

# THE FEDERAL BUDGET

## FISCAL YEAR 2012

Having emerged from the worst recession in generations, the President has put forward a plan to rebuild our economy and win the future by out-innovating, out-educating, and out-building our global competitors and creating the jobs and industries of tomorrow. But we cannot rebuild our economy and win the future if we pass on a mountain of debt to our children and grandchildren. We must restore fiscal responsibility, and reform our government to make it more effective, efficient, and open to the American people.

The President's 2012 Budget is a responsible approach that puts the nation on a path to live within our means so we can invest in our future – by cutting wasteful spending and making tough choices on some things we cannot afford, while keeping the investments we need to grow the economy and create jobs. It targets scarce federal resources to the areas critical to winning the future: education, innovation, clean energy, and infrastructure. And it proposes to reform how Washington does business, putting more federal funding up for competition, cutting waste, and reorganizing government so that it better serves the American people.

### **Key Budget Facts**

- The Budget includes more than \$1 trillion in deficit reduction – two-thirds of it from cuts -- and puts the nation on a path toward fiscal sustainability so that by the middle of the decade, the government will be paying for what it spends and debt will no longer be increasing as a share of the economy.
- The President meets his pledge to cut the deficit he inherited in half by the end of his first term.
- Five-year non-security discretionary spending freeze will reduce the deficit by over \$400 billion over the next decade and bring this spending to the lowest level since President Eisenhower sat in the Oval Office.
- 10-year Deficit Reduction: \$1.1 trillion, excluding war savings and not extending 2001 and 2003 tax cuts for high-income earners. Two-thirds are from spending cuts.
- 2011 Projected Deficit: \$1.645 trillion, 10.9 percent of GDP; 2012 Projected Deficit: \$1.101 trillion, 7.0 percent of GDP; 2015 Projected Deficit: \$607 billion, 3.2 percent of GDP; 2017 Projected Deficit: \$627 billion, 3.0 percent of GDP

### **Innovate**

- \$148 billion for R&D overall; robust investment in biomedical research at NIH (\$32 billion, a \$740 million increase over 2010 enacted level, post-transfers); more than doubles energy efficiency research, development, and deployment funds; and continues our efforts to double investments in key basic research.
- Supports the goals of: putting one million electric vehicles on the road by 2015; doubling share of electricity from clean energy sources by 2035; and reducing buildings' energy use by 20 percent by 2020.
  - Elimination of 12 tax breaks to oil, gas, and coal companies will raise \$46 billion over 10 years to help pay for programs to reach these goals.
- Simplifies, expands, and makes permanent R&D tax credit.

- Establishes 20 new Economic Growth Zones, hard-hit areas that will receive expanded tax incentives to spur investment and employment.

### **Educate**

- Maintains maximum Pell Grant award, helping 9 million students afford college.
  - Paid for with more than \$100 billion in savings, including eliminating year-round Pell and graduate student in-school loan subsidy.
- Reforms K-12 school funding by supporting high standards, encouraging innovation, and rewarding success.
  - Consolidates 38 K-12 programs into 11 that emphasize competition and evidence of what works, while also eliminating 13 education programs outright.
- Expands the Race to the Top concept to early childhood education, school districts, university funding, and job training.
- Prepares 100,000 new science, technology, engineering, and math teachers.

### **Build**

- As part of a six-year, comprehensive surface transportation bill at \$35 billion per year, the Budget creates hundreds of thousands of jobs in the short term with a \$50 billion up-front investment; establishes a National Infrastructure Bank to support projects of national importance; and brings access to high-speed rail to 80 percent of Americans within 25 years.
  - Consolidates 60 duplicative, often earmarked programs into five. Investment will only be made if bipartisan financing is found to ensure that it does not increase the deficit.
- Builds a next-generation, wireless broadband network to bring high-speed Internet access to 98 percent of Americans, and establish an interoperable network for public safety.
  - Plan is fully paid for, and the sale of spectrum provides nearly \$10 billion for deficit reduction.

### **Responsibility**

- A five-year non-security discretionary spending freeze that will reduce the deficit by over \$400 billion over the next decade and bring this spending to the lowest level since President Eisenhower sat in the Oval Office.
- More than 200 terminations, reductions, and savings totaling more than \$33 billion in savings for this year alone. Half of all agencies see their top line reduced from 2010 enacted levels.
- Sample cuts: Community Development Block Grants by \$300 million; LIHEAP in half or by \$2.5 billion, Great Lakes Restoration Initiative by one-quarter or \$125 million; more than \$1 billion in grants to large airports; \$950 million to states' revolving funds for water treatment plants and other infrastructure.
- Cuts \$78 billion from the Pentagon's spending plan over the next five years, bringing defense spending down to zero real growth. Including spending related to Iraq and Afghanistan, overall defense spending for 2012 is more than 5 percent below the 2011 request.

- Pays for the first two-years of “doc fix” -- which will prevent a nearly 30 percent cut in reimbursements to doctors in Medicare and keep them seeing patients -- with \$62 billion in new, specific health care savings, including recommendations from the Fiscal Commission and recent bipartisan proposals, that will strengthen program integrity and increase efficiency and accountability.
- Pays for a three-year patch to prevent an increase in taxes on middle-class families through the Alternative Minimum Tax (AMT) by limiting the rate at which high-income earners can itemize tax deductions. This would bring the rate back to where it was during the Reagan Administration.
- The President has called on Congress to work with the Administration on corporate tax reform that will simplify the system, eliminate special interest loopholes, level the playing field, and lower the corporate tax rate for the first time in 25 years – without adding a dime to the deficit.
- The President lays out his principles to strengthen Social Security and has called on Congress to work on a bipartisan fashion to keep this compact with future generations.
- Includes important Fiscal Commission recommendations such as: federal civilian worker pay freeze, medical malpractice reform, PBGC reform, and a government reorganization initiative.

## **Reform**

- Cuts more than \$2 billion in administrative overhead like travel, printing, supplies, and advisory contract services.
- Embraces competitive grant programs based on the “Race to the Top” model applying it to programs from early childhood education through college; to allocate grants for transportation; to bring innovation to workforce training; and to encourage both commercial building efficiency and electric vehicle deployment.
- Sets up a process to quickly dispose of excess and under-utilized federal real estate.
- Starts a process to reorganize government so it is better able to serve the goal of a competitive America.
- Encourages new “pay for success” bonds in areas where government programs have too often failed. Taxpayers will only pay the programs if they produce results.