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**CONCURRENT RESOLUTION
ON THE BUDGET—
FISCAL YEAR 2010**

R E P O R T

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H. Con. Res. 000

SETTING FORTH THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR FISCAL YEAR 2010 AND INCLUDING THE APPROPRIATE BUDGETARY LEVELS FOR FISCAL YEARS 2009 AND 2011 THROUGH 2014

together with

MINORITY VIEWS



MARCH 00, 2009.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. SPRATT, from the Committee on the Budget,
submitted the following

R E P O R T

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[To accompany H. Con. Res. 000]

OVERVIEW

President Bush has dealt President Obama a hard hand to play: an economy in crisis and a budget in deficit – in deficit this year alone by \$1.752 trillion according to the Office of Management and Budget (OMB). President Obama has responded with a budget that meets the challenge head-on, and the Committee budget reflects his major principles.

The President has recognized that we have not one but two deficits. The first is an economy running at 6.8 percent, or \$1 trillion below its potential. To move our economy closer to its capacity, the President has signed into law a package of stimulus measures, totaling \$787 billion. Its impact is a bit early to estimate, but here's what the Congressional Budget Office (CBO) says in its Analysis of the President's Budget, issued a week ago: "...the adoption of the American Recovery and Reinvestment Act and very aggressive actions by the Federal Reserve and the Treasury will help end the recession this fall." (CBO's Preliminary Analysis of the President's Budget, March 2009, page 19).

The President next turned to the budget. He has sent Congress a budget that cuts the deficit by more than half by 2013, from \$1.8 trillion this year to \$533 billion in 2013, according to OMB estimates. It's all but impossible to balance the budget when the economy is in recession, and for that matter, it's also unadvisable. Much of what we do to make the economy better necessarily makes the deficit larger, at least for the short run.

But the stark reality is that the deficit that President Bush left behind will constitute a massive 12.3 percent of our Gross Domestic Product (GDP). At least two-thirds of that stems from tax and spending policies undertaken by the Bush Administration. Almost everyone would agree that this is an unsustainable deficit.

President Obama has responded with a budget that will pare the deficit down to 3 percent of GDP in 2013. His budget cuts the deficit by more than half in four years. The Committee budget uses CBO numbers and reduces the deficit to \$586 billion in 2013, which is 3.5 percent of GDP, roughly the rate of growth in the economy for that year.

The President's budget is not so committed to deficit reduction that it overrides other needs. In fact, it takes on topics that earlier budgets have found too tough to tackle, like health care for the millions of Americans without insurance. On top of that, it puts defense spending on a more sustainable path, with an increase of 4 percent, and makes a moderate adjustment to non-defense, discretionary spending.

In spite of deficits, the President's budget launches initiatives to make our economy more productive and our people more competitive: first, in education and in particular in efforts to make college more affordable and accessible; next, in health care for the millions uninsured; and finally, in alternative energies to reduce our dependence on foreign oil and the depletion of our environment. The Committee budget facilitates these priorities by the creation of deficit-neutral reserve funds.

This budget extends the middle-income tax cuts adopted in 2001 and 2003 – the 10 percent bracket, the child tax credit, and marital penalty relief. It indexes the alternative minimum tax to keep it from burdening middle-income taxpayers for whom it was never intended. It also extends estate tax exemptions at the 2009 levels, and it indexes the exemptions for future years.

Our colleagues on the other side of the aisle have complained about the President's tax and spending policies. But CBO's non-partisan analysis of the President's budget concludes that "Proposed changes in tax policy would reduce revenues by an estimated \$2.1 trillion (or 6.1 percent) over the next ten years."

The President's major initiatives – those in health care, energy, education, and the environment – are all implemented via reserve funds that are deficit-neutral.

The Committee budget strikes all of these themes, and with a few exceptions, embraces the priorities of the President's budget. This is just the beginning, but a bold beginning for the 2010 five-year budget process.

The Committee budget is in the form of a five-year budget, using CBO's scoring and CBO's estimate of the economy. OMB has projected its budget over ten years, but a five-year budget is not unusual. In fact, it's the customary time-frame for budgeting. In recent years, four deficit-reduction plans been enacted, and all implemented less than 10-year budgets: the Gramm-Rudman-Hollings, 1985-86; the Bush Budget Summit, 1990-91; the Clinton Budget, 1993; and the Balanced Budget Act of 1997.

The farther forecasts run into the future, the more tenuous they become. It is hard enough to project the economy ten months out, much less ten years. Five-year forecasts are, therefore, more realistic, and if the projected results do not pan out, more amenable to adjustment.

All projections rest on assumptions about the future, and the underlying assumptions can have a large impact on the bottom-line. For example, will our military still be deployed in Iraq and Afghanistan ten years from now? When will the economy bounce back? Real estate and automobiles are key sectors of our economy. When will they regain their potency?

The congressional budget process is an annual process, and therefore it's an iterative process. Since we revisit the budget every year, we can continually take steps to correct its course. The Committee will be mindful of the second five years, and as we approach 2015 and 2016, will be making corrections to see that the deficit stays on a downward trajectory. But those corrections can be made better when our economy has emerged from recession, and the course of the economy is more evident.

The fiscal situation we face today stands in marked contrast to the fiscal situation the Bush Administration faced eight years ago when it took office. Under President Clinton, the budget was balanced in 1998 for the first time in nearly thirty years. From 1998 to 2001, some \$400 billion in Treasury debt was paid off. The year before President Bush took office, the budget ran a surplus of \$236 billion. But during eight years on his watch, budget deficits roared back, government debt all but doubled, and spending grew dramatically.

Instead of inheriting a surplus, President Obama inherited a record deficit equal to \$1.752 trillion this year, according to OMB. At least \$1.3 trillion is a carryover from the Bush Administration. On top of that, the economy is mired in the worst recession since the 1930s. When he took office in 2001, President Bush took control of a ten-year surplus projected by OMB at \$5.6 trillion. Democrats warned President Bush that though he was sitting on an island of surpluses, he was surrounded by a sea of red ink. We thought these surpluses should be used to pay off outstanding government debt. This would have increased net national saving, and rendered the Treasury more solvent to meet the claims of the baby boomers for Social Security and Medicare. President Bush told us we could have it all – guns, butter, and tax cuts too, and never mind the deficits. Eight years and \$5 trillion dollars of debt later, the country is confronted with the worst deficits in our peace-time history.

The Committee budget builds on the support for education built into the Recovery Act and backs the President's proposals for further investments in education, extending from early childhood through post-secondary education and training. This budget accommodates the President's proposal to expand access to college for more people – only about 40 percent of Americans aged 25 to 34 have a college degree – by continuing to raise the maximum Pell grant, and does so in a deficit-neutral way. This budget could support other assistance that helps more low-income high school graduates afford, attend, and complete college. This budget invests in educating our youth by starting with support for the President's initiatives in early childhood education and following through with approaches to making sure all children learn and achieve in elementary and secondary school.

The budget reflects the President's commitment to bolster America's energy independence and security. It builds on significant funding and tax incentives in the Recovery Act by raising our investments in renewable energy and energy efficiency. It also allows for legislation that will promote energy independence over the long term.

This budget also supports and facilitates reforms in our health care system to bend the cost curve and at the same time make affordable coverage available to the estimated 46 million Americans who lack medical insurance.

The Committee budget puts the budget back on a fiscally sustainable path while advancing key priorities in health care, energy, and education, all goals that the American people support.