A portion of the price included decontamination and decommissioning costs. But Washington decided that was not adequate, so it charged the utilities again as part of the Energy Policy Act of 1992. The 1992 act required that each utility be assessed a fee based on the services it received from government-owned enrichment facilities. Consumers paid more than $2.6 billion in additional costs as a result of the 1992 act. That program ended in 2007, and now President Obama wants to charge consumers a third time.

The Obama Administration seems to think that the provision of commercial services from these government-owned facilities somehow results in an endless private-sector liability for cleanup costs. It ignores the fact that these facilities were built and owned by the federal government to meet critical national security requirements, not to meet commercial needs.

Indeed, they have no utility as commercial entities, which is why the Ohio and Tennessee facilities are already shut down, with the one in Kentucky ready to go. The private sector is already fully capable of providing commercial enrichment services far more efficiently than the government ever could. There is already one enrichment plant on line in New Mexico, with plants in Idaho, Ohio, and North Carolina planned. And just as owners of each of these plants must be responsible for decommissioning, so must the U.S. government be for its old plants.

Charging nuclear energy consumers a fee for something they have already paid for twice is patently unfair. And, portraying outstanding cleanup costs as the responsibility of the nuclear industry is disingenuous.

When it comes to charging America's electricity consumers for a government mess, the third time is not a charm.

Postal Subsidies to Be Delivered?

James Gattuso

The U.S. Postal Service (USPS) largely gets its revenues from its customers, not from taxpayer funds. That is as it should be. But, if proposals in the President's new budget are adopted, the USPS would be tapping into the Treasury in a big way.

The current budget appropriation for the USPS is relatively small—$78 million, intended to compensate the USPS for mail that Congress requires it to deliver free or at reduced rates. But the President's budget would provide the USPS with a one-time infusion of $11.5 billion, as a "refund" for supposed pension fund overpayments (putting taxpayers at risk if the projected surplus becomes a deficit).

The budget also calls for Congress to restructure some $10 billion in health care payments owed to the federal government. The USPS defaulted on these debts last year. The President now proposes that

44. Loris and Dubay, "What's an Oil Subsidy?"

that payment be spread out over a number of years.

Together, these steps represent a disguised bailout of the Postal Service, as Heritage's David John wrote last year.[45] The result will be to allow the USPS to put off vital reforms necessary for it to survive in today's shrinking postal marketplace.

The Administration does make the right call, however, on supporting another hotly contested postal issue: the USPS's plan to cut back Saturday service.[46] Such a step would save the USPS around $2 billion per year. The Obama budget calls for eliminating long-standing appropriations riders barring such a service change. Congress, unfortunately, seems to disagree and in fact recently included an appropriations rider requiring full Saturday service in the recently approved 2013 continuing resolution. Unless these and other restrictions are lifted, prospects for the Postal Service's survival without massive taxpayer assistance will be grim.

The Obama Budget: A Philosophy of Decline

Patrick Louis Knudsen

Despite White House claims of a "centrist" drift, President Barack Obama's FY 2014 budget clings to the same progressive ideology that has swollen the federal government over the past four years. President Obama continues to seek more government, higher spending, and higher taxes. Because the budget never balances—there is not even an attempt—debt remains at dangerously elevated levels. He emulates a European-inspired welfare state in which the federal government increasingly imposes on and smothers Americans' lives and America's economy.

The budget claims long-term savings, but first boosts spending with the typical government "investments" in infrastructure, high-speed rail, non-defense research and development, and "manufacturing innovation institutes." The general attitude is that the economy cannot grow without the guidance of a domineering central government.

The signature feature of this governing philosophy is Obamacare, whose malignant new entitlements—its health insurance subsidies and Medicaid expansions—start in this 2014 budget. With their implementation, the misnamed Patient Protection and Affordable Care Act (Obamacare) will add a distinctly unaffordable $1.8 trillion in federal spending through 2023. Equally important, Obamacare commandeers the health care sector with a massive program that further distorts the market, intrudes on the doctor-patient relationship, and dismisses personal and religious liberty.[47]

While boosting domestic spending, the President remains indifferent to national security needs. His proposed defense spending, though somewhat higher than sequestration levels, remains inadequate.

Even with his timid entitlement savings proposals—which mostly just trim the edges of programs that require fundamental, structural reform—President Obama promotes a government that is permanently at least 1 percentage point larger in terms of spending as a share of the economy, than the historical average of 20.2 percent of GDP. Financing this sprawling bureaucracy naturally requires higher taxes, mostly by punishing the saving and investment that feed long-term prosperity. It is a deliberate practice aimed at stifling private-sector growth to increase dependence on government. Yet with all the President's proposed new taxes—following the $618 billion tax hike he demanded and won in January's fiscal cliff agreement[48]—his budget never gets close to balance.

However irrelevant the budget is—arriving more than two months late, and after both the House and Senate have passed their respective budget resolutions—it reflects the governing philosophy that President Obama intends to keep pursuing in his second term. If he succeeds, his policies will inevitably smother America's vitality and lead to decades of decline.

45. David John, "Postal Pension 'Refund' Is a Disguised Taxpayer Bailout," Heritage Foundation *Backgrounder* No. 2699, June 12, 2012, http://www.heritage.org/research/reports/2012/06/postal-pension-refund-is-a-disguised-taxpayer-bailout.

46. James Gattuso, "Sending a Message: USPS Sinks Saturday Service," The Heritage Foundation, The Foundry, February 7, 2013, http://blog.heritage.org/2013/02/07/sending-a-message-usps-sinks-saturday-service.

47. Nina Owcharenko and Edmund F. Haislmaier, "Medicaid Expansion and State Health Exchanges: A Risky Proposition for the States," Heritage Foundation *Issue Brief* No. 3802, December 12, 2012, http://www.heritage.org/research/reports/2012/12/obamacares-medicaid-expansion-and-state-exchanges-risky-for-states.

48. Curtis S. Dubay, "Fiscal Cliff Deal: Tax Increase Spoils Permanent Victory for Most Taxpayers," Heritage Foundation *Issue Brief* No. 3821, January 9, 2013, http://www.heritage.org/research/reports/2013/01/fiscal-cliff-deal-how-it-will-affect-taxpayers-and-the-economy.