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# $4 Trillion and Counting: President Obama's 2016 Budget Presents a Vision of Government Largess

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**Abstract**

*On February 2, President Obama revealed his budget for fiscal year 2016—the first time the budget was released on time since 2010. His $4 trillion blueprint for the U.S. government would raise taxes to fund government largess. In 2016 alone, President Obama calls for $75 billion of spending in excess of the bipartisan budget caps set for 2016 and would add $363 billion in additional discretionary spending above the budget caps over 10 years. Taxes also explode under the President's budget, with $1.6 trillion in new taxes over the next decade. Spending on ineffective and unnecessary programs that increase the scope of government would flourish under the President's budget, while defense spending would atrophy to less than half its historical average as a percentage of gross domestic product. The President's budget never balances and fails to address entitlement spending—the greatest long-term threat to the nation's fiscal state. The following analyses of the President's 2016 budget are taken primarily from a Heritage Foundation "Live Analysis" blog.*

For the first time since 2010, President Obama released his annual budget on time.[1] Such punctuality is a welcome step toward normalcy in the budget process, though one wonders why it took five years for the Administration to adhere to the statutory deadline. Aside from its timeliness, there is little good that can be said about the President's 2016 budget.

## Key Points

- President Obama's FY 2016 budget calls for $4 trillion in spending, and asks Congress to breach the bipartisan spending caps by $75 billion with equal increases in defense and non-defense spending.
- The President's budget never balances despite massive tax increases.
- Obama fails to meaningfully address entitlement programs to ensure benefits are available for those who need them the most. Medicare, Medicaid, Social Security, and Obamacare together with interest on the debt are responsible for 85 percent of the projected increase in spending over the next decade, but the President's budget calls for even greater spending on Obamacare and Medicaid benefits.
- The President's budget increases spending on programs that fall far outside the proper scope of the national government. This spending is partially financed through a historic tax increase of $1.6 trillion over the next 10 years, including economically harmful increases in the foreign income tax, corporate tax, and capital gains tax.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3003**

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## Obama's Tax-and-Spend Budget

*Romina Boccia and Michael Sargent*

The President's new budget presents a vision of government largess: $4 trillion in government spending for 2016 alone. At more than 21 percent of gross domestic product (GDP), the President's proposed spending comes in well over the post–World War II average, consistent with the President's apparent notion that the government can spend money more effectively than the private sector.[2]

Also troubling is the President's call to shred the bipartisan budget caps enacted in 2011.[3] Obama proposes to spend $75 billion more in 2016, much of it on programs that have been discredited and are outside the proper scope of the federal government, such as government-funded child care.[4] While imperfect, these caps provide an effective mechanism to control domestic discretionary spending.

The Defense Department has been underfunded for several years and Congress should increase spending on military capabilities and readiness, in a fiscally responsible manner.[5] This means meeting sequestration's original purpose of encouraging spending reforms that improve the U.S. fiscal situation—with entitlement reforms like implementing Medicare premium support, repealing the new health care law, and putting Medicaid on a budget while mainstreaming working families into private coverage to preserve a true safety net for the most vulnerable in society. Furthermore, such changes should be buttressed by cuts to domestic discretionary programs and military-compensation reform.

Entitlement spending reform is a crucial component of any plan to control spending. (Entitlements and interest on the debt are responsible for 85 percent of the growth in spending over the next decade.)[6] Moreover, Congress should eliminate spending that is wasteful, inappropriate, and outside the proper scope of the national government.

Obama's budget, on the other hand, fails to substantively reform entitlement programs, which comes as no surprise. Obama's signature law—Obamacare—is responsible for 44 percent of the increase in entitlement spending over the next decade.[7]

While the Administration claims its plan would reduce the cumulative deficit over 10 years (it increases the 2016 deficit from the Congressional Budget Office–projected $467 billion to $474 billion), it certainly does not do so by curtailing spending; rather, deficits are tamed through massive tax increases—a threat to the economy that is just now showing signs of life.[8] Even with $1.6 trillion in tax increases, the deficit will still grow to almost $700 billion at the end of the decade, adding another $6 trillion in cumulative debt to the $18 trillion the federal government has already amassed.[9] Obama's budget never balances.

Given the massive spending and tax increases—and no attempt at balancing the budget—the President's budget is almost certainly doomed in the Republican-controlled Congress. And that is a good

1. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016* (Washington, DC: U.S. Government Publishing Office, 2015), http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/budget.pdf (accessed February 20, 2015)..
2. The Heritage Foundation, "Out-of-Control Spending Is to Blame for America's Deficit Problem," *Federal Budget in Pictures 2014*, http://www.heritage.org/federalbudget/federal-spending.
3. Romina Boccia, "Obama Wants to Reverse Sequestration. What You Need to Know," The Daily Signal, January 29, 2015, http://dailysignal.com/2015/01/29/obama-wants-reverse-sequestration-need-know/.
4. Collette Caprara, "Family Fact of the Week: Universal Child Care Does Not Bode Well for America's Children," The Daily Signal, September 3, 2013, http://dailysignal.com/2013/09/03/family-fact-of-the-week-universal-child-care-does-not-bode-well-for-americas-children/.
5. Diem Salmon, "Annual Defense Spending Has Shrunk By 25% Since 2010: What Should the Defense Budget Be in 2016?" The Daily Signal, January 30, 2015, http://dailysignal.com/2015/01/30/annual-defense-spending-shrunk-25-since-2010-defense-budget-2016/.
6. The Heritage Foundation, "Entitlements and Interest on the Debt Account for 85 Percent of Spending Growth Through 2024," *Federal Spending by the Numbers 2014*, December 4, 2014, http://www.heritage.org/multimedia/infographic/2014/12/entitlements-and-interest-on-the-debt-account-for-85-percent-of-spending-growth.
7. Ibid.
8. Curtis Dubay, "The Economy Just Had the Strongest Growth in a Quarter Since 2009," The Daily Signal, December 23, 2014, http://dailysignal.com/2014/12/23/economy-just-strongest-growth-quarter-since-2009/.
9. David Burton, "Obama's Budget Hikes Taxes by $1.6 Trillion," The Daily Signal, February 3, 2015, http://dailysignal.com/2015/02/03/obamas-budget-hikes-taxes-1-6-trillion/.

thing. To usher in a better future for Americans, Congress should disregard this budget and focus on spending reforms that put the budget on a path to balance. Such reforms are critical to growing the economy and stopping the growth in the national debt.[10]

## On National Security and International Affairs, President's Defense Budget Falls Short Again

*Diem Salmon*

Once again, President Obama's fiscal year (FY) 2016 budget underfunds the Department of Defense. For this upcoming fiscal year, the President is requesting $561 billion in discretionary funding for the defense category. This is $23 billion less than the necessary budget level required to fund major military requirements, as outlined in The Heritage Foundation's report, "A Proposal for the FY 2016 Defense Budget."[11]

This year's request varies only slightly from last year's request. At $534 billion just for the Department of Defense (the greater security category includes, among other things, costs associated with nuclear weapons in the Department of Energy), this budget request matches up with the DOD's five-year plan released last year.

As the DOD is still using the 2014 Quadrennial Defense Review (QDR) as the guiding strategic document, many of the flaws from last year's request have also returned. The 2014 QDR was criticized for being a budget-driven strategy and as a result recommended a military force structure too small to fight and win two major regional contingencies. As a global power, this requirement—that the U.S. military be able to simultaneously fight and win two major wars in two separate regions—is essential. The FY 2016 budget once again is proposing cuts to the size of the military.[12]

Defense spending does increase over the 10-year period, from FY 2016 to FY 2025, at a rate of 2 percent a year. Two percent growth is just enough to keep pace with inflation. Thus, in inflation-adjusted terms, DOD would experience zero real growth, or possibly a reduction in spending. The military cannot sustain its current size and programs with zero real growth. The cost of military personnel and the procurement and maintenance of weapon systems grow at a rate faster than inflation. This means that the military will have to make cuts to the force size to maintain zero real growth over 10 years.

Another major area of concern is the pace at which the military will be regaining readiness. Following sequestration in 2013, readiness in each of the services suffered. At one point, only 20 percent of the Army was considered "ready." The military has been trying to rebuild readiness, but at the President's level of funding, it will be another five years before the Army and the Marine Corps reach "full-spectrum readiness" and eight years for the Air Force. Given the growing conflicts around the world, the extended timeline to rebuild readiness in the military is extremely risky.

Simply, the President's defense budget is not enough for the military to meet America's national security requirements. It is clear that his overall budget lacks proper justification behind the spending requests because the President, once again, is handcuffing defense spending to non-defense spending dollar for dollar. The defense and non-defense requests both exceed the Budget Control Act's discretionary caps by the same exact amount out to 2021. Increasing non-defense spending by the exact same amount as defense spending indicates that the spending increase is not based on actual requirements, but rather a politically strategic move. Congress should return to a budget that responsibly prioritizes national defense.

## The Budget Gimmicks of the President's Defense Budget

*Emil Maine*

As part of his FY 2016 budget, President Obama is requesting $50.9 billion for the Defense Department's overseas contingency operations (OCO)

10. Romina Boccia, "Morning Bell: How to Balance the Budget in 10 Years," The Daily Signal, February 1, 2013, http://dailysignal.com/2013/02/01/morning-bell-how-to-balance-the-budget-in-10-years/.
11. Diem Nguyen Salmon, "A Proposal for the FY 2016 Defense Budget," Heritage Foundation *Backgrounder* No. 2989, January 30, 2015, http://www.heritage.org/research/reports/2015/01/a-proposal-for-the-fy-2016-defense-budget.
12. Department of Defense, *Quadrennial Defense Review 2014*, March 4, 2014, http://www.defense.gov/pubs/2014_Quadrennial_Defense_Review.pdf (accessed March 9, 2015).

account. Although the President's request continues OCO's downward trend, it includes funding for presidential initiatives that are outside the purpose of this supplemental funding, such as the European Reassurance Initiative and the Counterterrorism Partnerships Fund. If these initiatives are worthwhile, they should be funded through the base defense budget.

Indeed, OCO was never intended to act as a general operating fund.[13] In 2001 the U.S. government began providing emergency supplemental funds to pay for the increased military and civilian costs associated with Operation Enduring Freedom and Operation Iraqi Freedom. These costs were eventually expanded to include new initiatives with questionable links to combat operations. The President's request for the upcoming fiscal year is the latest illustration of this undisciplined approach.

DOD has stated plans to transition initiatives from OCO into the base budget starting in FY 2017. This is the right approach moving forward but will not be possible unless the defense budget is responsibly increased from the current Budget Control Act's discretionary cap level.

As the drawdown in Afghanistan continues, Congress should phase out the OCO account and fund ongoing priorities in the base budget. This will only be possible if the defense budget is increased.[14]

## Groundhog Day for President Obama's FY 2016 International Affairs Budget

*Brett D. Schaefer*

President Obama's FY 2016 budget request echoes previous budget requests by asking for a steep 7.7 percent increase in the International Affairs budget over last year. Specifically, the Congressional Budget Justification for the Department of State, Foreign Operations and Related Programs lays out a request for $54.8 billion for the International Affairs budget (function 150 account), including $50.3 billion for the Department of State and the U.S. Agency for International Development (USAID).[15] This is $3.9 billion higher than the estimated International Affairs budget for FY 2015 and $2.8 billion higher than the FY 2015 estimated budget for State and USAID.[16]

Legislative gridlock has led to several years of continuing resolutions that have constrained budgetary growth. Despite this recent flatlining, however, the International Affairs budget has increased substantially over the past decade. Using actual budget numbers, the International Affairs budget grew 67 percent in nominal dollars from $30.3 million in FY 2004 to $50.9 million in FY 2014.[17]

Although much of the budget reflects long-standing programmatic and budgetary practice, there are several specific issues that Congress should address:

1. The budget request includes $7 billion in OCO. After 9/11, the U.S. government approved increased funding for the military and civilian costs associated with operations in Afghanistan, Iraq, and other activities related to the Global War on Terror (GWOT), which the Obama Administration prefers to call OCO. These expenses were understood to be exceptional and linked to GWOT/OCO, not permanent increases in the base budgets of the federal government. The FY 2016 budget targets these funds to fight ISIL and support operations and assistance in Afghanistan, Iraq, Jordan, Pakistan, Syria, and Ukraine. These issues generally merit funding, but should be authorized and appropriated through standard budgetary processes or separate supplemental

13. Emil Maine and Diem Salmon, "The Future of Overseas Contingency Operations: Due Diligence Required," Heritage Foundation *Issue Brief* No. 4294, November 4, 2014, http://www.heritage.org/research/reports/2014/11/the-future-of-overseas-contingency-operations-due-diligence-required.
14. Salmon, "A Proposal for the FY 2016 Defense Budget."
15. U.S. Department of State, Foreign Operations and Related Programs, *Congressional Budget Justification, Fiscal Year 2016* (Washington, DC: U.S. Government Publishing Office, 2015), http://www.state.gov/documents/organization/236395.pdf (accessed February 18, 2015).
16. Ibid.
17. U.S. International Affairs, Function 150, *Fiscal Year 2006 Budget Requests* (Washington, DC: U.S. Government Printing Office, 2005), http://www.state.gov/documents/organization/41913.pdf (accessed February 18, 2015); U.S. Department of State, Foreign Operations and Related Programs, *Congressional Budget Justification, Fiscal Year 2016.*

appropriations paid for with reductions in nonessential spending.[18]

2. The budget requests $2.9 billion for Contributions for International Peacekeeping Activities (CIPA)—an $811 million increase. Some of this reflects increased costs associated with newly established or expanded missions. However, a significant portion of the increase results from the Administration seeking to pay 28.4 percent of the U.N. peacekeeping budget instead of the 25 percent maximum signed into law in 1994 by President Bill Clinton. A decade ago, Congress agreed to pay U.S. arrears under the 1999 Helms–Biden agreement in return for assurances that the U.N. would lower the U.S. peacekeeping assessment to 25 percent.[19] Instead, since 2010, the U.N. has repeatedly raised the U.S. assessment. Congress and the Obama Administration encouraged these reversals through amendments to U.S. law allowing payments above 25 percent. The U.S. should resume pressure on the U.N. to lower the U.S. peacekeeping assessment to 25 percent by refusing to pay more than this amount and tying payment of any resulting arrears to adoption by the U.N. of a maximum peacekeeping assessment of 25 percent.[20]

3. Although the Administration's budget does not request funding for the U.N. Educational, Scientific and Cultural Organization (UNESCO), it repeats its goal of waiving "legislative restrictions that prohibit paying U.S. contributions to United Nations specialized agencies that grant the Palestinians the same standing as member states or full membership as a state." Waiving the restriction would reward UNESCO for its imprudent action and remove the most significant incentive for other U.N. organizations not to grant membership to the Palestinians.[21]

4. The budget seeks $440 million in assistance to the Palestinians[22] despite increasingly provocative actions taken in the past year that threaten the prospects for a negotiated peace with Israel, including offering a Security Council resolution demanding the withdrawal of Israel to the pre-1967 borders and recognition of a Palestinian state by 2017 and acceding to a number of treaties including the Rome Statute of the International Criminal Court.[23]

5. Climate change funding is extensive, totaling some $808 million through various State Department and USAID initiatives. This commitment is excessive considering outstanding questions on the extent of real-world warming versus computer model projections and weak scientific support for claims that extreme weather events have increased in frequency or intensity as a consequence of climate change.[24]

In addition, the budget seeks significant increases for State Department operations, contributions to

18. Brett D. Schaefer, "11 Issues for Congress in the President's FY 2015 International Affairs Budget Request," Heritage Foundation *Issue Brief* No. 4179, March 24, 2014, http://www.heritage.org/research/reports/2014/03/11-issues-for-congress-in-the-Presidents-fy-2015-international-affairs-budget-request.

19. Brett D. Schaefer, "U.S. Must Enforce Peacekeeping Cap to Lower America's U.N. Assessment," Heritage Foundation *Backgrounder* No. 2762, January 25, 2013, http://www.heritage.org/research/reports/2013/01/us-must-enforce-peacekeeping-cap-to-lower-americas-un-assessment.

20. Ibid.

21. Brett D. Schaefer and James Phillips, "The U.S. Must Oppose the Palestinian Statehood Effort at the U.N.," Heritage Foundation *Issue Brief* No. 3744, September 28, 2012, http://www.heritage.org/research/reports/2012/09/palestinian-statehood-effort-at-the-un-us-must-take-a-strong-stance-against.

22. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, pp. 88 and 107.

23. Brett D. Schaefer and James Phillips, "Provocative Palestinian U.N. Actions Require Strong U.S. Response," Heritage Foundation *Issue Brief* No. 4329, January 12, 2015, http://www.heritage.org/research/reports/2015/01/provocative-palestinian-un-actions-require-strong-us-response.

24. Roy W. Spencer, "Climate Change: It's Happening Now," testimony before the Committee on Environment and Public Works, U.S. Senate, July 18, 2013, http://www.epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=16e80c55-9ebf-42e4-852e-1f6e960b0902 (accessed February 18, 2015), and Roger Pielke Jr., "Climate Change: It's Happening Now," testimony before the Committee on Environment and Public Works, U.S. Senate, July 18, 2013, http://www.epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=a6df9665-e8c8-4b0f-a550-07669df48b15 (accessed February 18, 2015).

international organizations, development, and economic assistance that should be reviewed closely.

Despite points of likely disagreement, there are some areas that should elicit congressional support. For instance, the budget eliminates funding for the highly criticized Bureau of Conflict and Stabilization Operations (CSO), increases funding for international broadcasting—albeit failing to seek critical reforms to the Broadcasting Board of Governors and international broadcasting—and modest efforts to make American food assistance more cost-effective and flexible.[25]

The Obama Administration is using the FY 2016 budget to advance its funding and policy priorities, as is to be expected. However, as a co-equal branch of government with power of the purse, Congress should exercise its authority to express and defend its budgetary and policy priorities.

## Health Care

### Budget Includes Funds for Continued Implementation of Obamacare

*Alyene Senger*

The President's FY 2016 budget provides for the continued implementation of his health care law. The problem for taxpayers is that any effort to get America's fiscal house in order necessitates the full repeal of the Affordable Care Act (ACA), known as Obamacare.

The raw facts are sobering. Gross spending on Obamacare's exchange subsidies and Medicaid expansion alone is estimated by the Congressional Budget Office to cost almost $2 trillion over the next decade.[26] As Heritage has written:

> The certainty of the ACA's massive spending combined with the uncertainty, or absence, of serious cost savings is a virtual guarantee of deficit increases. As the law advances, its reckless overreach threatens to hasten the deterioration of Washington's increasingly unstable fiscal condition.[27]

Obamacare is not only fiscally irresponsible; it is also bad health policy. Congress must develop and enact a viable alternative—real health care reform that would lower costs by putting individuals, rather than the government, in charge.[28]

### Obama Wants to Spend More on Health Care

*Nina Owcharenko*

After already committing $2 trillion in new health care spending for Obamacare, the Obama Administration now wants to spend more to prop up the Children's Health Insurance Program (CHIP). Ironically, to pay for it, the Administration plans to increase the tobacco tax. Using the tobacco tax to pay for CHIP is not new—and it is as ridiculous as it suggests. As Heritage pointed out in 2007, not only does the tax disproportionately hit low-income workers, but if the effect of the tobacco tax is fewer smokers, then the revenues to offset the CHIP funding disappear.[29]

### Price Controls in Part D

*Edmund F. Haislmaier*

Among other policies, the President's budget proposal would specifically give the Secretary of Health and Human Services the authority to "negotiate"

25. U.S. Department of State and the Broadcasting Board of Governors, "Inspection of the Bureau of Conflict and Stabilization Operations," March 2014, http://oig.state.gov/system/files/224060.pdf (accessed February 18, 2015); Helle C. Dale and Brett D. Schaefer, "Time to Reform U.S. International Broadcasting," Heritage Foundation *Issue Brief* No. 4206, April 24, 2014, http://www.heritage.org/research/reports/2014/04/time-to-reform-us-international-broadcasting; and Bryan Riley and Brett D. Schaefer, "Congress Should Reject Proposed Food Aid Shipping Mandate," Heritage Foundation *Issue Brief* No. 4228, May 23, 2014, http://www.heritage.org/research/reports/2014/05/congress-should-reject-proposed-food-aid-shipping-mandate.
26. Alyene Senger, "Report: 12 Million People Predicted to Use Obamacare Exchanges This Year," The Daily Signal, January 28, 2015, http://dailysignal.com/2015/01/28/report-12-million-people-predicted-use-obamacare-exchanges-year/.
27. Patrick Louis Knudsen and Robert E. Moffit, "The Affordable Care Act's Mounting Budgetary Pressures," Heritage Foundation *Backgrounder* No. 2980, December 8, 2014, http://www.heritage.org/research/reports/2014/12/the-affordable-care-acts-mounting-budgetary-pressures.
28. Edmund F. Haislmaier, Robert E. Moffit, Nina Owcharenko, and Alyene Senger, "A Fresh Start for Health Care Reform," Heritage Foundation *Backgrounder* No. 2970, October 30, 2014, http://www.heritage.org/research/reports/2014/10/a-fresh-start-for-health-care-reform.
29. Michelle Bucci and William Beach, "22 Million New Smokers Needed: Funding SCHIP Expansion with a Tobacco Tax," Heritage Foundation *WebMemo* No. 1548, July 11, 2007, http://www.heritage.org/research/reports/2007/07/22-million-new-smokers-needed-funding-schip-expansion-with-a-tobacco-tax.

some drug prices in Medicare Part D. Although Congress should not have added an additional unfunded entitlement to the Medicare program, the design of delivering the benefit through a competitive market-based approach has proven successful in reducing costs and expanding access.

Government price controls will not improve upon that performance. Indeed, they would likely create incentives for gaming the system by drug manufacturers and others, such as hospitals and nursing homes—benefitting neither taxpayers nor seniors.[30]

Likewise, the President's budget proposes imposing more price controls in Part D via Medicaid-style drug rebates. The important thing to understand, especially for seniors, is that any government drug price control or rebate scheme will only work if the government is willing to deny patients access to the drugs should the manufacturer not play along. As this author testified in 2007:

> A government that is willing to deny patients access to drugs can extract price concessions by threatening to deny manufacturers access to a major market segment. In such a situation the distinction between threatening to not cover a drug and actually refusing to cover the drug is largely irrelevant, since without a genuine willingness to deny coverage any such threat would be meaningless.[31]

That same reasoning was what led the Congressional Budget Office (CBO) to score this type of proposal in 2007 as having "negligible effect." As the CBO wrote:

> CBO estimates that modifying the noninterference provision would have a negligible effect on federal spending because we anticipate that under the bill the secretary would lack the leverage to negotiate prices across the broad range of covered Part D drugs that are more favorable than those obtained by PDPs [prescription drug plans] under current law. Without the authority to establish formulary or other tools to reduce drug prices, we believe that the secretary would not obtain significant discounts from drug manufacturers across a broad range of drugs.[32]

In other words, the CBO was also telling Congress (though more delicately) that unless they give the Secretary authority to deny reimbursement for their drugs if manufacturers do not agree to price concessions then they would not see any savings.

Holding seniors hostage and threatening to take away their medicines is not the way to reduce drug costs.

## Obama's Long-Term Care Proposal

*Robert E. Moffit*

The President proposes to expand Medicaid "home and community based services" as an alternative to institutional care for elderly and disabled persons. This would be done by "simplifying" eligibility for these services. The President's budget also provides for a pilot program for five states to test an enhanced match for Medicaid funding for streamlining the beneficiary eligibility for improved long-term care services and supports.

Medicaid expansion is the wrong response to the long-term care problem. Federal and state officials should promote private options and revitalize the weakened long-term care insurance market. The CBO has found that current asset protections ease eligibility for Medicaid long-term care, thus crowding out private insurance alternatives and other private care provisions.[33]

Congress should build upon a growing consensus among policy analysts.[34] Because most Americans

30. Edmund F. Haislmaier, "Compromising Quality: The High Cost of Government Drug Purchasing," Heritage Foundation *Backgrounder* No. 1764, May 25, 2004, http://www.heritage.org/research/reports/2004/05/compromising-quality-the-high-cost-of-government-drug-purchasing.
31. Edmund F. Haislmaier, "Hearing on Prescription Drug Pricing and Negotiation for the Medicare Prescription Drug Benefit," testimony before the Committee on Finance, U.S. Senate, January 11, 2007, http://www.heritage.org/research/testimony/hearing-on-prescription-drug-pricing-and-negotiation-for-the-medicare-prescription-drug-benefit.
32. Congressional Budget Office, "Medicare Prescription Drug Price Negotiation Act of 2007," April 16, 2007, http://www.cbo.gov/sites/default/files/s3.pdf (accessed March 6, 2015).
33. Congressional Budget Office, "Financing Long-Term Care for the Elderly," *A CBO Paper*, April 2004, p. xi, http://www.cbo.gov/sites/default/files/04-26-longtermcare.pdf (accessed March 6, 2015).
34. Robert E. Moffit, "How to Think About Long-Term Care," Heritage Foundation *Center for Policy Innovation Discussion Paper* No. 13, October 4, 2013, http://www.heritage.org/research/reports/2013/10/how-to-think-about-long-term-care (accessed February 18, 2015).

want to "age in place," government officials should reduce or eliminate rules or regulations that undercut the provision of less expensive, home-based care. Meanwhile, in preserving Medicaid as the safety net for the truly needy, they should also encourage a private insurance market and close loopholes that enable persons who are not needy, and who have accumulated substantial wealth and assets, to shelter their assets or income to secure welfare eligibility.

## Budget Policy, Spending, and Taxes

### Obama's Budget Would Reverse Sequestration

*Romina Boccia*

Four years into the Budget Control Act of 2011 (BCA), President Obama's budget once again asks Congress to break its commitment to reduce spending.[35] This time, Congress should stick to its promise.

Obama's budget proposes to spend more than is allowed under the statutory, sequestration-enforced BCA spending caps. If Congress followed the President's request—without reducing other spending starting in 2016—discretionary spending would be higher by at least $360 billion over the next decade. Repealing the entire sequestration with no offsetting spending cuts would increase the deficit by $1 trillion by 2024, according to projections by the CBO.[36]

Under projections by the CBO released in late January, spending will grow by three-quarters, from $3.5 trillion to more than $6 trillion over the decade.[37] These projections assume Congress enforces the BCA and sequestration.

Sequestration is not the budget-slashing mechanism the President makes it out to be. In fact, as originally designed, sequestration reduces total spending by about 2 cents on every federal dollar that would have otherwise been spent over the decade. Nevertheless, defense has taken a real hit and is on track to fall to below 50 percent of its 50-year average in terms of spending as a percentage of GDP. Congress should responsibly prioritize national defense in the budget by reducing spending in domestic programs.

Overall, Congress needs to do much more to reduce spending and put the budget on a path to balance. Congress should reveal its policy choices in its FY 2016 budget resolution, due in mid-April.

### Obama's Corporate Tax Hike Likely Dooms Tax Reform

*Curtis S. Dubay and Emily Goff*

President Obama's budget would apply a 19 percent minimum tax on the foreign income of U.S. multinational businesses going forward and a 14 percent tax on the foreign income they previously earned but have not yet returned to the U.S. (and therefore have yet to pay their U.S. tax).

Businesses would have to pay the minimum tax each year. Thus, it would end the long practice of deferral, which applies extra U.S. tax to foreign earnings only when businesses return those profits home. Ending deferral and raising taxes on foreign income will reduce investment by U.S. business both abroad and here at home. The result will be fewer jobs and lower wages for U.S. workers.

This tax hike would make a bad situation worse because the U.S. already has the worst corporate tax system in the developed world. America has the highest rate, 15 percentage points above the average of its competitors,[38] and the U.S. is effectively the only nation in that group that taxes the foreign income of our businesses.

America should be lowering the corporate tax rate and moving to a territorial system that would not tax overseas earnings—thereby putting U.S. businesses back on a competitive footing. However, by raising rates on the foreign income of American businesses, Obama's proposal goes in the opposite direction.

35. David Jackson and Tom Vanden Brook, "Obama Wants End of Sequester, Seeks 7% Spending Hike," *USA Today*, January 29, 2015, http://www.usatoday.com/story/news/nation/2015/01/29/obama-sequester-budget-house-democratic-issues-conference-boehner-mcconnell/22513925/ (accessed February 13, 2015).

36. Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025*, January 26, 2015, https://www.cbo.gov/publication/49892 (accessed February 13, 2015).

37. Romina Boccia, "New Report: Deficit Will Exceed $1 Trillion Before Decade's End," The Daily Signal, http://dailysignal.com/2015/01/26/new-report-deficit-will-exceed-1-trillion-decades-end/.

38. Curtis Dubay, "Corporate Tax Reform Should Focus on Rate Reduction," Heritage Foundation *WebMemo* No. 3146, February 2011, http://www.heritage.org/research/reports/2011/02/corporate-tax-reform-should-focus-on-rate-reduction.

This is an especially alarming development because corporate tax reform was supposed to be one area of potential compromise between Obama and the new Congress. Obama has said he is interested in such reform and even has a framework of a plan.[39] However, these new proposals reduce the already slim chances of advancing much-needed reform.

Obama is sure to argue that the policies he is proposing are similar to ones proposed by Republicans, such as those raised in former Chairman of the House Ways and Means Committee Dave Camp's (R–MI) tax reform proposal last year. However, like in many of the President's policies, the context matters immensely.

Camp's proposal was part of a tax reform plan that established a territorial tax system. As part of that system, anti-base erosion and profit-shifting (BEPS) policies are necessary to stop U.S. businesses from shifting too much U.S. income abroad.[40] Obama proposing BEPS policies without simultaneously moving to a territorial regime is akin to trying to install a security system on a house that has not been built yet.

The President is also likely to argue that his tax on unrepatriated earnings is a tax cut, since he would apply to them a lower rate than the one available under current law. But by deeming the money repatriated and forcing businesses to pay tax on it, he is forcing businesses to pay tax on money they never intended to bring back to the U.S. and therefore would never have paid tax on.

The tax hike on multinationals is supposed to pay for half of a six-year, $478 billion public works package—an even loftier stimulus-spending goal than that contained in the Administration's GROW AMERICA Act proposal.[41] The remainder of the money to pay for this highway and transit program reauthorization would come from regular gasoline and diesel tax receipts deposited into the Highway Trust Fund. Obama proposes sharp increases in spending on underutilized mass transit rail systems and federal grants to local rail, road, and port projects.

One of these grant programs, the Transportation Investment Generating Economic Recovery (TIGER) program, is ripe for repeal; the President's budget, however, proposes doubling its funding to over $1 billion per year. TIGER grants often fund purely local activities; Congress should terminate the program, not grant it permanency with a lavish budget.

Concentrating transportation decision making in Washington is the wrong way to go; states, localities, and the private sector know the mobility needs and consumer preferences on the ground. Washington bureaucrats and lawmakers cannot know which infrastructure projects should be built and when. When they have increased power, transportation decisions are based on politics, not mobility needs or consumer preferences. Congress should deny the Administration and sympathetic lawmakers in Congress the chance to advance a smart-growth agenda that reduces choice and competition in housing, transportation, and other crucial parts of Americans' lives.

## The President Proposes a $1.6 Trillion Tax Increase

*David R. Burton*

The President has proposed a FY 2016 budget that raises $3.5 trillion in FY 2016 and $45 trillion in taxes over 10 years. In his budget, he proposes that over the next 10 years, tax cuts of $349 billion be accompanied by tax increases of $1.9 trillion, for a net 10-year tax increase of $1.6 trillion. The table below shows the details.

The President's budget would repeal, let expire, or limit:

- The Lifetime Learning Credit;

39. The White House and the U.S. Department of the Treasury, "The President's Framework for Business Tax Reform," *Joint Report*, February 2012, http://www.treasury.gov/resource-center/tax-policy/Documents/The-Presidents-Framework-for-Business-Tax-Reform-02-22-2012.pdf (accessed February 17, 2015).
40. Curtis S. Dubay, "A Territorial Tax System Would Create Jobs and Raise Wages for U.S. Workers," Heritage Foundation *Backgrounder* No. 2843, http://www.heritage.org/research/reports/2013/09/a-territorial-tax-system-would-create-jobs-and-raise-wages-for-us-workers.
41. Emily Goff, "Four Ways the GROW AMERICA Transportation Plan Won't Help You," The Daily Signal, April 30, 2014, http://dailysignal.com/2014/04/30/four-ways-grow-america-transportation-plan-wont-help/.

TABLE 1

## Summary of Tax Provisions in President Obama's Fiscal Year 2016 Budget

IN BILLIONS OF DOLLARS FOR FISCAL YEARS 2016–2025

| | |
|---|---|
| **TAX CUTS** | |
| Second Earner Tax Credit | $89 |
| More Generous Child Care Tax Credit | 50 |
| Education Tax Incentives | 46 |
| Automatic Enrollment IRAs and Small Employer Tax Credit Increase | 17 |
| Other Individual Tax Cuts | 75 |
| Increased Tax System Corporate Welfare | 72 |
| **Total Tax Cuts** | **$349** |
| **TAX INCREASES** | |
| Itemized Deduction Limitation | $603 |
| Capital Gains Tax Increase | 208 |
| Fair Share Tax (Buffett Rule) | 35 |
| Financial Tax on Financial Institutions' Liabilities | 112 |
| Tax Carried Interest as Ordinary Income | 18 |
| Limitation on Retirement Plans | 26 |
| Increased Self-Employment Tax | 75 |
| Higher Estate and Gift Taxes | 214 |
| Higher Tobacco Taxes | 95 |
| Higher Unemployment Insurance Taxes | 16 |
| Procedural Changes Designed to Reduce the Tax Gap | 25 |
| 19 Percent Tax on Foreign Income | 268 |
| Business "Tax Reform" (Net of Corporate Welfare Tax Cuts) | 200 |
| Other Tax Increases | 58 |
| **Total Tax Increases** | **$1,953** |
| **Net Tax Increase** | **$1,604** |

**Source:** U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016* (Washington, DC: U.S. Government Printing Office, 2015), pp. 105–131, Table S-9, http://www.whitehouse.gov/omb/budget/Overview (accessed March 4, 2015).

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- The student loan interest deduction (for new borrowers);
- Coverdell accounts; and
- 529 education savings plans.

The President's budget would:

- Triple the maximum Child and Dependent Care Tax Credit (CDCTC);
- Expand the American Opportunity Tax Credit;
- Create an auto-enroll IRA for workers without an employer-based retirement plan (with an option to opt out);
- Create a new second earner credit of up to $500 for families where both spouses work; and
- Expand the Earned Income Tax Credit (EITC) for workers without children and for non-custodial parents.

The President's budget would raise taxes in many ways. For example, it would:

- Increase the capital gains and dividend tax rate to 28 percent (inclusive of the net investment income tax);
- End stepped-up basis by treating bequests and gifts as realization events that would trigger tax liability for capital gains;
- Raise estate and gift taxes;
- Limit the value of itemized deductions to 28 percent;
- Create an additional alternative minimum tax designed to ensure certain high-income taxpayers pay at least 30 percent of income—after charitable contributions—in taxes;
- Impose a 19 percent tax on the foreign earnings of U.S. companies;
- Raise tobacco taxes; and
- Impose a tax on the debt of financial institutions.

The President's budget increases the corporate welfare provided through the tax code, with substantially higher subsidies for alternative energy and politically favored infrastructure.

The budget does contain a constructive provision that would permanently extend section 179 expensing allowing small businesses to deduct up to $1 million of capital expenses.

## President's Budget Shows Overly Optimistic Economic Projections

*Rachel Greszler*

It is true, economic projections are just that—projections. But overly optimistic economic projections, such as those contained in the President's 2016 budget proposal, can do more harm than good.

The fact that economic projections will inevitably miss the mark to some degree or another does not render them useless. Just because investors cannot perfectly predict future stock prices does not mean they should not examine companies' fundamentals and make informed investment choices.

Likewise, the federal government should use all available resources to generate informed estimates for the future path of the economy. After all, a lot is riding on the economy. Economic growth has a huge effect on tax revenues and government spending, and on a personal level, it impacts job opportunities, wages, and prices.

Unfortunately, the Administration appears to be, once again, forecasting rosy economic assumptions—as opposed to more realistic economic assumptions such as those of the CBO—so that the damaging impacts of the President's big-government policies will not appear quite so bad.[42]

Compared to the CBO's projections[43] for the 2016–2025 period, the President's budget assumes:

- Nearly 8 percent higher annual growth in real GDP;
- A 6 percent lower average rate of unemployment;
- Lower average inflation by 6 percent; and
- Lower average interest rates by between 1.5 percent and 3 percent.

These comparatively rosier assumptions are dangerous because they create the impression of a more favorable economic foundation, which, in turn, makes the President's proposed policies appear less detrimental to the United States' economy.

Indeed, the President's stimulus is a perfect example of using rosy economic assumptions to implement detrimental economic policies. The Administration projected that its nearly trillion-dollar stimulus package would prevent the unemployment

42. Rachel Greszler, "CBO Report Shows President's Budget Relies on Rosy Economic Assumptions," The Daily Signal, April 17, 2014, http://dailysignal.com/2014/04/17/cbo-report-shows-Presidents-budget-relies-rosy-economic-assumptions/.
43. Congressional Budget Office, *Budget and Economic Outlook: 2015 to 2025*, Economic Data and Projections, January 26, 2015, https://www.cbo.gov/publication/45066 (accessed February 17, 2015).

rate from ever rising above 7.9 percent, yet the stimulus passed and the unemployment rate soared to 10 percent.[44]

It is time for the Administration to stop hiding behind overly optimistic economic projections and instead recognize the toll that big-government and big-spending policies have taken on the still-recovering economy.

## President's Budget Urges Congress to Delay Social Security Reform

*Romina Boccia*

In his FY 2016 budget, President Obama suggests Congress pass the buck on Social Security reform. His proposal would patch the imminent funding shortfall in the disability insurance (DI) program by diverting $330 billion in payroll tax revenues dedicated to the retirement program to the disability program instead. "To address reserve depletion of the Social Security Disability Insurance (DI) Trust Fund, the Budget proposes to reallocate existing payroll tax collections between the Old-Age and Survivors Insurance (OASI) and DI trust funds while a longer-term solution to overall Social Security solvency is developed with the Congress," suggests the President in his budget.[45]

The issue is that Congress last passed the buck in 1994 under the premise that it would pursue subsequent reforms. Yet, the reforms never came.[46] If Congress followed the President's advice there is little reason to believe that this time would be different.

Congress has to respond in some way. With no policy change, beneficiaries face a 19 percent indiscriminate cut to their disability benefits, lowering the average benefit to below the federal poverty level.[47] This would be particularly tragic for those vulnerable beneficiaries for whom DI is their sole source of financial support. But taking money from the retirement program—which itself will be exhausted by 2034 and faces a shortfall 10 times larger than the disability program—to shore up the disability program irresponsibly punts on much-needed reforms to both.[48]

This is why the House passed a rule requiring that any change to Social Security must improve the solvency of the programs' trust funds on a combined basis. This rule sets the stage for comprehensive Social Security reform.[49]

Congress should pursue reforms to strengthen Social Security for vulnerable seniors and the disabled by adopting changes to benefits and eligibility that encourage work and focus benefits on those most in need of government assistance.[50]

Since the prospects for fundamental structural reforms are slim with President Obama in the White House, Congress should at most consider granting DI short-term borrowing authority in conjunction with reforms. The worst course of action would be to act upon the President's reallocation proposal. Congress would risk delaying Social Security reform until 2033. However, the major entitlement programs—Social Security, Medicare, Medicaid, and Obamacare—and interest on the debt are projected to consume all tax revenues as soon as 2031, confronting Congress with the need for much more drastic actions than if Congress acted sooner to address the entitlement spending crisis.[51]

44. Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 9, 2009, http://www.illinoisworknet.com/NR/rdonlyres/6A8FF039-BEA1-47DC-A509-A781D1215B65/0/2BidenReportARRAJobImpact.pdf (accessed February 17, 2015).
45. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, p. 42.
46. Charles Blahous, "Warning: Disability Insurance Is Hitting the Wall," Economics21, January 15, 2015, http://economics21.org/commentary/social-security-disability-insurance-2015-1-14 (accessed February 20, 2015).
47. Rachel Greszler, "Social Security Disability Insurance Trust Fund Will Be Exhausted in Just Two Years: Beneficiaries Facing Nearly 20 Percent Cut in Benefits," Heritage Foundation *Backgrounder* No. 2937, August 1, 2014, http://www.heritage.org/research/reports/2014/08/social-security-disability-insurance-trust-fund-will-be-exhausted-in-just-two-years-beneficiaries-facing-nearly-20-percent-cut-in-benefits.
48. Romina Boccia, "The House Just Made It Harder for Politicians to Steal From Social Security Retirement Fund," The Daily Signal, January 7, 2015, http://dailysignal.com/2015/01/07/house-just-made-harder-politicians-steal-social-security-retirement-fund/.
49. Ibid.
50. Romina Boccia, "What Is Social Security Disability Insurance? An SSDI Primer," Heritage Foundation *Backgrounder* No. 2994, February 19, 2015, http://www.heritage.org/research/reports/2015/02/what-is-social-security-disability-insurance-an-ssdi-primer.
51. The Heritage Foundation, "All Tax Revenue Will Go Toward Entitlements and Net Interest by 2030," *Federal Budget in Pictures 2014*, http://www.heritage.org/federalbudget/entitlements-historical-tax-levels.

## Energy and Environment

### Obama's Energy Proposals
*Nicolas D Loris*

President Obama's budget includes many activities that are simply not under the purview of the federal government. For example, the government should not play a role in reducing the costs, or increasing the use, of clean energy technologies, increasing affordability of alternative fuel vehicles, improving energy efficiency in buildings or manufacturing processes, or extending the life of nuclear plants.

And yet these are examples of spending initiatives included by the President in his budget proposal, which requested $7.4 billion for "clean energy technology programs."[52] These undertakings and many other initiatives in Obama's budget potentially have merit but they will not be successful as a result of any taxpayer-funded spending initiative. Innovators and entrepreneurs will capture market opportunities. In fact, we have already seen this. The private sector has extended nuclear power plant lives, reduced methane emissions by capturing them and selling them, improved energy efficiency use to save money, and invested in alternative fuel technologies—all without handouts from the government.[53]

Such spending extends well beyond basic research and development and falls squarely into the category of activities for the private sector to carry out (if they deem it worthwhile). Profits and losses are a better indicator of whether a project or an idea should move forward as opposed to using taxpayer money to force products into the marketplace. If these programs are economically successful, government spending will merely offset investment that the private sector would have made anyway. Either way, it is a corporate handout.

The demand for energy presents a tremendous market opportunity and a free market will best meet America's, and the world's, energy needs. Importantly, Congress should scale back federal spending for all sources of energy and technologies. A Republican-controlled Congress does not mean it is time to start picking conventional fuels and nuclear as the winners of a government spending spree.

### Reject the Billion-Dollar Climate Fund Wealth Transfer
*Nicolas D. Loris*

President Obama's budget proposes $1.29 billion for the Global Climate Change Initiative.[54] Five hundred million dollars of that money would go to the United Nations Green Climate Fund, which gives money to developing countries to deal with the alleged effects of global warming. Setting aside the reality that the planet is not headed toward calamitous warming, the best way to help developing countries is not through wealth transfers, but by growing their respective economies.[55] More economic freedom that provides greater wealth and higher standards of living will allow developing countries to actually develop and build houses and buildings more resistant to natural disasters.

Instead of establishing green funds, Congress and the Administration should commit to the principles rooted in The Heritage Foundation/*Wall Street Journal Index of Economic Freedom* which, in turn, will grow both the American economy and economies abroad.[56] Policies that sustain the four pillars of economic freedom—rule of law, limited government, regulatory efficiency, and open markets—are more successful not only in stimulating economic growth

52. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, p. 20.

53. Energy Information Administration, "Uprates Can Increase U.S. Nuclear Capacity Substantially Without Building New Reactors," July 12, 2012, http://www.eia.gov/todayinenergy/detail.cfm?id=7130, and U.S. Environmental Protection Agency, "EPA Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2012," April 15, 2014, http://epa.gov/climatechange/Downloads/ghgemissions/US-GHG-Inventory-2014-Main-Text.pdf (accessed February 17, 2015).

54. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, p. 24.

55. Katie Tubb and Nicolas Loris, "Was 2014 the Warmest Year on Record? Fact Checking Obama's Climate Claims in State of the Union," The Daily Signal, January 21, 2015, http://dailysignal.com/2015/01/21/2014-really-warmest-year-record-fact-checking-obamas-climate-claims-state-union/.

56. Terry Miller and Anthony B. Kim, *2015 Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2015), http://www.heritage.org/index/.

and innovation, but also in gaining access to energy, improving the environment, and helping countries use energy more efficiently.[57]

## Block and Strip Away Funding for Climate Change Regulations

*Nicolas D. Loris*

When the Obama Administration announced its climate change regulations for America's power sector, it claimed these regulations would force companies to make investments that would be profitable and save families and businesses money.[58] Yet, if this claim were true, then why does President Obama's budget propose $4 billion in handouts for states that exceed the carbon dioxide emission reduction targets outlined in the Clean Power Plan?[59] If these regulations are so good for the states' economies, they should not need extra help from Washington and from the taxpayers.

The fact of the matter is the Administration's climate plan is a loser for all states, some more than others. Regulations on new and existing power plants will drive up the cost of affordable, reliable energy. Families would pay more to use less electricity and businesses will absorb higher costs or pass them on to consumers. Simply put, consumers would consume less and producers would produce less, resulting in lower income, reduced job creation, and lost economic growth.[60] In fact, several states have already made announcements planning for higher energy costs as a result of the new power plant regulations.[61] And the plan will make no meaningful difference to actually affect the climate.[62]

States should not be lured by the carrots the Administration is dangling. If Congress wants to help the states, they should not only reject the President's $4 billion handout but also strip away the Environmental Protection Agency's funds to implement and enforce any carbon dioxide rules.

## An $8 Billion Land Grab

*Diane Katz*

The federal government now controls more land than the areas of Austria, Belgium, France, Germany, Italy, the Netherlands, Poland, Spain, Switzerland, and the United Kingdom combined.[63] That total acreage is fast approaching a third of America's landmass. There is no justification, then, for budgeting a whopping $8 billion over the next decade for the feds to scoop up even more.[64]

The President's budget proposes the money for the Land and Water Conservation Fund, which was created by Congress in 1965 to safeguard "natural areas" and to provide recreational opportunities. This proposal includes money for the construction of the first dog park in Louisiana's Ascension Parish as well as 180 parking spaces for Rathdrum, Idaho's Majestic Park.[65]

57. Nicolas D. Loris, "Economic Freedom, Energy, and Development," in Miller and Kim, *2015 Index of Economic Freedom*, pp. 57–65.
58. U.S. Environmental Protection Agency, "Fact Sheet: Clean Power Plan Framework," June 13, 2014, http://www2.epa.gov/carbon-pollution-standards/fact-sheet-clean-power-plan-framework (accessed February 9, 2015).
59. U.S. Office of Management and Budget, *Investing in America's Future: The Budget for Fiscal Year 2016*, p. 20.
60. Kevin D. Dayaratna, Nicolas D. Loris, and David W. Kreutzer, "The Obama Administration's Climate Agenda: Underestimated Costs and Exaggerated Benefits," Heritage Foundation *Backgrounder* No. 2975, November 13, 2014, http://www.heritage.org/research/reports/2014/11/the-obama-administrations-climate-agenda-underestimated-costs-and-exaggerated-benefits.
61. Nicolas Loris, "States Plan for Higher Energy Prices Resulting from Obama's Climate Plan," The Daily Signal, September 29, 2014, http://dailysignal.com/2014/09/29/states-plan-higher-energy-prices-resulting-obamas-climate-plan/.
62. Dayaratna, Loris, and Kreutzer, "The Obama Administration's Climate Agenda."
63. Robert Gordon, "A Leviathan of Land: Perspective on the Size of the US Gov't In Pictures," The Daily Signal, November 9, 2009, http://dailysignal.com/2009/11/19/a-leviathan-of-land-perspective-on-the-size-of-the-us-govt-in-pictures. See also Donald Hodel and Becky Norton Dunlop, "The Federal Estate: Opening Access to America's Resources," chap. 7 in Jack Spencer, ed., *Environmental Conservation: Eight Principles of the American Conservation Ethic* (Washington, DC, The Heritage Foundation, July 2012), http://thf_media.s3.amazonaws.com/2012/EnvironmentalConservation/Chapter7-The-Federal-Estate.pdf.
64. Jack Spencer, ed., *Environmental Conservation: Eight Principles of the American Conservation Ethic* (Washington, DC, The Heritage Foundation, July 2012), http://thf_media.s3.amazonaws.com/2012/EnvironmentalConservation/Chapter7-The-Federal-Estate.pdf.
65. U.S. National Park Service and U.S. Department of the Interior, *2012 Annual Report: Funding and Protecting Parks Where You Live*, 2012, http://www.nps.gov/lwcf/LWCF%20Annual%20Report%202012_final%20(1).pdf (accessed February 17, 2015).

Federal and state agencies are unable to adequately manage their existing land holdings.[66] Meanwhile, regulations increasingly restrict public access to land use—often without significant conservation benefit. Nor can states and local communities afford even more land detached from state property taxes and economic purposes. The fund was rightly due to expire on September 30, 2015, and Congress should ensure that it does so.

## Budget Assumes Wind Power Cannot Make It on Its Own

*Katie Tubb*

The President's proposed budget would permanently extend the wind production and investment tax credits, a proposition that would divert $31.452 billion in taxpayer dollars to politically preferred energy companies by 2025.[67]

The Department of Energy budget factsheet states that the President's budget "lays out a strategy to strengthen our middle class and help America's hard-working families get ahead in a time of relentless economic and technological change."[68] Relentless economic and technological change may be occurring, but wind power does not fit in that narrative. Wind power is nothing new, nor is using tax credits to support it—in fact, these tax credits have been extended, re-extended, and retroactively extended every year since 1992. Last December, Congress temporarily extended the production tax credit (PTC) again through 2014 in the omnibus continuing resolution. American taxpayers have subsidized wind energy with a PTC so generous that wind generators can pay distributers to take their power and still make a profit.[69]

Further, it is an odd thing for the President to include wind power in the budget, considering Obama made a point to say in his State of the Union address that "America is number one in wind power."[70] Only in Washington does it make sense to call an industry a success and reward that success with a government crutch.

What is best for the industry and for electricity ratepayers is to let the wind industry succeed on its own merits. Such an approach might be tough love, but it works.[71]

## Budget Proposes to Tax Ratepayers for a Third Time

*Katie Tubb*

Like crabgrass, some bad policies regularly crop up and need to be weeded out. In this case, the President's budget proposes to reenact a tax on nuclear power plants that their customers have already paid—twice. Last year the Senate also tried to reintroduce the fee in its energy and water appropriations bill, only to quickly strike it.[72]

Obama's proposed fee would charge nuclear power companies for uranium enrichment services purchased from three now-retired government facilities between 1969 through 1992. Utilities were charged an additional fee for these services at the time to help pay for the decontamination and decommissioning of these Department of Energy

66. Statement of Anu K. Mittal, Director, Natural Resources and Environment, "Forest Service: Continued Work Needed to Address Persistent Management Challenges," testimony before the Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, U.S. House of Representatives, March 10, 2011, http://www.gao.gov/assets/130/125695.pdf (accessed February 17, 2015).

67. U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2016*, "Table S–9. Mandatory and Receipt Proposals," p. 126, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/tables.pdf (accessed February 4, 2015).

68. The White House, "The President's Budget: Department of Energy Factsheet," February 2, 2015, http://energy.gov/sites/prod/files/2015/01/f19/DOE%20FY%202016%20Budget%20Fact%20Sheet.pdf (accessed February 5, 2015).

69. David Kreutzer, "The New Math of Renewable Energy: $50 = $100," The Daily Signal, May 25, 2012, http://dailysignal.com/2012/05/25/the-new-math-of-renewable-energy-50-100/.

70. President Barak Obama, "State of the Union 2015," address delivered at the U.S. Capitol, Washington, DC, January 20, 2015, http://www.cnn.com/2015/01/20/politics/state-of-the-union-2015-transcript-full-text/ (accessed February 5, 2015).

71. 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.

72. Jack Spencer and Katie Tubb, "Uranium Enrichment Facilities: Third Time Is Not a Charm," The Daily Signal, June 18, 2014, http://dailysignal.com/2014/06/18/uranium-enrichment-facilities-third-time-charm/.

(DOE) plants, which served both defense and commercial needs.[73] In 1992, Congress taxed the nuclear utilities a second time for a decommissioning fund. The fund currently has $3 billion in it, but the President's proposal attempts to tax again, bringing in roughly $200 million a year or $2.26 billion by the year 2025.[74]

Not only is this an egregious attempt by the government to shirk responsibility for decommissioning its own facilities, as commercial reactors must do as well. It is also a counterproductive recommendation from a President who has made reducing national carbon dioxide emissions one of his legacy issues.[75] Nuclear power provides exactly that—affordable, reliable, and emissions-free baseload power—and yet Obama's proposal would increase the cost of nuclear power by $200 million a year for power plants and their customers.

## Budget Distracts from and Delays Nuclear Power Reform

*Katie Tubb*

The President's budget again proposes to go with the "new approach" outlined in the Administration's misguided *Strategy for the Management and Disposal of Used Nuclear Fuel and High Level Radioactive Waste*, limiting funds for a repository at Yucca Mountain only for "closeout activities and remaining legacy activities."[76] This is despite developments in the courts and at the Nuclear Regulatory Commission (NRC) that both affirm Yucca Mountain as the law of the land and a technologically viable option. In order to pay for the approach outlined in the *Strategy*, the President proposes discretionary funds for ongoing costs and access to the Nuclear Waste Fund, which ratepayers have been paying into since 1982.

Pushing Congress to put the *Strategy* into law, the President's budget states that "the sooner that legislation enables progress on implementing a nuclear waste management program, the lower the ultimate cost will be to the taxpayers. This proposal is intended to limit, and then end, liability costs by making it possible for the government to begin performing on its contractual obligations." This demonstrates two problems with the Obama Administration's approach to nuclear management—first, that it distracts from a plan well underway, and second, that its goal is shortsighted and narrowly focused.

It would make sense for Congress to implement a plan quickly to prevent further burdening ratepayers and taxpayers—that is, of course, if Congress were not in the midst of another plan already. Nuclear electricity ratepayers have already put $15 billion into a program at Yucca Mountain that the NRC concluded would be both technically feasible and safe, and which the DOE has said "brings together the location, natural barriers, and design elements most likely to protect the health and safety of the public."[77] The scientific community and global experience support deep geologic storage (as proposed at Yucca Mountain) as critical to any waste management plan.[78] Multiple Congresses (1982, 1987, 2002,

73. Jack Spencer, "Sweetheart Deal for Kentucky Uranium Enrichers, Bad Deal for America," The Daily Signal, June 10, 2011, http://dailysignal.com/2011/06/10/sweetheart-deal-for-kentucky-uranium-enrichers-bad-deal-for-america/.

74. U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2016*, "Table S–9: Mandatory and Receipt Proposals," p. 130, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/tables.pdf (accessed February 4, 2015).

75. Dayaratna, Loris, and Kreutzer, "The Obama Administration's Climate Agenda."

76. Jack Spencer, "DOE Nuclear Waste Plan Ignores Basic Flaw of Current Policy," The Daily Signal, January 14, 2013, http://dailysignal.com/2013/01/14/doe-nuclear-waste-plan-ignores-basic-flaw-of-current-policy/, and U.S. Department of Energy, *Detailed Budget Estimate, FY 2016*, February 2, 2015, p. 418, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/doe.pdf (accessed February 4, 2015).

77. Jack Spencer and Katie Tubb, "Progress Made on Nuclear Waste Management," The Daily Signal, January 30, 2015, http://dailysignal.com/2015/01/30/progress-made-nuclear-waste-management/. *Recommendation by the Secretary of Energy Regarding the Suitability of the Yucca Mountain Site for a Repository under the Nuclear Waste Policy Act of 1982*, Department of Energy, February 2002, p. 6, http://energy.gov/sites/prod/files/edg/media/Secretary_s_Recommendation_Report.pdf (accessed February 4, 2015).

78. Jack Spencer and Nicolas D. Loris, "Yucca Mountain Remains Critical to Spent Nuclear Fuel Management," Heritage Foundation *Backgrounder* No. 2131, May 1, 2008, http://www.heritage.org/research/reports/2008/05/yucca-mountain-remains-critical-to-spent-nuclear-fuel-management.

and the silent consent of every other Congress since on the issue) have established that Yucca Mountain is the law of the land with bipartisan support, and the courts have upheld that as the law.[79]

Redirecting or sharing limited resources and intellectual energy from Yucca Mountain to support the President's plan would move the country further from a timely and wise solution that according to the law was already supposed to be up and running 17 years ago.

Further, the goal of the Obama Administration's *Strategy* as presented in the budget is short-sighted. The budget argues that the purpose is "to limit, and then end, liability costs." The goal of a federal nuclear waste management program is to end the government's liability problem for its failure to collect nuclear waste from utilities. While the government needs a quick solution to remove waste to temporary storage sites as the *Strategy* proposes, Americans need long-term solutions. The President's *Strategy* is long term only in the sense that it will further delay such a solution.

The NRC has been clear that it lacks the means to finish the Yucca Mountain licensing process.[80] Congress should begin by funding the remaining licensing requirements for a repository at Yucca Mountain and then take steps to address the fundamental problems with nuclear industry regulation and waste management that still need to be fixed.[81]

## Agriculture

### President Obama's FY 2016 Agriculture Budget

*Daren Bakst*

The United States Department of Agriculture's budget covers everything from nutritional programs to subsidies for farmers. Here are just three items of interest from President Obama's FY 2016 budget:

1. **School meal programs.** The new federal meal standards have been a disaster.[82] There have been tons of food waste and significant costs for schools (such as the need for new kitchen equipment), in large part because the federal government is trying to impose extreme and inflexible standards on schools. However, instead of addressing the problems with the underlying policies, the budget would throw money at a problem that the government created.

   The President is asking for $35 million for kitchen equipment grants "to ensure schools have the tools they need to serve healthy meals."[83] It is bad enough that $25 million was appropriated in the recent Cromnibus, but now even more money would help support implementation of these flawed standards.[84]

2. **Broadband.** The President is proposing to double the amount of money spent on broadband access for rural communities that are allegedly "in need."[85] In addition to a misconception that

79. Katie Tubb, "Court Kicks Yucca Mountain Review Back in Motion," The Daily Signal, August 13, 2013, http://dailysignal.com/2013/08/13/court-kicks-yucca-mountain-review-back-in-motion/.

80. Katie Tubb, "FY2015: Yucca Mountain Circus Continues," The Daily Signal, May 9, 2014, http://dailysignal.com/2014/05/09/fy-2015-yucca-mountain-circus-continues/.

81. Jack Spencer, "Introducing Market Forces into Nuclear Waste Management Policy," statement to the Reactor and Fuel Cycle Technology Subcommittee, Blue Ribbon Commission on America's Nuclear Future, August 30, 2010, http://www.heritage.org/research/testimony/introducing-market-forces-into-nuclear-waste-management-policy.

82. Daren Bakst, "Michelle Obama Shouldn't Decide What Your Child Eats," The Daily Signal, September 14, 2014, http://dailysignal.com/2014/09/14/michelle-obama-shouldnt-decide-what-your-child-eats/.

83. U.S. Department of Agriculture, "FY 2016 Budget Summary and Annual Performance Plan," February 2, 2015, http://www.obpa.usda.gov/budsum/fy16budsum.pdf (accessed February 17, 2014).

84. H.R. 83, 113th Cong., 2nd sess., December 17, 2014, https://www.govtrack.us/congress/bills/113/hr83/text (accessed February 17, 2014).

85. U.S. Department of Agriculture, "FY 2016 Budget Fact Sheet," February 2, 2015, http://www.usda.gov/documents/usda-fy16-budget-factsheet.pdf (accessed February 17, 2014).

private utilities will not meet demand, significant taxpayer money is already spent on rural broadband. Further, the federal government's rural broadband efforts have been full of waste.[86]

3. **Crop Insurance.** This program is now the largest farm program.[87] Taxpayers subsidize about 63 percent of the premiums that farmers pay for crop insurance.[88] Major reforms are needed, and modest changes such as reducing the premium subsidies and placing a limit on the total amount of premium subsidies farmers receive should be non-controversial. The Government Accountability Office (GAO) has indicated that reducing premium subsidies and placing a limit on the total amount of premium subsidies a participating farmer can receive would yield significant savings.[89]

   Unfortunately, Obama did not include these modest reforms in his budget. However, he did include a reform that would reduce the premium subsidy for, as outlined in the budget, "revenue coverage that includes additional coverage for the price at harvest."[90] This harvest price option should be eliminated entirely.[91] Traditional revenue insurance is already extremely generous, without the need for this costlier coverage.

## Regulation

### Dodd–Frank's Crushing Burden

*Diane Katz*

As hundreds of new regulations take effect, the economic consequences of Dodd–Frank are increasingly apparent. The President's budget provides more evidence of the staggering cost: spending hikes of hundreds of millions of dollars for financial regulators.

The Dodd–Frank statute was Washington's ill-considered response to the housing market collapse; the failure of major financial firms; and the resulting shock to the economy in 2008.[92] Virtually no aspect of the financial system remains untouched by the law, including checking accounts, credit cards, mortgages, education loans, retirement accounts, insurance, and all manner of securities—most of which had nothing to do with the financial crisis.

Some Dodd–Frank rules have been years in the making, but hundreds of others have been imposed—and they are generating higher costs and fewer choices for consumers. Now the expense of the government's all-encompassing oversight is showing up as well.

The President's FY 2016 budget includes $1.7 billion for the Securities and Exchange Commission (a 15 percent hike) and $322 million for the Commodity Futures Trading Commission (a 29 percent hike). These represent record-high funding requests for both agencies.

86. U.S. House of Representatives, Energy and Commerce Committee, "Letters to USDA and GAO Regarding Broadband Stimulus Oversight," March 13, 2013, http://energycommerce.house.gov/letter/letters-usda-and-gao-regarding-broadband-stimulus-oversight (accessed February 17, 2015), and Matthew Glans, "Rural Broadband Program Misses the Mark," Somewhat Reasonable Blog, November 27, 2013, http://blog.heartland.org/2013/11/rural-broadband-program-misses-the-mark/ (accessed February 17, 2014).

87. U.S. Department of Agriculture, "Agricultural Act of 2014: Highlights and Implications," August 5, 2014, http://www.ers.usda.gov/agricultural-act-of-2014-highlights-and-implications.aspx (accessed February 17, 2014).

88. U.S. Government Accountability Office, *Crop Insurance: Considerations in Reducing Federal Premium Subsidies*, GAO–14–700, August 2014, http://www.gao.gov/assets/670/665267.pdf (accessed March 4, 2015).

89. Ibid., and U.S. Government Accountability Office, *Crop Insurance: Savings Would Result from Program Changes and Greater Use of Data Mining*, GAO–12–256, March 2012, http://www.gao.gov/assets/590/589305.pdf (accessed March 4, 2015).

90. U.S. Department of Agriculture, *Detailed Budget Estimate, FY 2016*, February 2, 2015, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/agr.pdf (accessed February 18, 2015).

91. To learn more about the harvest price option, please see Bruce Babcock and Vincent H. Smith, "Harvesting Crop Insurance Profits," *The Wall Street Journal*, December 23, 2014, http://www.wsj.com/articles/bruce-babcock-and-vincent-smith-harvesting-crop-insurance-profits-1419376098 (accessed February 18, 2015).

92. Norbert Michel and Diane Katz, "Dodd-Frank an Unfinished Failure," Heritage Foundation *Commentary*, July 20, 2014, http://www.heritage.org/research/commentary/2014/7/dodd-frank-an-unfinished-failure.

Entangled in its regulatory zeal, Congress obviously ignored the fact that Dodd–Frank further empowers the very regulators who failed to prevent the financial crisis. Under the President's budget proposal, they also reap financial rewards.

## Transportation

### TIGER Program Should Be Terminated, Not Receive More Funding

*Emily Goff*

Each year, the Obama Administration marvels at how many applications for "free" federal infrastructure grant money it receives through the Transportation Investment Generating Economic Recovery (TIGER) program. A relic from the 2009 stimulus bill, TIGER was intended to be temporary; instead, it has lasted for six years and counting. President Obama has found a way to make TIGER a permanent program, and he wants to start by doubling its annual budget—from $600 million to $1.25 billion.

Obama would lavish more money on the TIGER program, when he should actually be proposing to terminate it. It is a so-called competitive grant program, which is another way of saying "administrative earmarks." For example, the Reason Foundation reported on TIGER: "Despite the moratorium on federal transportation earmarks, the U.S. Department of Transportation (DOT) has found a way to fund local economic development projects of questionable value."[93]

Congress and Obama should end the TIGER Program for the following reasons:

1. **It uses federal taxpayer dollars to fund local activities.** For example, $5 million was awarded to Dahlonega, Georgia, to revitalize the downtown area there by building sidewalks, as the Reason Foundation found.[94] Promoting the tourism industry in historic Dahlonega is not a national or regional priority; it is a local one, and such projects should be funded at the local or state level.

2. **It concentrates transportation decisions in Washington.** States and cities know their priorities better than Washington bureaucrats do, and they should not have to come to Washington for money for projects that they may or may not value at home.[95] TIGER, and federal grant programs like it, distort state and local decisions about how to spend limited transportation funds. Often, states will commit to building a rail system or streetcar using some federal money, and then they cannot afford to operate the system later after the federal money has gone.[96]

3. **It sacrifices mobility to the anti-car, smart-growth agenda.** The vast majority of surface travel in the country, for work or otherwise, is in a personal vehicle—not on a streetcar, city bus, Amtrak train, or subway.[97] But the Obama Administration, in advancing its livability initiative, wants every American to be able to go to the grocery store, pick up dry cleaning, drop off kids at day care, and go to and from work all without getting in his or her car. In short, smart-growth policies seek to coerce people out of their cars and onto transit and bicycles.[98] Any government proposal or policy that eliminates choice and competition should be rejected.

93. Baruch Feigenbaum and Brian Deignan, "Tame This TIGER: DOT Discretionary Grant Program Functions as Earmarking," Out of Control Policy Blog, October 6, 2014, http://reason.org/blog/show/tame-this-tiger-dot-discretionary-g#sthash.OU2REIfK.dpuf (accessed February 18, 2015).

94. Ibid.

95. Matthew Grinney and Emily Goff, "Bringing Transportation Decisions Closer to the People: Why States and Localities Should Have More Control," Heritage Foundation *Backgrounder* No. 2902, April 9, 2014, http://www.heritage.org/research/reports/2014/04/bringing-transportation-decisions-closer-to-the-people-why-states-and-localities-should-have-more-control.

96. Randal O'Toole, "Defining Success: The Case against Rail Transit," Cato Institute *Policy Analysis* No. 663, March 24, 2010, p. 24, http://object.cato.org/sites/cato.org/files/pubs/pdf/pa663.pdf (accessed February 18, 2015).

97. Wendell Cox, "Transit Policy in an Era of the Shrinking Federal Dollar," Heritage Foundation *Backgrounder* No. 2763, January 31, 2013, http://www.heritage.org/research/reports/2013/01/transit-policy-in-an-era-of-the-shrinking-federal-dollar.

98. Ronald Utt, "Obama Administration's Plan to Coerce People out of Their Cars," Heritage Foundation *WebMemo* No. 2536, July 10, 2009, http://www.heritage.org/research/reports/2009/07/obama-administrations-plan-to-coerce-people-out-of-their-cars.

The rest of the Obama budget's transportation proposal is also bad news: tax hikes on corporate overseas earnings, overspending, and prioritizing politics and ribbon-cutting over transportation in the modern sense of the term.[99] In funding—and increasing funding for—transit and intercity rail, Obama is ignoring the transportation needs and consumer preferences on the ground in cities and towns across the country in favor of a big-government, smart-growth agenda.

## Education

### Big-Government Education from Cradle-to-Career

*Lindsey M. Burke*

President Obama's budget grows federal intervention in nearly every aspect of education, from preschool (including spending on programs for "expectant mothers") through "free" community college.

The budget increases spending on programs operated by the U.S. Department of Education by more than 5 percent, from $67.1 billion (2015 enacted level) to $70.7 billion—a $3.6 billion increase. Two of the most significant expansions of federal intervention in education come in the form of "free" preschool and childcare, provided by Washington, and "free" community college, also footed by federal taxpayers.

### Federally Funded Preschool and Day Care

*Lindsey M. Burke*

The President's budget funds his "Preschool for All" initiative, which "establishes a federal-state partnership to provide all low-income and moderate-income four-year-olds with high-quality preschool," and is paid for in part through a tax increase on tobacco.

It also proposes $750 million in Preschool Development Grants (up from $500 million currently); $907 million for early intervention preschool (up $115 million from last year); a new $15 million in funding dedicated to autism programs; and increased spending on the Child Care Development Block Grant program to the tune of $266 million.

The budget also increases spending on the ineffective Head Start program by $1.5 billion to create full-day Head Start and expand Early Head Start.[100] Notably, the budget includes $15 billion for home visitation over 10 years to finance "voluntary home visiting programs, which enable nurses, social workers, and other professionals to work with current and expecting parents to help families track their children's development, identify any health and development issues, and connect them to services to address them, and utilize good parenting practices that foster healthy development and early learning."[101]

Perhaps most significantly, the budget also includes the Administration's "Expanding Access to Quality Child Care for Working Families" proposal, which aims to spend $82 billion in mandatory funding over 10 years to provide child care to all low-income and moderate-income families with children ages three or younger.

The federal government currently operates 45 early learning and child care programs. Taxpayers spend more than $20 billion annually to finance them.[102] And in all, between two-thirds and three-quarters of four-year-old children are already enrolled in some form of preschool or care program.[103] Efforts to grow government preschool would be duplicative of existing options, and, instead of assisting families with unmet needs, would create an unnecessary preschool subsidy for middle-income and upper-income families.

99. Curtis Dubay and Emily Goff, "Obama Wants to Hike Corporate Taxes to Pay For Infrastructure. Here's Why That's a Bad Idea," The Daily Signal, February 2, 2015, http://dailysignal.com/2015/02/02/obama-wants-hike-corporate-taxes-pay-infastructure-heres-thats-bad-idea/.

100. For more on Head Start, see Lindsey Burke and David Muhlhausen, "Head Start Impact Evaluation Report Finally Released," Heritage Foundation *Issue Brief* No. 3823, January 10, 2013, http://www.heritage.org/research/reports/2013/01/head-start-impact-evaluation-report-finally-released.

101. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, p. 30.

102. Dan Lips, "Reforming and Improving Federal Preschool and Child Care Programs Without Increasing the Deficit," Heritage Foundation *Backgrounder* No. 2297, July 13, 2009, http://www.heritage.org/research/reports/2009/07/reforming-and-improving-federal-preschool-and-child-care-programs-without-increasing-the-deficit.

103. Ibid.

## K–12 Spending Continues Apace

*Lindsey M. Burke*

At the K–12 level, the budget increases Title I spending (funding for low-income school districts) by $1 billion; increases Individuals with Disabilities Education Act (IDEA) funding by $175 million; and increases spending on programs for English Language Learners by $33 million. The Administration also proposes to increase spending on the School Improvement Grant (SIG) program by $50 million, and to create a new $125 million competitive grant program to "expand opportunities for girls and other groups underrepresented in STEM [Science, Technology, Engineering, and Mathematics] fields." It also increases spending on the Investing in Innovation program by $180 million.

The budget proposes $3 billion in discretionary spending and a new $1 billion mandatory spending line item to "provide broad support for educators at every phase of their careers."[104]

## New Higher Education and "Free" Community College

*Lindsey M. Burke*

In addition to increasing spending on Pell Grants, the budget supports the Administration's goal of federal taxpayers funding "free" community college. It is bad policy for several reasons: First, low-income students already have access to federal Pell Grants, which can be used to finance their tuition obligations at a community college. Indeed, the number of Pell recipients has doubled since 2008. So the proposal will serve as little more than a federal handout to the community college system. Second, free community college would mean even less pressure on high schools to produce graduates who are prepared for college-level work, as they could expect the new free community colleges to fill in what the high schools are failing to do. And finally, the proposal is more likely to produce a six-year high school system than a two-year gratis workforce preparation experience.

The Administration's budget is a blueprint for the spending the White House hopes to garner in its goal of creating a "cradle-to-career" education system, starting with free preschool and continuing through free community college.

But education is a quintessentially local issue. The more that is spent from Washington, the less control local leaders—and most importantly—parents have in directing their children's learning.

## Budget Increases Ineffective TRiO Program

*Brittany Corona*

TRiO is one of several federal means-tested student assistance programs and grants contained under Section IV of the Higher Education Act (HEA). TRiO began as three programs in 1965, but has expanded to include eight programs, costing $820 million annually.[105]

The President's budget proposal includes an additional $20 million in new federal funding for TRiO. TRiO was created to promote equity in education by providing counseling, mentoring, and tutoring services to low-income students from disadvantaged backgrounds as defined in statute. The program has not, however, proven to increase secondary education graduation rates or postsecondary attainment.

In 2002, Mathematica Policy Research Institute conducted a longitudinal, random-assignment study on TRiO and found on average TRiO's first and largest program, Upward Bound, had "no detectable effect" on whether the students enrolled in college, the type or selectivity of the institution they attended, or the likelihood that they would apply for or receive financial aid. The Department of Education's Institute of Education Sciences gave the evaluation a high rating.[106] Despite this evidence, the Administration continues to increase funding for this ineffective program.

104. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, p. 31.

105. U.S. Department of Education, Office of Postsecondary Education, "History of the Federal TRIO Programs," September 9, 2011, http://www2.ed.gov/about/offices/list/ope/trio/triohistory.html (accessed February 18, 2015).

106. U.S. Department of Education, Office of Planning, Evaluation and Policy Development, Policy and Program Studies Service, *The Impacts of Upward Bound Math-Science on Postsecondary Outcomes 7–9 Years After Scheduled High School Graduation*, Washington, DC, 2010, https://www2.ed.gov/rschstat/eval/highered/upward-math-science/impacts-7-9-years-report.doc (accessed February 18, 2015).

## Funding for D.C. Opportunity Scholarship Program Does Not Meet Demand

*Brittany Corona*

The President's budget neglects to fund scholarships as part of the D.C. Opportunity Scholarship Program (OSP), one of the most successful school choice programs in the country. Although the budget allocates $200,000 in additional funding to cover program administration, it provides no new funding for the scholarships themselves. Without funding for new scholarships, the program will atrophy as students graduate high school.

The U.S. Constitution empowers Congress to "exercise exclusive legislation in all cases whatsoever" over the District.[107] While school choice is booming across the nation—now in 24 states—the DC program provides Congress a unique, firsthand perspective of the educational value of school choice.

The D.C. Opportunity Scholarship Program provides scholarships to low-income students living in the nation's capital to attend a private school of their choice. More than 89 percent of OSP students graduate from high school, 98 percent enroll in a two-year or four-year college, and 95 percent of current families are satisfied with their children's scholarships.[108] According to a 2013 University of Arkansas study, the OSP provides a 162 percent return on each taxpayer dollar invested in the program.[109] Despite this success, the President appears once more to be attempting to zero-out funding for the program. Congress should maintain funding for the DC OSP at $20 million and consider reforms to expand the program to allow more low-income children in the nation's capital the opportunity to attain a quality education.

## Welfare and Marriage

### Welfare Spending Remains Around $1 Trillion

*Rachel Sheffield*

Means-tested welfare spending remains a massive component of the President's budget. In FY 2016, total federal, state, and local spending will cost roughly $1 trillion. And over the next decade, total government welfare spending is expected to cost an exorbitant $14 trillion. Means-tested welfare is the fastest growing part of government spending, as costs have steadily been rising since the War on Poverty began five decades ago. Since that time, government has spent $22 trillion on means-tested welfare, which is more than three times the cost of all military wars combined since the beginning of U.S. history.[110]

One of the largest of the government's means-tested programs, the food stamp program, remains at historically high levels, with an estimated $78.6 billion in the President's 2016 budget request. The cost of the food stamp program has more than doubled since FY 2008, when it was approaching $40 billion.[111] Food stamp spending is expected to remain near these historically high levels over the next several years, even as the economy is on a course to improve. The food stamp program is one of the government's 80 means-tested welfare programs that do not include a substantial work requirement. Congress inserted an optional work requirement pilot program into food stamps via last year's farm bill. But a strong work requirement, similar to what was created in the Temporary Assistance for Needy Families (TANF) program in 1996, is needed.

Getting welfare spending back on track is crucial to the nation's financial stability. Making reforms

107. U.S. Const., Article I, Sec. 8

108. DC Children and Youth Investment Trust Corporation, "Program Summary: D.C. Opportunity Scholarship Program 2013–2014," May 2014, http://www.dcscholarships.org/elements/file/OSP/Program%20Data/2014_06_03%20DC%20OSP%20Program%20Summary.pdf (accessed February 18, 2015).

109. Patrick Wolf and Michael McShane, "School Choice Pays Off, Literally," *National Review*, February 1, 2013, http://www.nationalreview.com/articles/339457/school-choice-pays-literally-patrick-wolf (accessed February 18, 2015).

110. Robert Rector and Rachel Sheffield, "The War on Poverty After 50 Years," Heritage Foundation *Backgrounder* No. 2955, September 15, 2014, http://www.heritage.org/research/reports/2014/09/the-war-on-poverty-after-50-years.

111. U.S. Department of Agriculture, "Supplemental Nutrition Assistance Program and Costs," February 6, 2015, http://www.fns.usda.gov/sites/default/files/pd/SNAPsummary.pdf (accessed February 11, 2015).

to welfare that promote personal responsibility through work, as well as strengthening marriage, is crucial to helping individuals avoid poverty.

### Obama's Budget Increases Marriage Penalties and Discriminates Against Stay-at-Home Parents

*Rachel Sheffield*

The President's budget adds new marriage penalties through the Earned Income Tax Credit (EITC), and also unfairly favors families who use paid childcare over those who choose to stay at home.

As proposed in this year's State of the Union address, the President's budget expands the Earned Income Tax Credit (ETIC) by broadening eligibility to single adults without children.[112] This type of expansion only adds to marriage penalties, already rampant in the welfare system. Absent fathers and other males would receive this new EITC credit only as long as they remain unmarried to the mother of their children. The President's budget also proposes to add a new tax credit for dual-earner, low-income families. While in some cases this would help diminish marriage penalties in the welfare system, the marriage penalty attached to the new EITC expansion for single, childless adults would outweigh this new benefit.

Obama's budget proposal also triples the benefit of the Child and Dependent Care Tax Credit. As Robert Rector and I have noted, since this child care credit appears to be non-refundable and would primarily benefit middle-income families with up to $120,000 in earnings who use paid child care, it discriminates against families who make a financial sacrifice so that one parent can stay home with young children.[113] Tax policy should not discriminate between families using day care and those who choose to make a financial sacrifice to care for children at home.

## Immigration and Homeland Security

### States Are on Their Own When It Comes to Criminal Aliens

*Hans von Spakovsky*

It is clear from President Obama's latest budget proposal that when it comes to immigration enforcement, the President does not want the states helping the federal government find illegal aliens. The President's approach to immigration represents a seismic shift from prior Administrations, which encouraged cooperation between the feds and the states in picking up and detaining illegal aliens, particularly aliens who committed criminal acts in the U.S.

The Obama Administration cuts all funding ($185 million) for the "State Criminal Alien Assistance Program" at the Department of Justice. The State Criminal Alien Assistance Program (SCAAP) program is administered by the Office of Justice Programs and provides federal payments to reimburse states for some of the costs of "incarcerating undocumented criminal aliens who have at least one felony or two misdemeanor convictions for violations of state or local law, and who are incarcerated for at least 4 consecutive days."[114]

Thus, states will now be on their own when it comes to the costs of imprisoning illegal aliens who are committing misdemeanors and felonies in their local jurisdictions, something that is sure to increase. Obama's failure to secure the border and his amnesty plan have induced even more aliens to cross the border. And there is nothing the states can do about that problem since it is the President who is directing an immigration policy in conflict with the comprehensive federal immigration law that is on the books.

This state of affairs should not be a surprise. One of the policy memoranda issued by Jeh Johnson, Department of Homeland Security (DHS) Secretary, to implement the President's November 20, 2014, amnesty plan, announced that DHS was ending the Secure Communities program.[115] This program "uses

112. Robert Rector and Rachel Sheffield, "How Obama's New Tax Plan Discriminates Against Stay-at-Home Parents," The Daily Signal, January 21, 2015, http://dailysignal.com/2015/01/21/obamas-new-tax-plan-discriminates-stay-home-parents/.

113. Ibid.

114. Bureau of Justice Assistance, State Criminal Alien Assistance Program, "Updated Requirements for Fiscal Year 2014," https://www.bja.gov/Funding/14SCAAP_Guidelines.pdf (accessed February 18, 2015).

115. Mark Metcalf and Dan Cadman, "Disabling Detainers: How the Obama Administration Has Trashed a Key Immigration Enforcement Tool," Center for Immigration Studies *Backgrounder*, January 2015, http://www.cis.org/disabling-detainers (accessed February 18, 2015)

electronic matching of fingerprints to identify alien criminals in near-real time among the people arrested by police nationwide."[116] According to former federal immigration judge Mark Metcalf, that same memorandum also "directed an end to the use of immigration detainers, which enable immigration agents to take custody of arrested aliens at the conclusion of their criminal justice proceedings, and upon release from custody or any sentence imposed for their crimes."[117]

So not only does the President not want DHS picking up criminal aliens and deporting them after they have served their sentences for state crimes they committed, he does not want the federal government reimbursing the states for any of the costs they incur for incarcerating those same criminals.

## FEMA: A Disastrous Miss for the Presidential Budget

*David Inserra*

President Obama's budget for FY 2016 once again fails to reform the Federal Emergency Management Agency's (FEMA) disaster relief efforts. The President requested approximately $7.37 billion for the Disaster Relief Fund (DRF), as compared to $6.22 billion enacted in FY 2014.[118]

Historically, local and state disasters have fallen under their respective jurisdictions. However, FEMA has increasingly declared those local and state-level disasters as national disasters. In fact, the spike in national disaster declarations has grown exponentially since the Reagan Administration. On average, FEMA is responding to a disaster every 2.8 days.[119] FEMA does not have the capabilities or resources to maintain this declaration level and expect to be fully prepared when catastrophic disasters actually strike.

Since the introduction of the Stafford Act in 1988, states have been allowed to request the federal government to pay for between 75 percent and 100 percent of the disaster response bill, as long as FEMA has declared the situation a national disaster.[120] Furthermore, this action has led to states progressively relying on federal assistance for any level of disaster, which, in turn, decreases state preparedness and capabilities. As a result, states with generally fewer disasters end up paying the costs for those with many.

The over-federalization of disasters caused by the Stafford Act is a detrimental misuse of critical funding and resources, which should only be used when truly catastrophic disasters hit the U.S. The cost-share analysis should be reduced to no more than 25 percent of the damage costs to ensure that states continue to take responsibility for disasters, while also maintaining a high level of preparedness to tackle emergencies when disaster strikes. The Stafford Act should also be modified to establish clear requirements for FEMA declarations, including increasing the financial threshold for receiving federal assistance.[121] By increasing the minimum-dollar threshold, the number of federal declarations would greatly decrease, returning responsibility for smaller disasters to the states.

In order for FEMA to be fully prepared to handle truly catastrophic disasters, reforms must be made to reduce the over-federalization of disasters.

## The President's Homeland Security Budget Without Priorities

*David Inserra*

Effective governing is about making hard choices, but President Obama's FY 2016 budget for the Department of Homeland Security (DHS) is

116. Ibid.

117. Ibid.

118. Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request," http://comptroller.defense.gov/budgetmaterials/budget2016.aspx (accessed March 4, 2015).

119. David Inserra, "FEMA Reform Needed: Congress Must Act," Heritage Foundation *Issue Brief* No. 4342, February 4, 2015, http://www.heritage.org/research/reports/2015/02/fema-reform-needed-congress-must-act.

120. U.S. Federal Emergency Management Agency, "Robert T. Stafford Disaster Relief and Emergency Assistance Act, as Amended, and Related Authorities," *FEMA 592*, June 2007, http://www.fema.gov/pdf/about/stafford_act.pdf (accessed February 18, 2015).

121. Steven P. Bucci, David Inserra, et al., "After Hurricane Sandy: Time to Learn and Implement the Lessons in Preparedness, Response, and Resilience," Heritage Foundation *Special Report* No. 144, October 24, 2013, http://www.heritage.org/research/reports/2013/10/after-hurricane-sandy-time-to-learn-and-implement-the-lessons.

marked by few such choices.[122] Instead, Obama simply increased funding for nearly every part of the department, resulting in a spending level approximately $3 billion higher than his FY 2015 request.

While some parts of DHS may need increased funding, such reckless spending is not a real solution. During times of massive debt and large continued deficits, President Obama should properly prioritize funding and pay for increases with reforms and efficiencies elsewhere.

Notable increases in spending over the President's previous budget include:

- $212 million more for DHS management and operations, mostly spent on DHS headquarters, construction, and consolidation efforts;
- Approximately $800 million more for Customs and Border Protection;
- $923 million more for Immigration and Customs Enforcement including restoring funding for detention beds;
- $308 million more for the U.S. Secret Service, including preparing for the next presidential election and more White House security;
- Approximately $100 million more for the Einstein cybersecurity initiative in the National Protection and Programs Directorate; and
- Slightly over $1 billion more for FEMA.[123]

Despite large increases across DHS, only two offices received noticeable decreases. Analysis and Operations decreased by $33 million and Science and Technology decreased by $293 million. This change comes after several years of increased spending on a bio-agro defense facility, a poor priority during a time of tight budgets.

Beyond funding levels, the budget request is hit or miss on key policy reforms that are needed to make DHS more effective at completing its missions.[124] For example, the President did continue to call for consolidating some DHS grants, a proposal that seeks to spend limited funds in a more risk-based manner. Consolidating DHS Fusion Centers, ending anti-enforcement immigration efforts, reforming disaster relief spending, and other key policy reforms, however, are missing.

Faced with such an unserious budget proposal, Congress will have to determine what the real priorities at DHS should be.

## International Trade

### Trade Programs Need Longer Extension Than Obama Anticipates

*Ryan Olson*

President Obama's 2016 budget request anticipates the long overdue renewal of a U.S. trade program, the Generalized System of Preferences (GSP).[125] Unfortunately for the businesses and developing countries who rely on the program, a two-year extension is just not enough.

Set up nearly 40 years ago, the GSP reduces tariffs on goods from developing countries entering the United States. The program's authorization expired without renewal back in July 2013. Since then, businesses have been paying nearly $2 million a day in extra taxes on imports from qualifying countries.[126]

Obama is right to anticipate an extension, and such planning indicates the program is on his trade agenda. But, unfortunately for GSP participants, a two-year extension just is not sufficient. Since 2006, GSP has only been renewed for periods of two years

122. Nick Timiraos and Carol Lee, "Obama Budget Sets Off Push for Deals," *The Wall Street Journal*, February 2, 2015, http://www.wsj.com/articles/obama-to-detail-nearly-4-trillion-budget-for-fiscal-2016-1422874801 (accessed February 18, 2015).

123. U.S. Department of Homeland Security, "Budget in Brief: Fiscal Year 2016," http://www.dhs.gov/sites/default/files/publications/FY_2016_DHS_Budget_in_Brief.pdf (accessed February 18, 2015).

124. David Inserra, "Reforming DHS Through the Appropriations Process," Heritage Foundation *Issue Brief* No. 4230, May 29, 2014, http://www.heritage.org/research/reports/2014/05/reforming-dhs-through-the-appropriations-process.

125. U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2016: Summary Tables* (Washington, DC: U.S. Government Publishing Office, 2015) pp. 89–139, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/tables.pdf (accessed February 18, 2015).

126. Renew GSP Today, http://renewgsptoday.com/ (accessed February 18, 2015).

or less, leading to a steady decline in overall imports under the program. Long-term renewal of the GSP, on the other hand, has led to large increases in trade volumes. According to a Heritage Foundation report, "growth in GSP exports has been the most sustainable during long-term extensions of the program, as short-term extensions cause programmatic uncertainty."[127]

Obama must be more ambitious if he wants the GSP to succeed. A short-term extension will only continue the GSP's path to obscurity and threaten participants with future tax increases. If trade liberalization is truly on Obama's agenda, then long-term GSP renewal is a good place to start.

## A Better Budget

The national debt exceeds $18 trillion and, absent spending reforms, will continue growing from there. As a share of the economy, the national debt already exceeds the nation's GDP with the part that is borrowed in credit markets making up nearly three-quarters of this debt.[128]

Massive and growing debt hinders economic growth and opportunity by discouraging investment and threatening higher future taxes to pay interest on the debt. Congress should put the budget on a path to balance with health care, retirement, and welfare reforms, while prioritizing national defense in the budget, cutting inappropriate and wasteful domestic spending, and reforming America's tax code to unleash economic growth. Congress should offer Americans a better budget than the President's budget—one that addresses the key drivers of spending growth and balances before the end of the decade. Congress's deadline to complete a budget resolution is in mid-April.

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127. Ryan Olson, "The Generalized System of Preferences: Time to Renew and Reform the U.S. Trade Program," Heritage Foundation *Backgrounder* No. 2942, September 10, 2014, http://www.heritage.org/research/reports/2014/09/the-generalized-system-of-preferences-time-to-renew-and-reform-the-us-trade-program.

128. The Heritage Foundation, *Federal Spending by the Numbers 2014*, December 4, 2014, http://www.heritage.org/research/reports/2014/12/federal-spending-by-the-numbers-2014.