

# The Path to Prosperity

*Fiscal Year 2015 Budget Resolution*





**The Path to Prosperity**  
*Fiscal Year 2015 Budget Resolution*  
*House Budget Committee*

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## The Path to Prosperity: A Responsible, Balanced Budget

*The House Republican Fiscal Year 2015 Budget Resolution*

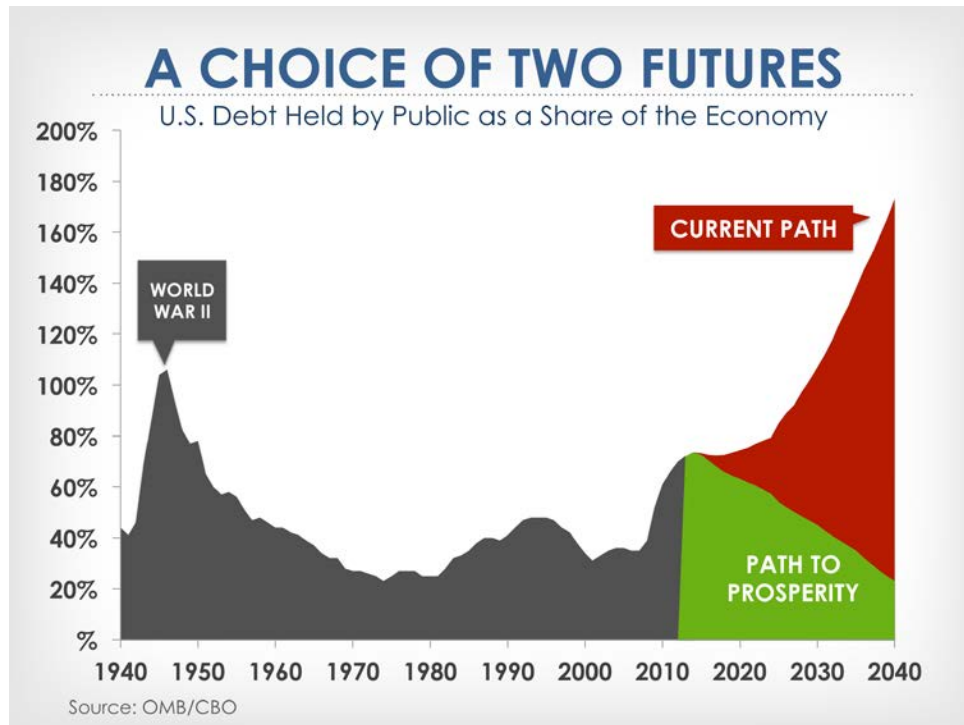
Washington owes the American people a responsible, balanced budget. This is a plan to balance the budget in ten years and create jobs. This budget will achieve the following:

- Expand opportunity by growing the economy.
- Provide our troops the training, equipment, and compensation they need.
- Repeal Obamacare to clear the way for patient-centered reform.
- Provide families with a fair, simple tax code to boost wages and create jobs.
- Secure seniors' retirement by strengthening Medicare and other vital programs.
- Strengthen the safety net and help people get back on their feet.
- Restore fairness by cutting spending and combatting cronyism.

### **Balance the Budget. Grow the Economy.**

The House Republican budget cuts spending by \$5.1 trillion over the next ten years. It targets wasteful Washington spending and reforms the drivers of the debt.

This budget stops spending money we don't have. A balanced budget will foster a healthier economy and help create jobs. This will ensure the next generation inherits a stronger, more prosperous America.



## **Key Components of the House Republican Budget:**

### **Protect the Nation**

The first job of the federal government is to protect the country from threats at home and abroad. Whether defeating the terrorists who attacked this country on September 11, 2001, deterring the proliferation of weapons of mass destruction, or battling insurgents who would harbor terrorist networks, the men and women of the United States' military have performed superbly. This budget rejects the President's additional cuts to national security. It provides the best equipment, training, and compensation for their continued success. It also keeps faith with the veterans who have served and protected the nation.

### **Expand Opportunity**

Though not sufficient by themselves, federal policies can help foster a stronger economy. This budget seeks to equip Americans with the skills they need in a 21<sup>st</sup>-century economy and to create jobs through long-overdue tax reform. Both reforms work off the same principle: The American people know their needs better than bureaucrats thousands of miles away.

### **Strengthen the Safety Net**

This budget applies the lessons of welfare reform to other federal-aid programs. It gives states more flexibility to tailor programs to their people's needs. It gives those closest to the people better tools so they can root out waste, fraud, and abuse. Finally, it empowers recipients to get off the aid rolls and back on the payroll. By enlisting states in the fight against poverty, this budget builds a partnership between the federal government and our communities. Although this budget does not lay out a full welfare-reform plan, it takes steps toward reforming these programs to encourage work, to increase economic growth and jobs, and to preserve the safety net.

### **Secure Seniors' Retirement**

This budget protects and strengthens Medicare for current and future generations. It also requires the President and Congress to work together to develop a solution for Social Security. This budget recognizes that the federal government must keep its word to current and future seniors. And to do that, it must reform these programs.

### **Restore Fairness**

The administration's uncontrolled, wasteful spending in combination with an overzealous regulatory agenda has weakened an anemic economy and hurt job creation, especially for small businesses. To restore fairness and vitality to our economy, this budget ends cronyism; eliminates waste, fraud, and abuse; reforms the regulatory state; and returns the federal government to its proper sphere of activity.

# Introduction

## INTRODUCTION

Nearly five years after the financial crisis, many families still haven't recovered. The typical household's income, when adjusted for inflation, is lower now than it was in 2007.<sup>1</sup> Over 46 million people live in poverty today,<sup>2</sup> and over 90 million are out of the workforce altogether.<sup>3</sup>

Every year since the recession hit, Washington has all too often turned to the old standbys: more taxes, more spending, and more regulation. The federal government rushed through a series of costly remedies: the stimulus package, the Dodd–Frank law, Obamacare. Washington keeps stepping on the gas, and the engine keeps on flooding.

President Obama and his party promised if Washington took a firmer hold of the economy, working families would be better off. But in the first few years of his administration, the economy grew at less than half the average of all other recoveries since World War II.<sup>4</sup> Economic growth has moved in fits and starts since then and, in recent months, has slowed considerably.<sup>5</sup>

Meanwhile, the national debt has skyrocketed and continues to climb—well after the recession. In May 2013, the Congressional Budget Office (CBO) projected the federal government would add \$6.3 trillion to the national debt from 2014 to 2023. But in February 2014—not even a year later—CBO revised its forecast to \$7.3 trillion—a \$1 trillion increase. It attributed most of the hike to a drop in revenue, the inevitable result of a lackluster economy.<sup>6</sup>

The budget and the economy are closely linked. Just as a weak economy can drag the budget into the red, a responsible budget can help propel the economy forward. So if Washington is serious about helping working families, then it needs to get serious about the national debt.

### What's Holding the Economy Back?

And Washington needs to act fast—because the economy is losing steam. Last year, CBO predicted the economy would grow, on average, by 2.9 percent each year over the next decade.<sup>7</sup> This year, it predicts the economy will grow by only 2.5 percent—a deceptively small change with big, long-term consequences.<sup>8</sup>

One major problem is that people are leaving the labor market. Today, only 63 percent of the population has a job or is looking for one—the lowest level since 1978.<sup>9</sup> And CBO predicts it will continue to decline. That's partly because the baby-boom generation is retiring, and the population as a whole is getting

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1 Carmen DeNavas-Walt, Bernadette D. Proctor, Jessica C. Smith, "[Income, Poverty, and Health Insurance Coverage in the United States: 2012](#)," U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, Sept. 2013.

2 "[Poverty: Highlights](#)," U.S. Department of Commerce, U.S. Census Bureau, Accessed 24 Mar. 2014.

3 "[The Employment Situation—February 2014](#)," U.S. Department of Labor, Bureau of Labor Statistics, 7 Mar. 2014.

4 "[What Accounts for the Slow Growth of the Economy after the Recession](#)," Congressional Budget Office, Nov. 2012.

5 "[National Income and Product Accounts, Gross Domestic Product, Fourth Quarter and Annual 2013 \(Second Estimate\)](#)," U.S. Department of Commerce, Bureau of Economic Analysis, 28 Feb. 2014.

6 "[The Budget and Economic Outlook: 2014 to 2024](#)," Congressional Budget Office, Feb. 2014.

7 "[The Budget and Economic Outlook: 2013 to 2023](#)," Congressional Budget Office, Feb. 2013.

8 "[The Budget and Economic Outlook: 2014 to 2024](#)," Congressional Budget Office, Feb. 2014.

9 "[Databases, Table, and Calculators by Subject](#)," Bureau of Labor Statistics, U.S. Department of Labor, Accessed 25 Mar. 2014.



older. But it's also because fewer people are joining the workforce.<sup>10</sup> And the administration's policies have made things worse.

Take Obamacare. CBO says the law will discourage work. People will receive smaller health-insurance subsidies as they make more money. So for many families, it just will not pay to work. As a result, people will put in fewer hours, and the effect will be huge—as if 2.5 million people had stopped working full time by 2024.<sup>11</sup>

The administration has tried to spin this as good news and argued that work was just getting in the way. But the problem isn't that too many people are working. The problem is not enough people can find work. And if more people leave the workforce, the economy will shrink. There will be less opportunity, not more.

And the national debt will only get bigger. In the past few years, Congress has achieved some modest spending restraint, primarily by reducing discretionary spending. But Washington hasn't done nearly enough to make a serious dent in the debt. Under current law, the deficit will start growing in just two years. By 2022, the U.S. will be running trillion-dollar deficits again—even though the federal government will be taking in a historically large share of revenue. That's because spending will be growing twice as fast as revenue. So over the next ten years, the national debt will grow by \$10 trillion—for a grand total of \$27 trillion.<sup>12</sup>

Yet the President wants to double down. In his latest budget request, he wants to increase spending by \$791 billion through 2024. He wants to undo the recent bipartisan budget agreement and increase spending by \$56 billion in 2015 alone. He's abandoned the one significant reform he's embraced—what his own administration has called a “more accurate” measure of inflation. And he wants to raise taxes on families and job creators by \$1.8 trillion—though that's on top of the \$1.7 trillion he's already imposed. In short, the President wants families to pay more so Washington can spend more.

And even with those extra tax hikes, the deficit will still be back above \$1 trillion by 2022. The President's budget never balances—ever. Instead, it allows our debt to spiral out of control. If the last five years are any indication, that simply won't work. And if we don't change course soon, both the budget and the economy will continue to decline. What the country really needs is an alternative. The administration has bottled up the forces of innovation and free enterprise; we need to invigorate them. We need a plan that will provide for the nation's needs, that will allow families and job creators to rebuild the economy, and that will finally balance the budget.

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10 [“The Budget and Economic Outlook: 2014 to 2024,”](#) Congressional Budget Office, Feb. 2014.

11 Ibid.

12 Ibid.

## The Path to Prosperity: A Responsible, Balanced Budget

That's exactly what this budget, the Path to Prosperity, will do. It calls for a number of reforms that will improve the lives of all Americans.

By balancing the budget, the Path to Prosperity will promote economic growth. Over the next ten years, it will cut \$5.1 trillion in spending, and CBO has said that such a plan would help the economy.<sup>13</sup> By paying down the debt, the federal government will help keep interest rates low, which will spur greater investment and productivity. And by giving job creators some certainty and workers some relief, the Path to Prosperity will give free enterprise some much-needed help.

The Path to Prosperity balances the budget by tackling the drivers of our debt: autopilot spending and interest payments. It strengthens critical programs like Medicare by giving seniors more control over their health-care. CBO has said that such a reform would not only help the federal government save money but help seniors save money as well.<sup>14</sup> It is the ultimate win-win.

But the Path to Prosperity is not just a budget—it is a blueprint for the country's future. It calls for fundamental reforms in key areas like the tax code, energy, welfare, and health care.

Today, taxpayers spend \$168 billion<sup>15</sup> and 6.1 billion hours per year trying to file their tax returns.<sup>16</sup> And what's worse, the tax code stifles economic growth. Our corporate tax rate is the highest in the industrialized world,<sup>17</sup> and the tax code is full of loopholes and deductions that serve only the well-connected. Independent economists agree that a plan to lower rates and broaden the base would spur economic growth. There are a number of good tax-reform proposals. Although the Path to Prosperity does not embrace any particular proposal, it calls for a tax code that is simpler, fairer, and more competitive.

It also calls for greater energy development. It's not surprising that the state with the lowest unemployment rate—2.6 percent—is North Dakota,<sup>18</sup> where an energy boom has lifted the state economy. Today, a reinvigorated oil and gas industry is creating many new jobs—and they are good-paying jobs. The average wage in the oil and gas sector is over \$92,000 a year.<sup>19</sup> The Path to Prosperity builds on this success by opening more federal lands to energy development, so more families can share in this opportunity.

The Path to Prosperity also recognizes that we owe families in need much better than the status quo. Rather than provide a roadmap out of poverty, Washington has created a complex web of programs that are often difficult to navigate. Some programs provide critical aid. Others discourage families from getting ahead. This budget takes some initial steps in the right direction by rethinking our job-training programs,

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13 "[Macroeconomic Effects of Alternative Budgetary Paths](#)," Congressional Budget Office, Feb. 2013.

14 "[A Premium Support System for Medicare: Analysis of Illustrative Options](#)," Congressional Budget Office, Sept. 2013.

15 National Taxpayer Advocate, [2012 Annual Report to Congress](#), Internal Revenue Service, 9 Jan. 2013

16 National Taxpayer Advocate, [2013 Annual Report to Congress](#), Internal Revenue Service, 31 Dec. 2013.

17 Kyle Pomerleau and Andrew Lundeen, "[The U.S. Has the Highest Corporate Income Tax Rate in the OECD](#)," Tax Foundation, 27 Jan. 2014.

18 "[Local Area Unemployment Statistics](#)," Bureau of Labor Statistics, U.S. Department of Labor, Accessed 25 Mar. 2014.

19 "[May 2012 National Industry-Specific Occupational Employment and Wage Estimates](#)," Bureau of Labor Statistics, U.S. Department of Labor, 6 Jan. 2014.

reforming Medicaid, and encouraging work. It also creates the space for greater reform. Both sides of the political spectrum agree that poverty is a problem and should work together to expand opportunity for all Americans.

The Path to Prosperity also will strengthen our health-care system by repealing Obamacare. The health-care law has been a costly mistake, so this plan calls for a full replacement. It clears the way for patient-centered reforms that will help increase access, improve quality, and lower costs.

The status quo means weak economic growth and invites a fiscal crisis. The Path to Prosperity is the alternative the country needs. It expands opportunity by growing the economy. It strengthens the safety net by retooling federal aid. It secures seniors' retirement by reforming entitlements. It restores fair play to the marketplace by ending cronyism. It keeps our country safe by rebuilding our military. It ends Washington's culture of reckless spending. And it will help to build an America that works.

## **1. Protect the Nation**

The first job of the federal government is to protect the country from threats at home and abroad. Whether defeating the terrorists who attacked this country on September 11, 2001, deterring the proliferation of weapons of mass destruction, or battling insurgents who would harbor terrorist networks, the men and women of the United States' military have performed superbly. This budget rejects the President's cuts to national security. It provides the best equipment, training, and compensation for their continued success. It also keeps faith with the veterans who have served and protected the nation.

### *Defense in brief*

- Provide funding consistent with America's military goals and strategies.
- Fully fund our nation's commitment to veterans.

## **2. Expand Opportunity**

Though not sufficient by themselves, federal policies can help foster a stronger economy. This budget seeks to equip Americans with the skills they need in a 21<sup>st</sup>-century economy and to create jobs through long-overdue tax reform. Both reforms work off the same principle: The American people know their needs better than bureaucrats thousands of miles away.

### *Higher education and job-training in brief*

- Encourage policies that promote innovation.
- Adopt a sustainable maximum-award level for Pell.
- Tailor aid for higher education to the truly needy.
- Eliminate ineffective and duplicative education programs.
- Consolidate job-training programs, as in the SKILLS Act, into a career-scholarship fund.

### *Tax reform in brief*

- Simplify the tax code to make it fairer to American families and businesses.
- Reduce the amount of time and resources necessary to comply with tax laws.
- Substantially lower tax rates for individuals.
- Consolidate the current seven tax brackets.

- Repeal the Alternative Minimum Tax.
- Reduce the corporate tax rate to 25 percent.
- Adopt a more competitive system of international taxation.

### **3. Strengthen the Safety Net**

This budget applies the lessons of welfare reform to other federal-aid programs. It gives states more flexibility to tailor programs to their people's needs. It gives those closest to the people better tools so they can root out waste, fraud, and abuse. Finally, it empowers recipients to get off the aid rolls and back on the payroll. By enlisting states in the fight against poverty, this budget builds a partnership between the federal government and our communities.

Although this budget does not lay out a full welfare-reform plan, it takes steps toward reforming these programs to encourage work, to increase economic growth and jobs, and to preserve the safety net.

#### *Welfare reform in brief*

- Allow states to customize SNAP to the needs of their citizens.
- Empower reformers at the state level to strengthen and secure Medicaid.
- Address barriers to upward mobility.
- Expand welfare's work requirements.

### **4. Secure Seniors' Retirement**

This budget protects and strengthens Medicare for current and future generations. It also requires the President and Congress to work together to develop a solution for Social Security. This budget recognizes that the federal government must keep its word to current and future seniors. And to do that, it must reform these programs.

#### *Medicare in brief*

- Preserve Medicare for those in or near retirement.
- Strengthen Medicare for younger generations.
- End Obamacare's raid on the Medicare Trust Fund.
- Repeal all of Obamacare, including the Independent Payment Advisory Board.

#### *Social Security in brief*

- Require the President to submit a plan to shore up the Social Security Trust Fund.
- Require Congress to submit a plan of its own.

#### *Federal-workforce retirement in brief*

- Reduce the size of the federal workforce.
- Reform civil-service pensions.

## 5. Restore Fairness

The administration's uncontrolled, wasteful spending in combination with an overzealous regulatory agenda has weakened an anemic economy and hurt job creation, especially for small businesses. To restore fairness and vitality to our economy, this budget ends cronyism; eliminates waste, fraud, and abuse; reforms the regulatory state; and returns the federal government to its proper sphere of activity.

### *Energy in brief*

- Strengthen American energy security.
- Restore competition to the energy sector.
- Scale back corporate subsidies in the energy industry.
- Unlock America's vast energy resources while protecting the environment.
- Stop the government from buying up unnecessary land.

### *Housing and finance in brief*

- Wind down Fannie Mae and Freddie Mac.
- Provide a true account of trillions in federal loans and guarantees.
- Revisit flawed financial regulations.
- Eliminate corporate welfare.

### *Health care in brief*

- Repeal Obamacare.
- Move toward patient-centered reform.

### *Cutting spending in brief*

- Cap spending.
- Eliminate waste.

## 6. Reform the Budget Process

When it comes to fixing the broken budget process, the choice facing Americans could not be clearer: The President and his party's leaders have failed to meet their budgetary responsibilities. The President has failed to submit his budget by the statutory deadline in five of the past six years.

By contrast, the Republican majority in the House has met its legal and moral obligation by advancing a budget that tackles America's most pressing fiscal challenges. Earlier this Congress, the House Budget Committee authored and advanced several statutory reforms to bring more accountability to the federal budget process. This budget works in the spirit of those proposed reforms.

### *Budget reform in brief*

- Extend the Budget Control Act's federal spending caps through the end of the budget window.
- Create a budget point of order against legislation that increases net mandatory spending beyond the ten-year window, a limitation that can help check Congressional appetite to create costly open-ended entitlement programs.
- Close the loophole that allows discretionary limits to be circumvented through advance appropriations.

- Require that the costs of legislation related to housing be calculated on a fair-value basis and authorize the use of fair-value-costs estimates for other credit programs.
- Call on congressional committees to regularly review programs for waste, fraud, and abuse.
- Extend the No Budget, No Pay Act of 2013.

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Ultimately, the budget is more than a list of numbers. It's an expression of our governing philosophy. This budget offers the American people a brighter future. It would stop spending money we don't have. It would help create jobs and expand opportunity. And it would restore the promise of this exceptional nation.

# **Economic Growth, Jobs, and Opportunity**

## The Current Economic Situation

Real gross domestic product (GDP) grew by 1.9 percent (measured on a year-over-year basis) in 2013. That represented a slowdown from the 2.8 percent growth posted in 2012. Looking at the trend over the past four years, real GDP growth has averaged just over 2 percent annually, well below the 3 percent historical trend rate of growth in the U.S.

Nonfarm payroll employment increased by 175,000 in the latest month (February 2014), roughly on par with the average monthly increase over the past year. The unemployment rate stands at 6.7 percent. That represents a significant decline from a peak of nearly 10 percent in 2009–2010. However, a significant chunk of this decline has been *artificial* because it has been due to people leaving the labor force (and therefore no longer being counted as “unemployed”) and not from a surge in employment. The slow decline in the unemployment rate in recent years has occurred alongside a steep decline in the economy’s labor-force participation rate. The participation rate stands at 63.0 percent, close to the lowest level since 1978.

This low labor-force-participation rate means that over 90 million Americans are now “on the sidelines” and not in the labor force, representing a 10 million increase since early 2009. The retirement of the baby-boom generation was expected to lead to lower labor-force-participation rates. However, since 2000, the labor-force-participation rate for those 55 and older has increased and the participation rate for younger works (those between 16 and 54) has declined.<sup>20</sup> Of the 10.5 million people who are currently counted as unemployed, 3.8 million, or 37 percent, have been unemployed for over 6 months. Prior to the recession, only about 18 percent of the unemployed were out of work for that long. The long-term unemployment problem has been rightfully flagged by economists as a major issue. Long-term unemployment not only leads to skill erosion at the personal level and a general detachment from job opportunities, it also undermines the long-term productive capacity of the economy.

Inflation remains low. The Federal Reserve’s preferred inflation gauge, the core price index for personal consumption expenditures (core PCE), rose just over 1 percent last year, well below the Federal Open Market Committee’s 2 percent objective for inflation over the longer run. Some of the recent softness in headline inflation reflects factors that will probably prove transitory, like falling prices for crude oil and declines in non-oil import prices.

The Federal Reserve has begun to taper the level of its monthly bond purchases recently and is expected to fully wrap up its large-scale asset-purchase program by the end of this year. However, the Fed is expected to keep the federal funds rate near zero long after it finishes its bond-purchase program. Most economists expect the Fed will be in a position to finally raise the federal funds rate in the latter part of 2015, depending on economic developments.

The yield on the ten-year Treasury has been hovering around 2.75 percent of late. That is up from levels just under 2 percent last spring.

With unemployment still elevated, and quality job opportunities relatively few in number, wage growth remains subpar. The inflation-adjusted 12-month increase in hourly earnings has been just over 1 percent

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<sup>20</sup> Furchtgott-Roth, Diane, “[Who Is Dropping Out of the Labor Force, and Why?](#)” Real Clear Markets, 14 Jan. 2014.



recently. The weak labor market and subpar wage growth is a prime reason why overall household income is still depressed. Real median household income declined for the fifth consecutive year in 2012 (latest data available) and, at just over \$51,000, is currently at its lowest level since 1995.

Emerging markets contributed to some volatility in global financial markets earlier this year, highlighted by steep drops in the currencies of countries like Argentina, Turkey, Brazil, and South Africa. U.S. markets have been somewhat immune to this volatility. The S&P 500 experienced some weakness in January, but has subsequently recovered and is currently about 20 percent above its year-earlier level.

## **The Economic Outlook**

The administration's economic forecast is more optimistic than both CBO and the Blue Chip consensus of private-sector forecasters. The administration expects real GDP to grow by 3.1 percent this year, rising to 3.4 percent in 2015 and 3.3 percent in 2016. The CBO expects real GDP to grow by 2.7 percent in 2014, 3.3 percent in 2015, and 3.4 percent in 2016. The Blue Chip consensus expects real GDP of 2.7 percent in 2014, 3.0 percent in 2015, and 2.9 percent in 2016. Over the ten-year budget window, OMB expects real GDP growth to average 2.7 percent, higher than CBO's forecast of a 2.5 percent growth average and Blue Chip's 2.6 percent growth average.

Similar to other forecasts, the administration expects the unemployment rate to decline gradually in the coming years. According to OMB, the unemployment rate will average 6.4 percent in 2015, declining to 6.0 percent in 2016, and 5.6 percent in 2017. The administration sees the longer-term unemployment rate leveling off at about 5.4 percent. (By comparison, the unemployment rate was 4.6 percent in 2007, the year before the financial crisis.) That path is somewhat better than the CBO forecast. CBO expects the unemployment rate to average 6.5 percent in 2015, declining to 6.1 percent in 2016 and 5.9 percent in 2017, and then leveling off at 5.6/5.5 percent later in the decade. The Blue Chip consensus sees a more rapid decline in the unemployment rate than either CBO or OMB. According to Blue Chip, the unemployment rate will decline to 5.9 percent in 2015 and reach 5.3 percent by 2018.

The administration expects inflation to grow from its current low level of about 1.5 percent to above 2.0 percent in the next few years. Later in the decade, OMB expects the consumer price index (CPI) to grow at about 2.3 percent annually. CBO and Blue Chip expect a similar path for price inflation.

OMB expects that interest rates will rise to more normal levels in the coming years. The ten-year Treasury note, which is currently at about 2.7 percent, will rise to about 3.5 percent in 2015 and 4.0 percent in 2016. It is expected to hit 5.0 percent in 2021. CBO expects interest rates to rise to that level sooner. CBO sees the ten-year Treasury hitting 5.0 percent in 2018 and then flatlining at that level in the subsequent years. The Blue Chip consensus sees a more gradual increase in interest rates, with the ten-year Treasury note reaching 4.8 percent in 2021 and flatlining at that level in subsequent years.

## **Economic Forecasts and the Macroeconomic Feedback Effect of Pro-Growth Budget Policies**

Economic growth is one of the major determinants of revenue and spending levels—and therefore the size of budget deficits—over a given period. According to CBO, if real GDP growth is just 0.1 percentage point lower than expected over its ten-year budget window, revenue would be \$272 billion lower,

spending would be nearly \$40 billion higher, and the cumulative deficit would rise by \$311 billion. We have seen the budget impact of sluggish economic growth in recent years. Although the U.S. economy technically emerged from recession nearly five years ago, the subsequent recovery has been subpar. Over the past four years, real GDP growth has averaged just over 2 percent annually. According to CBO, U.S. economic output has been growing at less than *half* of the typical rate exhibited during other recoveries since WWII.

This trend has surprised most economic forecasters. Back in 2010, CBO expected real GDP to grow by a relatively brisk 3.0 percent annual average over the budget window. Last year, that average edged down to 2.9 percent, but in its latest economic forecast, average real GDP growth fell to just 2.5 percent. The important change is that this year CBO has significantly lowered its expectation of long-term growth in potential real GDP, due mainly to negative developments in the labor market. CBO expects slower growth in the potential labor force later this decade, which is linked to the aging of the population and the retirement of the baby-boom generation. With a smaller labor force, there will also be less business investment and slower growth in the country's capital stock. Government policies will also play a role in this trend. For instance, the Affordable Care Act (ACA) will incentivize people to work fewer hours. The overall picture that CBO's latest economic forecast paints is that sluggish economic growth has evolved from mainly a cyclical issue to a longer-term *structural* problem.

The clear downward trend in the economic forecast in recent years has raised the hurdle significantly for those trying to correct the fiscal imbalance over the next decade. CBO's downgrade in its economic forecast from last year to this year has lowered expected revenues by \$1.4 trillion over the next decade and has increased projected deficits by a cumulative \$1.0 trillion over this period. This is important because CBO's annual economic assumptions have typically been adopted for use in the budget resolution.

In contrast, the administration's budget is developed according to its own economic forecast. OMB's latest economic forecast is more optimistic than that of CBO. OMB expects real GDP growth to average 2.7 percent annually over the next 10 years, higher than CBO's estimate of 2.5 percent. This difference is in part attributable to the fact that the administration's economic forecast assumes the implementation of the President's policies, which the administration believes will lead to greater economic growth than the base case.

The budget resolution contains policies that would have a positive impact on economic growth and therefore on the budget. CBO has written extensively on the risks of deficits and debt to the economy and that the reduction in projected deficits and the debt would benefit the economy. Other policies that are likely to boost economic growth include both fundamental tax reform and increasing domestic energy production.

In a report published in February of 2013, CBO concluded that reducing budget deficits, thereby bending the curve on debt levels, would be a net positive for economic growth.<sup>21</sup> According to that analysis, a large deficit-reduction package of \$4 trillion, which this budget resolution actually exceeds, would increase real economic output by 1.7 percent in 2023. Their analysis concludes that deficit reduction creates long-term economic benefits because it increases the pool of national savings and boosts investment, thereby

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<sup>21</sup> ["Macroeconomic Effects of Alternative Budgetary Paths,"](#) Congressional Budget Office, Feb. 2013.

raising economic growth and job creation. The greater economic output that stems from a large deficit-reduction package would have a sizeable impact on the federal budget. For instance, higher output would lead to greater revenues through the increase in taxable incomes. Lower interest rates and a reduction in the stock of debt would lead to lower government spending on net interest expenses. CBO finds that this dynamic would reduce budget deficits by a net \$186 billion over ten years, including \$82 billion in the tenth year alone.

Since that analysis, CBO has updated its economic forecast and its baseline budget projections. CBO has conducted an economic analysis of the effects of the deficit reduction called for under this budget resolution relative to their new budget and economic outlook. The budget resolution incorporates these macroeconomic feedback effects into the budget figures, recognizing the fact that turning the economy around is a key element of shoring up the budget.

### **Background on CBO's Estimates of the Positive Macroeconomic Feedback Effects of Deficit Reduction**

The Congressional Budget Office has estimated several times over nearly 20 years that congressional action to reduce deficits will ultimately result in lower interest rates and faster economic growth by freeing up savings for use in productive investment. In addition, CBO has estimated that the positive economic effects of deficit reduction will feed back into the budget and further reduce deficits and debt over the medium and longer term.

In early 1995, CBO's current-law baseline forecasted rising deficits and debt through the end of the decade, and there was growing interest in efforts to reduce the deficit. In 1995 and 1996, CBO published several estimates of the positive economic and budgetary effects of illustrative policy changes necessary to achieve a balanced budget by 2002. CBO estimated that a seven-year illustrative path of policy changes necessary to balance the budget would lower interest rates, increase economic growth, and, as a result, further reduce deficits—and the amount of savings from policy changes needed to balance the budget.<sup>22,23,24</sup>

In its January 1997 baseline report, CBO estimated that if a credible plan to balance the budget by 2002 was enacted, the level of gross domestic product would increase and interest rates would decline by 70 basis points by 2000. CBO estimated that a five-year deficit-reduction plan comprised of \$423 billion in savings and debt service from illustrative policy changes and a \$77 billion fiscal dividend would result in a balanced budget by 2002. The size of the fiscal dividend in 2002 was estimated to be \$34 billion, or 0.3 percent of GDP.<sup>25</sup>

In 1997, President Clinton reached an agreement with a Republican-led Congress to balance the budget, which was incorporated into the conference report on the fiscal year 1998 budget resolution and enacted into law by subsequent reconciliation legislation. This bipartisan balanced-budget agreement incorporated CBO's estimate of the economic feedback from deficit reduction, what was then called the

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<sup>22</sup> ["Economic and Budget Outlook: Fiscal Years 1996-2000,"](#) Congressional Budget Office, Jan. 1995, pp. xix-xx.

<sup>23</sup> ["An Analysis of the President's Budgetary Proposals for Fiscal Year 1996,"](#) Congressional Budget Office, Apr. 1995, pp. 51–58.

<sup>24</sup> ["Economic and Budget Outlook: Fiscal Years 1997-2006,"](#) [Congressional Budget Office, May 1996, pp. 18–23.](#)

<sup>25</sup> ["Economic and Budget Outlook: Fiscal Years 1998-2007,"](#) Congressional Budget Office, January 1997, pp. 59–72.

“fiscal dividend.”<sup>26</sup> Based on CBO estimates of the combination of the policies and the economic feedback, the budget resolution projected a balanced budget by 2002. As it turned out, a unified budget surplus of \$69 billion was achieved in fiscal year 1998, four years earlier than CBO projected.<sup>27</sup>

In an updated economic-feedback analysis of the fiscal path in this budget resolution, CBO now estimates that the fiscal year 2015 House Republican budget, which provides ten-year savings of over \$5 trillion from policy changes and debt service compared to the February 2014 baseline, would result in positive economic feedback effects that would produce a surplus in 2024. Adjusting for differences in the magnitude of deficit reduction, the CBO-estimated positive fiscal dividend from the fiscal year 2015 House Republican budget is more modest in size than the estimate that the agency made in 1997 and that was subsequently incorporated into the bipartisan fiscal year 1998 budget resolution.

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<sup>26</sup> [“Conference Report to Accompany H. Con. Res. 84, the Fiscal Year 1998 Budget Resolution.”](#) House Report 105-116, p. 60.

<sup>27</sup> [“The Economic and Budget Outlook, An Update,”](#) Congressional Budget Office, September 1997, pages ix-x.

# Limited, Effective Government

## FUNCTION 050: NATIONAL DEFENSE

### Function Summary

The first job of the federal government is securing the safety and liberty of its citizens from threats at home and abroad. Whether defeating the terrorists who attacked this country on September 11, 2001, deterring the proliferation of weapons of mass destruction, or battling insurgents who would harbor terrorist networks that threaten Americans' lives and livelihoods, the men and women of the United States' military have performed superbly. As reflected in the National Defense function, this budget provides for the best equipment, training, and compensation for their continued success.

National Defense includes funds to compensate, train, maintain, and equip the military forces of the United States. More than 95 percent of the funding in this function goes to Department of Defense military activities. The remainder funds the atomic energy defense activities of the Department of Energy, and other defense-related activities (primarily in connection with homeland security).

Funding for the Department of Defense's non-enduring activities in Afghanistan and Iraq is carried in Function 970 rather than in this function.

### Summary of Resolution

The resolution calls for \$528.9 billion in budget authority and \$566.5 billion in outlays in fiscal year 2015. Of that total, discretionary spending in fiscal year 2015 totals \$521.3 billion in budget authority and \$558.8 billion in outlays. This is the amount provided for in the Bipartisan Budget Act. Mandatory spending in 2015 is \$7.7 billion in budget authority and \$7.7 billion in outlays. The ten-year totals for budget authority and outlays are \$6.3 trillion and \$6.2 trillion, respectively.

Over the last five years, the Department of Defense has repeatedly revised downward its estimates of the budgetary resources necessary to meet the nation's security needs:

- In 2011, Secretary Gates proposed a \$178 billion "efficiency initiative."
- In 2011, the President announced a further \$400 billion defense-budget reduction that ballooned to \$487 billion by the next budget submission in 2012.
- In 2013, Secretary Hagel proposed another \$120 billion reduction from the Budget Control Act's "pre-sequester" caps.
- And in 2014, the budget request is approximately \$184 billion lower than the Budget Control Act's "pre-sequester" caps.

These repeated reductions in the requested defense budget are taking place in the context of an international environment that remains exceptionally challenging. In his testimony on the intelligence community's annual worldwide threat assessment, Director of National Intelligence James Clapper testified that he had "not experienced a time when we've been beset by more crises and threats around the globe."<sup>28</sup> Chairman of the Joint Chiefs of Staff General Martin Dempsey has testified that "our current security challenges are more formidable and complex than those we faced in downturns following war in

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<sup>28</sup> James R. Clapper, "Current and Future Worldwide Threats to the National Security of the United States," 11 Feb. 2014.

Korea, Vietnam, and the Cold War. There is no foreseeable ‘peace dividend’ on our horizon. The security environment is increasingly competitive and dangerous.”<sup>29</sup>

In addition to a shrinking defense budget, the defense program—the collection of forces, acquisition programs, construction projects, and the like—continues to be under-resourced. Each year, the Congressional Budget Office [CBO] has reviewed the defense program and determined that the defense budgets requested are insufficient to implement that program. The most recent report found that the Defense Department’s fiscal year 2014 budget was on average \$33 billion short of providing for the full costs of the program as estimated by CBO.<sup>30</sup> While CBO has not yet analyzed this year’s request, there is little reason to believe its analysis will be substantially different from its previous reports.

Today in U.S. defense policy, there are two big mismatches: first, between the threats we face and the resources we’ve committed to meeting them, and second, between our stated policy and the budget that the President has requested. This budget seeks to resolve these contradictions by restoring defense budgets to the levels dictated by the national-security interests of the nation.

## Illustrative Policy Options

### DISCRETIONARY SPENDING

*Supporting Our Men and Women in Uniform.* Military personnel costs have grown 41 percent in real terms since 2001 and now consume about one-third of the base budget for the Department of Defense. Maintaining a high-quality, all-volunteer military requires robust compensation. However, given the explosive growth in compensation costs, the possibilities for reform must be examined. The Military Compensation and Retirement Modernization Commission is charged with developing recommendations that (1) ensure the long-term viability of the all-volunteer force; (2) enable a high quality of life for military families; and (3) modernize and achieve fiscal sustainability of the compensation and retirement systems.<sup>31</sup> In future years, serious consideration must be given to the Commission’s recommendations if this defense program is going to be realized within existing budgets. Nonetheless, this budget does not assume any savings from accounts providing for the compensation (including health care) of military personnel. The budget fully reflects the amendments made to the Bipartisan Budget Act to exempt all service members who first joined the military before January 1, 2014 from the temporary reduction in cost-of-living adjustments for working-age retirees.

*Force Structure.* The President has proposed significant reductions in the end strength of the Army and Marine Corps, with the Army slated to be smaller than at any time since before World War II. While the ground component should not continue to be sized for prolonged counterinsurgency operations, the level of reductions contemplated by the President’s request entails significant risk in an environment that, as has been noted, is extremely challenging and uncertain. This budget contemplates funding in excess of the President’s request, which could be used, in part, to forestall this risky drawdown.

Any reductions in military end strength should be accompanied by reductions in the civilian and contractor workforce, which has ballooned in recent years and is now approximately the same size as the

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29 General Martin Dempsey, Testimony to the Senate Armed Services Committee, 12 Feb. 2013.

30 Congressional Budget Office, “Long-Term Implications of the 2014 Future Years Defense Program,” Nov. 2013.

31 See Title VI, Subtitle H of the National Defense Authorization Act for Fiscal Year 2013, P.L. 112-239.

active-duty military, a ratio that is out of balance. Reductions by the Secretary of Defense should focus on performance while retaining vital functions that directly support the uniformed force.

This year's defense-budget request calls into doubt the ability of the Navy to maintain 11 carrier strike groups. The Future Years Defense Program does not include maintenance of 11 carrier strike groups, but the Navy has announced that if the President's "Opportunity, Growth and Security" initiative is funded by Congress, then it would reprogram the funding needed to maintain this desired level of naval force. The flexibility and capabilities provided by carrier strike groups are integral to the rebalance of our security posture toward Asia and to our security commitments in the Persian Gulf. This budget contemplates funding in excess of the President's request, which could be used, in part, to maintain the 11 carrier strike groups called for under longstanding defense plans.

*The Modernization Challenge.* A decade of war and years of delayed and failed acquisition programs have resulted in an impending need to simultaneously procure replacements for a range of weapons systems in each of the services. For example, the services have programs in place to begin replacing during this budget window: (1) the air-superiority and strike-aircraft fleets of the Air Force, Navy, and Marine Corps; (2) a substantial share of the Navy's surface combatants; and (3) the bomber and submarine legs of the nation's nuclear-deterrent force. These programs represent only some of the more prominent defense capabilities that will make claims on the defense-acquisition budget within the budget window. For example, the President's budget proposes to cancel the latest attempt by the Army to modernize its ground-combat vehicle fleet. While the Ground Combat Vehicle program may be cancelled, the need to recapitalize the Army's vehicle fleet will remain. Budgets within the next ten years will have to accommodate that need.

Compounding the fiscal challenge of this procurement "bow wave" is the reality that defense acquisition has consistently exceeded planned budgets. While the Government Accountability Office's latest review of the defense acquisition portfolio found that more than 60 percent of the major programs had gained buying power in the previous year, whether this limited progress will be sustained is uncertain.<sup>32</sup> The Armed Services Committee has launched a long-term effort to reform the Department of Defense. This Durable Defense Reform initiative will among other things look for ways to improve the affordability of defense acquisition.

*Improving Defense Efficiency.* The Department of Defense, like all government agencies, has a responsibility to the taxpayer to responsibly manage the resources available to it. The inability of the Defense Department to receive a clean audit calls into question whether DOD is living up to this responsibility. Although the Department hopes to have its budgetary information auditable by the end of fiscal year 2014, full auditability is not expected until the end of fiscal year 2017. Continued progress here and with the Department's other efforts to reduce waste and bureaucracy will be needed in order to make the defense program affordable.

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32 Government Accountability Office, "Defense Acquisitions: Assessments of Selected Weapons Programs," Mar. 2013.



## **FUNCTION 150: INTERNATIONAL AFFAIRS**

### **Function Summary**

The international-affairs budget is critical in advancing U.S. strategic priorities and interests, especially those relating to economic opportunities, national security, and American values. This function includes the U.S. government's spending for the following: international development, food security, and humanitarian assistance; international security assistance; the conduct of foreign affairs; foreign-information and -exchange activities; and international financial programs. The primary agencies responsible for executing these programs are the Departments of Agriculture, State, and the Treasury; the U.S. Agency for International Development; and the Millennium Challenge Corporation.

Over the past decade, funding for the international-affairs budget has increased by almost 80 percent, adjusting for inflation. Unfortunately, the growth in spending is not reflected in a comparable growth in results. Duplicative programs, programs unrelated to vital U.S. national interests, and inefficiencies are prevalent in the budget and should be addressed. This budget reflects a thorough re-evaluation of accounts in Function 150 and prioritizes programs that are both integral to the core mission and that effectively and efficiently achieve desired results.

Funding for the State Department and USAID's interim civilian activities for efforts relating to the global war on terrorism is reflected in Function 970 rather than in this account.

### **Summary of Resolution**

The resolution calls for \$38.7 billion in budget authority and \$39.0 billion in outlays in fiscal year 2015. Of that total, discretionary spending in fiscal year 2015 totals \$39.1 billion in budget authority and \$40.2 billion in outlays. Mandatory spending in 2015 is -\$402 million in budget authority and -\$1.1 billion in outlays. (The negative figures reflect receipts from foreign-military sales and foreign-military-financing transactions). The ten-year totals for budget authority and outlays are \$429.6 billion and \$402.5 billion, respectively.

### **Illustrative Policy Options**

Below are options committees of jurisdiction may wish to consider when making final policy and funding decisions.

#### **DISCRETIONARY SPENDING**

*Eliminate Contributions to Clean Technology Fund and Strategic Climate Fund.* The Clean Technology and Strategic Climate Funds were created by the Obama administration in 2010. They provide foreign assistance to support energy-efficient technologies intended to reduce energy use and mitigate climate change. Given the record-high levels of deficits, the explosive growth in U.S. government debt, and the heavy reliance on foreign financing, the federal government is borrowing funds abroad to provide financial assistance in this area, which is not a core U.S. foreign-policy function. In addition, the government should not attempt to pick winners and losers in terms of which technologies and companies to favor and advance abroad. Therefore, the budget assumes elimination of both programs.

*Reduce Education Exchange Programs.* Function 150 includes two education exchange accounts intended to encourage mutual understanding between Americans and citizens around the world through scholarship and leadership programs: Educational and Cultural Exchange Programs and the Open World Leadership Center. Although this mission is laudable, exchange programs are a non-essential component of the foreign-affairs budget and should be reduced accordingly. When reduction decisions are made about these accounts, programs that receive matching foreign-government contributions, such as the Fulbright program, and are in line with U.S. strategic interests, should remain a priority.

*Reduce Contributions to International Organizations and Programs.* The United States makes voluntary contributions to several multilateral organizations and programs. These contributions are duplicative of funding provided in the Contributions to International Organizations [CIO] account, which provides funding for the obligatory payments to international organizations with which the United States has signed treaties. Although this budget fully funds the CIO account, it does not support voluntary contributions from the International Organizations and Programs account.

*Eliminate Funding for Peripheral Foreign-Affairs Institutions.* The United States funds multiple independent agencies and quasi-private institutions through the foreign-affairs budget. Included in this list are the Inter-American Foundation, the African Development Foundation, the East–West Center, the Asia Foundation, and the Center for Middle Eastern–Western Dialogue. These institutions all engage in activities that are redundant of the State Department and USAID activities. Consolidating and eliminating funding for multiple institutions that perform similar tasks will make U.S. engagement with the world more efficient and cost-effective. Further, some of these organizations already receive private funding and could continue on with non-government funds.

*Task MCC as Lead Agency on Foreign-Development Assistance.* The United States has two primary foreign-development assistance programs: USAID’s Development Assistance program and the Millennium Challenge Corporation. Funding foreign aid and helping other nations rise toward prosperity keep the United States safe and strengthens the economy by establishing new trading partners and markets. However, development assistance is worthwhile only if it produces results for the aid recipients.

America’s experience with having two development-assistance programs has shown that MCC’s model has been more effective in achieving results. MCC’s emphasis on outcomes rather than inputs needs to be the foundation of all U.S. development-assistance programs. Other elements of MCC’s model that should be extended throughout U.S. development-assistance programs include:

- Strict requirements on recipient countries to prove strong commitments to good governance, economic freedom, and investment in their citizens in order to be considered for aid;
- Willingness of the U.S. government to terminate assistance if an aid recipient starts slipping on these critical commitments;
- Country ownership, which requires the country to plan its own aid projects and lead implementation; and
- Strict timelines for aid projects.

These principles are critical to ensuring the long-term sustainability of projects once U.S. assistance concludes. Further, MCC’s model is resulting in the “MCC Effect,” where countries are independently

making reforms in favor of good governance, economic freedom, and other MCC requirements, in order to qualify for a compact. In 2010, USAID announced a reform agenda, USAID Forward, and claims to be in the process of adopting more accountable policy standards, country ownership, and timetables. Although some changes have been made to the agency's practices, success continues to remain elusive. MCC's model is more effective and efficient in delivering foreign aid. And it results in the most benefits for the taxpayer dollar. For these reasons, this budget proposes MCC to be the lead agency on foreign-development assistance.

*Eliminate Complex Crises Fund.* Established in 2010 to support stabilization activities and conflict prevention in countries demonstrating high risks of insecurity, the CCF has never been authorized by the committee of jurisdiction and is duplicative of the missions performed by the recently re-organized Bureau of Conflict and Stabilization Operations at the State Department. The Bureau of Conflict and Stabilization Operations is similarly responsible for developing a civilian capacity to prevent and counter crises in nations where security issues are of high concern. Due to mission overlap, eliminating the CCF and allowing the Bureau of Conflict and Stabilization Operations to lead conflict-prevention efforts are recommended.

*International Religious Freedom.* The United States should promote freedom of religion or belief around the world, given the importance of religious freedom to human rights, economic development, stability, and democracy. The independent U.S. Commission on International Religious Freedom [USCIRF] has provided important oversight and recommendations in this regard, including redirecting and conditioning aid. It calls for budget justifications to take into account the findings and recommendations of USCIRF. Additionally, the Office of International Religious Freedom continues to serve as an important voice on these issues in the State Department and should be supported.

*Diplomatic Security.* This budget is dedicated to protecting American officials and facilities overseas and fully funds the President's request for both the State Department's Diplomatic Consular Programs and Embassy Security, Construction, and Maintenance accounts. Combined, the fiscal year 2015 funding level for these two accounts is an 8 percent increase compared to fiscal year 2013 enacted levels.

## FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

### Function Summary

The largest component of this function—about half of total spending—is for the space-flight, research, and supporting activities of the National Aeronautics and Space Administration. The function also contains general science funding, including the budgets for the National Science Foundation and the Department of Energy’s Office of Science.

### Summary of Resolution

The resolution calls for \$27.9 billion in budget authority as well as outlays in fiscal year 2015. Of that total, discretionary spending in fiscal year 2015 totals \$27.8 billion in budget authority and \$27.8 billion in outlays. Mandatory spending in 2015 is \$100 million in budget authority and \$98 million in outlays. The ten-year totals for budget authority and outlays are \$308.2 billion and \$303.7 billion, respectively.

The budget reduces excess and unnecessary spending, while supporting core government responsibilities. The resolution preserves basic research, providing stable funding for NSF to conduct its authorized activities in science, space and technology basic research, development, and STEM education while shifting the focus back to basic research. The budget provides continued support for NASA and recognizes the vital strategic importance of the United States remaining the pre-eminent space-faring nation. This budget aligns funding in accordance with the NASA core principles to support robust space capability, to allow for exploration beyond low Earth orbit, and to support our scientific and educational base.

### Illustrative Policy Options

#### DISCRETIONARY SPENDING

The committees of jurisdiction will determine policies to align with the spending levels in the resolution. The options below are offered as illustrations of the kinds of proposals that can help meet the budget’s fiscal guidelines.

*Restore Core Government Responsibilities.* In fiscal year 2014, an enacted level of \$64.5 billion dollars was dedicated to research government-wide. Nearly half of that was dedicated to applied research. The unique role of the federal government is in supporting basic research, and funding should be distributed accordingly. For example, spending for the Department of Energy’s Office of Science includes some areas, such as biological and environmental research, that could potentially crowd out private investment. The resolution’s levels support preserving the Office of Science’s original role as a venue for groundbreaking scientific discoveries and a driver of innovation and economic growth, while responsibly paring back applied and commercial research and development.

*Reduce Expenses for the DHS’s Directorate of Science and Technology.* The committee recommends reductions in management and administrative expenses for the Department of Homeland Security’s Directorate of Science and Technology, while shifting funding resources to frontline missions and capabilities.

## FUNCTION 270: ENERGY

### Function Summary

This category includes the civilian energy and environmental programs of the Department of Energy. Function 270 also includes the Rural Utilities Service of the Department of Agriculture, the Tennessee Valley Authority, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission. It does not include DOE's national-security activities—the National Nuclear Security Administration—which are in Function 050, or its basic research and science activities, which are in Function 250.

The administration continues to penalize economically competitive sources of energy and reward their uncompetitive alternatives. In its 2013 report, the Congressional Budget Office found total federal support for the development and production of fuels and energy technologies—including both tax expenditures and federal spending—totaled \$20 billion, of which “half was directed toward energy efficiency and renewable energy, 22 percent for nuclear energy, and 15 percent for fossil energy.”<sup>33,34</sup> The White House provided over six times the subsidies for these “green energy” programs, which the Energy Information Administration says also produced the smallest amounts of energy.<sup>35</sup> And the administration refuses to answer for the lack of job creation and growth resulting from almost \$16 billion spent on “stimulus” grants—almost a quarter of them to European and Asian renewable-energy companies.<sup>36</sup>

Many of the administration's loan-guarantee projects have failed: Abound Solar, which received \$400 million in loan guarantees, was cited by the Colorado Department of Public Health and Environment for hazardous waste left from its failed solar panels.<sup>37</sup> Another grant recipient, A123, was given permission to hand out as much as \$3.7 million in bonuses to top executives as a part of its bankruptcy proceedings.<sup>38</sup>

The President has installed a heavy-handed compliance culture dependent on regulations, favorable tax treatment, and spending on administration-favored constituencies. This administration has proposed more “economically significant” regulations in four years than previous administrations have in the past 15 years combined. Since 2009, the White House has generated over \$494 billion in regulatory activity—and \$112 billion in 2013 alone.<sup>39</sup> With more than \$87.6 billion in regulatory costs pending already in 2014,<sup>40</sup> the regulatory cost burden of this administration is sure to increase to well over half a trillion dollars by the end of the year. Regulations already cost people and small businesses some \$1.75 trillion per year, according to a report from the Small Business Administration, including \$281 billion for environmental regulations that disproportionately hit small businesses.<sup>41</sup> The additional burden added by the current administration is further stifling opportunity for job creation and growth.

All energy sources should be developed without undue government interference. However, the administration continues to pick winners and losers in the market, and it is crowding out disfavored

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33 Terry Dinan, “CBO Testifies on Federal Financial Support for Fuels and Energy Technologies,” Congressional Budget Office, 13 Mar. 2013.

34 Congressional Budget Office, “How Much Does the Federal Government Support the Development and Production of Fuels and Energy Technologies,” 6 Mar. 2012.

35 Energy Information Administration, “Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2010,” July 2011.

36 House Energy and Commerce Committee, “American Taxpayer Investment, Foreign Corporation Benefit,” 17 Jan. 2013.

37 Sandoval, Michael, “Bankrupt Abound Solar to Bury Unused Solar Panels in Cement,” Heritage Foundation, 26 Feb. 2013.

38 Paul Chesser, “A123's Executives Get Their Richly Undeserved Bonuses,” National Legal and Policy Center, 13 Nov. 2012.

39 Batkins, Sam, “A Regulatory Flurry: The Year in Regulation, 2013,” *American Action Forum*, 8 Jan. 2014.

40 Id.

41 Nicole V. Crain and W. Mark Crain, “The Impact of Regulatory Costs on Small Firms,” *Small Business Research Survey*, Sept. 2010.

energy sources in the private sector. Its officials have promoted changes to explicitly raise energy costs. In 2008, Steven Chu, who later served as the secretary of energy for the administration, said, “Somehow we have to figure out how to boost the price of gasoline to the levels in Europe.”<sup>42</sup> Then-candidate Barack Obama agreed, arguing in January of 2008: “Under my plan of a cap and trade system, electricity rates would necessarily skyrocket.”

In an effort to make green energy more viable, the administration is trying to make fossil fuels more expensive. This was the idea behind the controversial “cap and trade” bill that President Obama tried and failed to pass through Congress in 2009, which would have established an elaborate bureaucratic structure for taxing and rationing conventional energy sources. But instead of accepting this verdict on its preferred policy, the administration continued to pursue its climate initiatives by supporting the Environmental Protection Agency’s unilateral plan to impose emissions restrictions on American businesses and consumers. In his 2013 State of the Union address, the President warned Congress if it did not pass a cap-and-trade bill, he would regulate emissions via executive fiat—a promise he expanded on in a major climate speech last summer at Georgetown University. The EPA is poised to make good on the President’s threat by abusing the powers granted in current law.

The results of misguided administration policies are clear to see. According to the DOE’s Energy Information Administration, gasoline prices averaged \$2.40 a gallon in 2009, the year the President took office. By 2013, gasoline prices averaged \$3.58, the second most expensive annual average according to its data. (They hit their highest average in 2012.) In 2012, that worked out to \$2,912 in average household gasoline expenditures. (DOE has not provided average household gasoline expenditures for 2013 yet.) The administration has created additional barriers for needed capital investment and job creation by bypassing Congress and implementing regulations on its own. The result is an administration that is bypassing Congress, threatening high-wage jobs, increasing energy costs, and hurting families’ pocketbooks.

### **Summary of Resolution**

The resolution calls for \$2.7 billion in budget authority and \$4.5 billion in outlays in discretionary spending in fiscal year 2015. Mandatory spending in 2015 is \$1.5 billion in budget authority and \$1.3 billion in outlays. The totals reflect both new spending and the incoming repayment of loans, receipts from the sale of electricity produced by federal entities, and charges for the disposal of nuclear waste. These proceeds partially offset spending in this function. The ten-year totals for budget authority and outlays are -\$23.5 billion and -\$28.6 billion, respectively, for mandatory spending. The negative balances reflect the proceeds described above fully offsetting and overcoming future expenditures.

The current administration nearly doubled funding for the Department of Energy during the President’s first term, excluding funding from the 2009 stimulus bill. The resolution reduces funding for non-core energy research, loan guarantees that subsidize corporations, and excess and unnecessary spending in the DOE’s civilian accounts. At the same time, private-sector innovation in the oil and gas industry, which doesn’t cost the government a dime, increased oil production on non-federal lands by 31 percent, and gas production on non-federal lands by 25 percent from fiscal year 2009 to 2012.<sup>43</sup>

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42 Neil King Jr. and Stephen Power, “Times Tough for Energy Overhaul,” *Wall Street Journal*, 12 Dec. 2008.

43 Humphries, Mark, “U.S. Crude Oil and Natural Gas Production in Federal and Non-Federal Areas,” Congressional Research Service, 7 Mar. 2013.

## Illustrative Policy Options

The committees of jurisdiction will determine the policies to align spending with the levels in the resolution. The options below are offered as illustrations of the kinds of proposals that can help meet the budget's fiscal guidelines.

### DISCRETIONARY SPENDING

*Reduce Administrative Costs at DOE.* The resolution supports streamlining and boosting accountability of vendor support and administrative costs across DOE's offices. The Government Accountability Office described the vendor selection and procurement process as decentralized and fragmented in the agency. This budget supports better governance and consolidation of contract management and procurement processes across functions to reduce costs.

*Scale Back Corporate Subsidies in the Energy Industry.* The resolution provides sufficient funding for essential government missions, including energy security and basic research and development. It recommends paring back spending in areas of duplication and non-core functions, such as applied and commercial research and development projects best left to the private sector. The budget aims to roll back such federal intervention and corporate-welfare spending across energy sectors.

### MANDATORY SPENDING

*Rescind Unobligated Balances in DOE's Green Subsidies and Loan Portfolio.* The budget recommends rescinding unobligated balances in DOE's loan portfolio. Since its introduction in the 2009 stimulus bill, DOE has issued over \$32 billion in new loans and loan guarantees for private-sector loans for renewable-energy projects that would not otherwise have been market-viable.

The Advanced Vehicle Technology Manufacturing program was intended to provide debt capital to domestic auto manufacturers to fund projects that help vehicles made in the United States meet higher-mileage requirements. However, the funds have largely been unused, as production has not met current demand. Loan-guaranty beneficiaries have included manufacturers creating jobs overseas, such as Fisker, which was provided over \$500 million and ended up assembling cars in Finland.<sup>44</sup>

Moreover, Americans deserve the most honest, accurate assessment of how Washington spends their tax dollars. Yet the costs of DOE's loans are currently calculated using the inadequate methodology prescribed in the Federal Credit Reform Act. Under FCRA rules, government-backed loans are discounted at risk-free interest rates—the interest rates on U.S. Treasury securities. As CBO has stated and the White House's own independent analysis has acknowledged, by incorporating market-based risk premiums, fair-value estimates recognize the financial risks that the government assumes when issuing credit. The White House's independent report noted that these DOE loans may increase taxpayers' financial liability. It stated, "If the eventual actual loss exceeds the Credit Subsidy Cost, that incremental loss is absorbed by the taxpayers."<sup>45</sup>

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44 Matthew Mosk, Brian Ross and Ronnie Greene, "Car Company Gets U.S. Loan, Builds Cars in Finland," *ABC News*, 20 Oct. 2011.

45 Allison, Herb, "Report of the Independent Consultant's Review with Respect to the Department of Energy Loan and Loan Guarantee Portfolio," 31 Jan. 2012.

*Repeal Stimulus-Driven Borrowing Authority Specifically for Green Transmission.* The \$3.25 billion borrowing authority in the Western Area Power Administration's Transmission Infrastructure Program provides loans to develop new transmission systems aimed solely at integrating renewable energy. This authority was inserted into the stimulus bill without the opportunity for debate. Of most concern, the authority includes a bailout provision that would require American taxpayers to pay outstanding balances on projects that private developers fail to repay.



## FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

### Function Summary

The budget resolution recognizes the importance of Function 300 activities—which include water-resources, conservation, environmental, land-management, and recreational programs—but bigger government has not led to better government, and the increase in spending in this function has only invited mismanagement and duplication.

The fiscal year 2015 budget resolution builds on last year’s resolution and supports the nation’s enduring energy-policy priorities—economic prosperity, lower gasoline and energy prices, and greater domestic energy production—while moving toward market-based solutions for sustainable energy sources. The resolution draws on the House Republicans’ American Energy Initiative, which seeks to advance an all-of-the-above energy approach for the United States. It also supports the resources and environmental activities in this function. Specifically, it provides funding for strong stewardship of wildlife resources, fisheries, oceanography, and insular areas. Additionally, the resolution provides funding for responsible management of the National Park System, public lands nationwide, monuments, and other public objects of interest. Finally, the budget encourages a cost-effective approach to environmental regulation and increases funding for wildfire suppression to ensure funds are available for healthy forest management and to minimize ecological harm from fires that do occur.

One of the President’s very first initiatives was to cancel oil and gas leases on onshore federal lands and to delay the offshore-leasing plan. The administration’s opposition to domestic drilling continued with a 2012–2017 Offshore Lease Plan Proposal that imposed the same de facto moratorium that had been lifted in 2008. Oil production on federally controlled lands and in federally controlled waters declined from 2009 to 2012 by 6 percent, while natural-gas production on federal property declined 21 percent over the same period. Additionally, the President refuses to approve the Keystone XL Pipeline project, which has been in limbo for over five years. According to the State Department, construction of the Keystone XL pipeline would create more than 42,000 jobs, while other studies have estimated the project would create in excess of 100,000 jobs. The project would also contribute billions in property taxes to communities along the route during the life of the pipeline.

The economic benefits of expanding oil and gas development on federal lands are well documented: According to recent studies, 500,000 new jobs a year in high-wage, high-skill employment sectors and GDP spill-over effects for \$14.4 trillion in cumulative increased economic activity would be generated over the next 37 years.<sup>46</sup> But the federal government is standing in the way.

While total U.S oil production is at its highest level in two decades, production on federal property has declined in recent years. This is particularly problematic, because the federal government owns nearly one-third of the land in the country—an area roughly four times the size of Texas. Substantial volumes of oil and gas are known to lie under these government lands. According to the Congressional Research Service, the U.S.’s combined recoverable natural-gas, oil, and coal endowment is the largest on earth—

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<sup>46</sup> Dr. Joseph R. Mason, “Beyond the Congressional Budget Office: The Additional Economic Effects of Immediately Opening Federal Lands to Oil and Gas Leasing,” Institute for Energy Research, Feb. 2013.

not Russia's, Saudi Arabia's, or China's.<sup>47</sup> Our country has 223 billion barrels of recoverable oil<sup>48</sup> and enough natural gas to meet the country's demand for over 90 years.<sup>49</sup>

The Natural Resources and Environment budget function funds major departments and agencies such as the Department of the Interior, which includes the National Park Service, the Bureau of Land Management, the Bureau of Reclamation, and the Fish and Wildlife Service; conservation-oriented and land-management agencies within the Department of Agriculture, including the Forest Service; the National Oceanic and Atmospheric Administration in the Department of Commerce; the Army Corps of Engineers; and the Environmental Protection Agency. The discussion below elaborates on the budget resolution's recommended policies in these areas.

### Summary of Resolution

The resolution calls for \$34.3 billion in budget authority and \$39.3 billion in outlays in fiscal year 2015. Discretionary budget authority in 2015 totals \$32.2 billion, with \$37.3 billion in related outlays; mandatory spending is \$2 billion in budget authority and \$2.1 billion in outlays. Over ten years, budget authority totals \$367.9 billion, and outlays are \$375.8 billion.

### Illustrative Policy Options

The resolution focuses on paring back unnecessary spending being used to carry out overreaching regulatory expansion. This budget also emphasizes core government responsibilities, while reducing spending in areas of duplication or non-core functions. While the specific policies will be determined by the committees of jurisdiction, options to meet budget targets include those listed below.

#### DISCRETIONARY SPENDING

*Focus on Maintaining Existing Land Resources.* Annual funding for the Land and Water Conservation Fund (LWCF) has typically ranged between \$250 million and \$450 million. The President's budget requested \$900 million for fiscal year 2015 and proposed removing the account from the annual congressional-review and -appropriations process. The President's proposed change would occur in two phases. In 2015, the LWCF would receive a \$350 million discretionary appropriation and \$550 million in mandatory spending. Beginning in 2016, the entire \$900 million would become mandatory spending in perpetuity. The federal government is already struggling with a maintenance backlog on the millions of acres it controls—a backlog totaling between \$17 and \$22 billion—but the administration is seeking to acquire even more land. This budget keeps funding for land acquisition under congressional oversight and focuses on eliminating the maintenance backlog before moving to acquire additional lands.

*Streamline Climate-Change Activities across Government.* This budget resolution reduces spending for government-wide climate-change-related activities, primarily by reducing the funding federal agencies

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47 Carl Behrens and Gene Whitney, "U.S. Fossil Fuel Resources: Terminology, Reporting and Summary," Congressional Research Service, 30 Nov. 2010.

48 "Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States," U.S. Department of Energy, June 2013.

49 Id. and "[Natural Gas Consumption by End Use](#)," U.S. Energy Information Administration, Accessed 13 Mar. 2014.

spend on overseas climate-change activities. It also recommends better coordination of programs and funds to eliminate duplicative and unnecessary spending.

*Streamline Fragmented and Overlapping Agency Programs.* The resolution supports consolidating programs across federal agencies and reducing spending in areas identified by the Government Accountability Office and bipartisan deficit-reduction commissions. GAO identified 14 fragmented programs at Energy, Transportation, and EPA, whose missions cover reducing mobile-source diesel emissions, resulting in duplication of efforts and unnecessary funding sometimes going to the same recipients. The President's Fiscal Commission also identified hundreds of millions of dollars in water-treatment efforts duplicated across the Army Corps of Engineers, EPA, and USDA, not pertaining in some cases to these agencies' core missions.

*Improve Forest Service Management Practices and Fully Fund Wildfire Suppression.* Wildland Fire Management funding serves multiple purposes, the most prominent of which are wildfire prevention and wildfire suppression. The Department of the Interior and the U.S. Forest Service share wildfire-management responsibilities and receive funding to do so as part of the regular appropriations process. Under current law, these agencies are authorized to shift funds from prevention accounts into suppression accounts if suppression needs are underfunded. These transfers occur frequently, because wildfire suppression is underfunded almost every year. The President's fiscal year 2015 budget adopts a potentially more accurate forecasting model to better predict wildfire-funding needs. However, instead of requesting the full amount indicated by their new model as sufficient funding for wildfire suppression, the President's budget requests \$1.2 billion less than the projected need and asks Congress to provide the other \$1.2 billion outside of the discretionary budget caps enacted by Congress and the President.

This budget fully funds the President's wildfire-suppression request, including the additional \$1.2 billion, within the discretionary budget caps for fiscal year 2015. The budget also calls for improving forest-management practices by directing the Department of the Interior and the Forest Service to use the funds provided to remove excess growth and improve forest health, which will make forests less susceptible to catastrophic wildfires. The budget assumes adoption of commonsense reforms under the bipartisan Restoring Health Forests for Healthy Communities Act, which streamlines the regulatory process and restores active management to federal timberlands while protecting the environment. If fully implemented, the budget would preclude the current practice and need to frequently transfer funds to the wildfire-suppression accounts from other Wildland Fire Management accounts, like the hazardous-fuels-reduction accounts. This will provide important protections for the accounts that help prevent wildfires.

Finally, to ensure that the suppression accounts are fully funded in future years, the budget calls on the Office of Management and Budget to include the U.S. Forest Service's Outyear Forecast model projections—the ones used in the President's fiscal year 2015 request—in all future budget submissions to Congress. The President would be required to either request an amount at least equal to the amount called for by the model or, if the President requests less than called for by the model, provide a side-by-side table of the model's estimate of needed funding and why he believes those additional funds are not necessary.

## MANDATORY SPENDING

*Expand Onshore and Offshore Energy Production.* Despite the existence of abundant domestic resources, the federal government has adopted policies that hinder American production of oil and natural gas on federal lands and in federal waters. Breaking free of future dependence on energy supplies from countries whose interests differ from ours, requires producing more energy at home.

Unlocking domestic energy supplies in a safe, environmentally responsible manner will increase revenues from bonus bids, rental payments, royalties, and fees. The budget allows for further access in areas such as Alaska, the Outer Continental Shelf, including the Gulf of Mexico, and the Intermountain West.

Finally, the budget encourages the development of American-made renewable- and alternative-energy sources, including nuclear, wind, solar, and more, affirming the position that environmental stewardship and economic growth are not mutually exclusive goals.

*Revise and Reauthorize the Bureau of Land Management's Land-Sales Process.* Instead of requiring that all proceeds from land sales be used to acquire other parcels of land and to cover sales expenses, this option would direct that 70 percent of the proceeds, net of expenses, go to the Treasury for the purposes of deficit reduction by reauthorizing and revising the Federal Land Transaction Facilitation Act and other land-management statutes. It would limit the Department of the Interior's share of the receipts to \$60 million per year (plus an additional amount to cover BLM's administrative costs) for land-acquisition and restoration projects on BLM lands. The option would also reduce the amount of federal spending not subject to regular oversight through the congressional-appropriation process. The change would reduce the federal budget deficit and ensure that U.S. taxpayers benefit directly from land sales.

*Reflect Current Value for the Use of Hetch Hetchy Reservoir.* Since 1913, the city of San Francisco has paid an annual \$30,000 fee or less to the federal government for its use of the O'Shaughnessy Dam and the accompanying Hetch Hetchy Reservoir within Yosemite National Park. San Francisco generates approximately \$40 million in annual hydropower revenues from the Hetch Hetchy system, yet it has only paid at most \$30,000 annually—or eight cents an acre foot of water for almost 100 years—not indexed to inflation. This proposal would remove the century-old fee structure to the city without affecting wholesale customers and irrigation districts.

## FUNCTION 350: AGRICULTURE

### Function Summary

The agriculture function includes funds for direct assistance and loans to food and fiber producers; export assistance; market information; inspection services; and agricultural research. The recently passed Farm Bill made a number of reforms to agricultural assistance programs, most notably eliminating Direct Payments and reforming the nation's crop-insurance system.

Though farm income in 2014 is projected to be below recent record-high levels, the Agriculture Department's Economic Research Service projects that the farm sector's financial position will remain strong.<sup>50</sup> With federal deficits continuing, debt hitting new highs, and food prices going up, it remains important to reform agricultural-support programs, while maintaining a strong safety net for farmers.

### Summary of Resolution

The resolution calls for \$19.0 billion in budget authority and \$19.5 billion in outlays in fiscal year 2015. Discretionary spending in fiscal year 2015 is \$6.1 billion in budget authority and \$6.0 billion in outlays; mandatory spending, the majority of the function's total, is \$13.0 billion in budget authority, with outlays of \$13.6 billion. The ten-year totals for budget authority and outlays are \$197.9 billion and \$193.8 billion, respectively.

### Illustrative Policy Options

Specific policies in this function will be determined by the committees of jurisdiction. Among the options they may wish to consider are the following.

#### MANDATORY SPENDING

*Reform Agricultural Commodity and Insurance Programs.* The recently passed Farm Bill reformed commodity programs, most notably by eliminating Direct Payments. However, this area remains ripe for reform. The budget takes into consideration the savings that the Farm Bill achieved and then proposes that additional savings be found. Under this option, mandatory agricultural outlays, other than food and nutrition programs, will be reduced by \$23 billion relative to the currently anticipated levels from fiscal year 2015 through fiscal year 2024. These savings could be achieved by continuing to reform assistance programs for agriculture. Farmers will benefit greatly from other provisions in this budget, including regulatory relief, fundamental tax reform, and stronger economic growth as the burden of federal deficits is lifted from the economy.

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<sup>50</sup>["Farm Financial Position Expected to Remain Strong Despite a Forecast Drop in 2014 Income,"](#) Amber Waves, U.S. Department of Agriculture, Economic Research Service, 4 Mar. 2014.

## **FUNCTION 370: COMMERCE AND HOUSING CREDIT**

### **Function Summary**

The Commerce and Housing Credit function includes mortgage credit; the Postal Service (mostly off-budget); deposit insurance; and most of the activities of the Departments of Commerce and Housing and Urban Development. The mortgage-credit component of this function includes housing assistance through the Federal Housing Administration, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, and rural housing programs of the Department of Agriculture. The function also includes net Postal Service spending and spending for deposit-insurance activities of banks, thrifts, and credit unions. Finally, most of the Commerce Department is provided for in this function, including the International Trade Administration, the Bureau of Economic Analysis, the Patent and Trademark Office, the National Institute of Standards and Technology, the National Telecommunications and Information Administration, and the Bureau of the Census. Also funded through this function are independent agencies such as the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Trade Commission, the Federal Communications Commission, and the majority of the Small Business Administration.

The federal government's commerce and housing activities should focus their efforts to bolster free enterprise, economic growth, and upward mobility. Such an approach would have the additional direct benefit of reducing government spending, easing the demand for higher taxes or more borrowing, and curbing corporate welfare in the housing, financial-services, and telecommunications industries. This budget calls for an end to the cycle of future bailouts perpetuated by the Dodd–Frank Wall Street Reform and Consumer Protection Act, as well as putting a stop to taxpayer subsidies and bailouts for Fannie Mae and Freddie Mac.

### **Summary of Resolution**

In this function, the budget resolution provides for -\$4.3 billion in budget authority and -\$15.8 billion in outlays in fiscal year 2015. Of that total, 2015 discretionary spending is -\$12.9 billion in budget authority and -\$12.5 billion in outlays. Mandatory spending in 2015 is \$8.6 billion in budget authority and -\$3.4 billion in outlays. The function totals over ten years are -\$67.4 billion in budget authority and -\$244.7 billion in outlays.

On-budget totals for fiscal year 2015 are -\$3.2 billion in budget authority and -\$14.8 billion in outlays. Of these amounts, discretionary budget authority is -\$13.2 billion, with outlays of -\$12.7 billion. Mandatory on-budget spending for fiscal year 2015 is \$10.0 billion in budget authority and -\$2.0 billion in outlays. Over ten years, the on-budget totals are -\$52.4 billion in budget authority and -\$229.6 billion in outlays.

Negative discretionary totals for budget authority and outlays mainly reflect the negative subsidy rates applied to certain loan and loan-guarantee programs scored under the guidelines of the Federal Credit Reform Act, such as FHA and Ginnie Mae programs. It should be noted that FHA loans are scored using a different accounting method than the fair-value estimates that CBO applies to Fannie Mae and Freddie Mac, resulting in budget disparities (see discussion under Mandatory Spending).

Off-budget totals for fiscal year 2015 are -\$1.1 billion in budget authority and -\$1.1 billion in outlays. Of these amounts, discretionary totals are \$263 million in budget authority and \$263 million in outlays. Over ten years, the discretionary off-budget totals are \$3.1 billion in budget authority and \$3.1 billion in outlays. Mandatory off-budget spending for fiscal year 2015 is -\$1.3 billion in budget authority and -\$1.3 billion in outlays. Over ten years, the mandatory off-budget totals are -\$18.2 billion in budget authority and -\$18.2 billion in outlays. The negative totals for budget authority and outlays in the off-budget portion of this function represent savings from recommended policy proposals described below for the U.S. Postal Service.

## Illustrative Policy Options

The resolution aims to limit and reform programs in this function to reduce spending; to limit the federal government's role in housing-finance, financial, and telecommunications markets; and to curtail the corporate welfare that distorts and misdirects the flow of capital in the free market. While the committees of jurisdiction will determine the actual policies in pursuit of these goals, the options below offer several potential approaches.

### DISCRETIONARY SPENDING

*Eliminate Corporate Welfare within the Department of Commerce.* Subsidies to businesses distort the economy, impose unfair burdens on taxpayers, and are especially problematic given the fiscal problems facing the U.S. government. With potential savings of roughly \$7 billion over ten years, programs that should be considered for elimination include the following:

- The Hollings Manufacturing Extension Program, which subsidizes a network of nonprofit extension centers that provide technical, financial, and marketing services for small and medium-size businesses that are largely available in the private market. The program already obtains two-thirds of its funding from non-federal sources and was originally intended to be self-supporting.
- Trade Promotion Activities at the International Trade Administration [ITA]. This agency, within the Department of Commerce, provides trade-promotion services for U.S. companies. The fees it charges for these services do not cover the cost of these activities. Businesses can obtain similar services from state and local governments and the private market. The ITA should be eliminated or charge for the full cost of these services.

*Tighten the Belts of Government Agencies.* Duplication, hidden subsidies, and large bureaucracies are symptomatic of many agencies within Function 370. For example:

The Securities and Exchange Commission. As of March 2013, the SEC had 3,950 full-time employees, and an average salary across the agency of over \$155,000. SEC's budget has risen by more than 45 percent since fiscal year 2007. If the President's fiscal year 2015 budget request were granted, SEC's budget would grow by another 26 percent in just one fiscal year.

In its 2014 *Views and Estimates*, the House Committee on Financial Services notes the regulatory failures of the SEC leading up to the financial crisis:

In the run-up to the financial crisis and its aftermath, the SEC repeatedly failed to fulfill any part of its mission: the SEC failed to adequately supervise the nation's largest investment banks, which resulted in the bail-out of Bear Stearns and the collapse of Lehman Brothers and fed the ensuing financial panic; the SEC failed to supervise the credit rating agencies that bestowed AAA ratings on securities that later proved to be no better than junk; the SEC failed to examine the Reserve Primary Fund, a large money market fund that broke-the-buck in September 2008; the SEC failed to ensure that issuers made adequate disclosures to investors about securities cobbled together from poorly underwritten mortgages that were bound to fail; and the SEC was missing in action as Bernard Madoff and Allen Stanford perpetrated the two largest Ponzi schemes in U.S. history. These failures have taken place despite significant increases in funding at the SEC, which has seen its budget increase almost 66 percent since 2004.

This resolution questions the premise that more funding for the SEC means better, smarter regulation. Adding reams of regulations to the books and scores of regulators to the payrolls will not provide greater transparency, consumer protection, and enforcement for increasingly complex markets. Instead, the SEC should streamline and make more efficient its operations and resources; defray taxpayer expenses by designating self-regulatory organizations (subject to SEC oversight) to perform needed examinations of investment advisors; and enhance collaboration with other agencies, such as the Commodity Futures Trading Commission, to reduce duplication, waste, and overlap in supervision. Ultimately, the committees of jurisdiction will establish the specific policies.

#### MANDATORY SPENDING

*Terminate Grants to Worsted-Wool Manufacturers and Payments to Wool Manufacturers.* The Miscellaneous Trade and Technical Corrections Act of 2004 (Public Law 108-429) established the Wool Apparel Manufacturers Trust Fund. This fund authorizes the Department of Commerce to provide grants to certain manufacturers of worsted-wool products to ease adjustment to changes in trade law. The grants, originally slated to end in 2007, still exist, and termination of this temporary grant program is overdue. This act also directs Customs to make payments to wool manufacturers from certain duties collected to provide import tax relief. Having outlived their original purpose, both programs should be terminated.

*Terminate Corporation for Travel Promotion.* In 2010, Congress established a new annual payment to the travel industry and created a new government agency, the Corporation for Travel Promotion (now called Brand USA), to conduct advertising campaigns encouraging foreign travelers to visit the United States. This budget recommends ending these subsidies and eliminating the new agency because it is not a core responsibility of the federal government to pay for and conduct advertising campaigns for any industry. Moreover, the travel industry can and should pay for the advertising that it benefits from.

*Restrict FDIC Authority Provided by Dodd–Frank to Bail Out Bank Creditors.* Dodd–Frank expands and centralizes power in Washington, doubling down on the root causes of the 2008 crisis. It contains layer upon layer of new bureaucracy sewn together by complex regulations, yet it fails to address key problems, such as Fannie Mae and Freddie Mac, that contributed to the worst financial meltdown in recent history. Although the bill is dubbed “Wall Street Reform,” it actually intensifies the problem of too-big-to-fail by giving large, interconnected financial institutions advantages that small firms will not enjoy.



Although the proponents of Dodd–Frank went to great lengths to denounce bailouts, this law only sustains them. The Federal Deposit Insurance Corporation now has the authority to access taxpayer dollars in order to bail out the creditors of large, “systemically significant” financial institutions. This resolution calls for ending this regime, now enshrined into law, which paves the way for future bailouts. House Republicans put forth an enhanced bankruptcy alternative that—instead of rewarding corporate failure with taxpayer dollars—would place the responsibility for large, failing firms in the hands of the shareholders who own them, the managers who run them, and the creditors who finance them.

This resolution also supports cancelling the ability of the Bureau of Consumer Financial Protection (created by Dodd–Frank) to fund its operations by spending from the Federal Reserve’s yearly remittances to the Treasury Department. Dodd–Frank was written to provide off-budget financing for the new bureau, which is housed within the Federal Reserve but enjoys complete autonomy. To preserve its independence as the nation’s monetary authority, the Federal Reserve is off-budget, and its excess earnings from monetary operations are returned to the Treasury to reduce the deficit. Now, instead of directing these remittances to reduce the deficit, Dodd–Frank requires diverting a portion of them to pay for a new bureaucracy with the authority to write far-reaching rules on financial products and restrict credit to the very customers it seeks to “protect,” outside the annual oversight of Congress through the appropriations process.

*Privatize the Business of Government-Controlled Mortgage Giants Fannie Mae and Freddie Mac.* In 2008, the federal government placed Fannie Mae and Freddie Mac into conservatorship to prevent them from going bankrupt. Treasury has already provided \$187 billion in bailouts to Fannie and Freddie, and as long as the entities remain in conservatorship, taxpayers remain exposed to Fannie and Freddie’s over \$5 trillion of outstanding commitments. CBO has recorded Fannie and Freddie as explicit financial components of the federal budget, accounting for their liabilities as liabilities of the government. In contrast, the administration does not fully account for taxpayer exposure to Fannie and Freddie, leaving the entities off budget. Despite recent dividend payments by Fannie and Freddie, both enterprises continue to assume outsized risks that place the taxpayer in jeopardy in the event of future downturns in the housing market.

Since Treasury stepped in to provide additional bailout funds, Fannie and Freddie’s dominance in the mortgage market has grown. In 2013, the GSEs accounted for 60 percent of first-lien mortgage originations, with FHA and VA backing an additional 19 percent. In 2005 and 2006, the GSE’s share of first-lien originations was closer to 30 percent. Additionally, Fannie Mae, Freddie Mac, and Ginnie Mae now dominate the market for the issuance of new single-family, mortgage-backed securities with a combined 99 percent market share.

This budget recommends putting an end to corporate subsidies and taxpayer bailouts in housing finance. It envisions the eventual elimination of Fannie Mae and Freddie Mac, winding down their government guarantee and ending taxpayer subsidies. In the interim, this resolution envisions removing distortions to allow an influx of private capital and advancing various measures that would bring transparency and accountability to these two government-sponsored enterprises, which could include measures described in H.R. 2767, the Protecting American Taxpayers and Homeowners Act of 2013.

*Reform the Credit Reform Act to Incorporate Fair-Value Accounting Principles.* As the exposure of the taxpayer to Fannie and Freddie continues, taxpayers are also exposed to bailing out another housing

giant: the Federal Housing Administration. The capital ratio of FHA's Mutual Mortgage Insurance fund has remained below the congressionally mandated 2 percent level since the financial crisis. While the capital ratio improved from fiscal year 2012 to fiscal year 2013, it was still negative at the conclusion of the last fiscal year. Additionally, FHA drew \$1.7 billion from Treasury in 2013 because it did not have sufficient funds to cover expected future losses.

Given the precarious financial position of the FHA, the government should adopt measures to control the assumption of risk by FHA as other government-backed entities (e.g., Fannie and Freddie) are wound down. Right now, the budget accounts for the risks carried by FHA differently than how it accounts for those of Fannie Mae and Freddie Mac. These differences simply encourage just such a shift in risk.

The cost of FHA-insured loans are scored by calculating the net present value of the cash flows associated with loans and discounting those flows using risk-free marketable Treasury security rate. In contrast, CBO uses fair-value accounting for Fannie Mae- and Freddie Mac-guaranteed loans. Fair-value accounting recognizes that adverse economic events such as market downturns can cause loan defaults to rise, thus it reflects the full financial risk incurred by the taxpayer of backing these loans. In other words, the current budgetary treatment of FHA loans understates the full costs associated with them, thus it encourages policymakers to shift risk from Fannie and Freddie to FHA.

This resolution requires CBO to provide supplemental estimates using fair-value scoring for federally backed mortgages and mortgage-backed securities, regardless of which federal agency is acting as the insurer or guarantor.

As the government reforms its role in the U.S. housing markets, which this resolution supports, Fannie, Freddie, and FHA loans should be treated with parity and full transparency. The housing-finance system of the future, however, should allow private-market secondary lenders to fairly, freely, and transparently compete, with the knowledge that they will ultimately bear appropriate risk for the loans they guarantee. Their viability will be determined by the soundness of their practices and the value of their services.

#### OFF-BUDGET MANDATORY SPENDING

*Reform the Postal Service.* The United States Postal Service (USPS) is unable to meet its financial obligations and is in desperate need of structural reforms. In fiscal year 2013, USPS had an operating loss of \$1 billion and defaulted on another \$5.6 billion payment to prefund the retirement health care of their employees. As of fiscal year 2013, the USPS had a total of approximately \$112 billion in unfunded long-term debt, including promised health-benefit compensation for Postal retirees, workers' compensation, and debt owed to the Treasury.

The budget recommends giving the Postal Service the flexibility that any business needs to respond to changing market conditions, including declining mail volume, which is down more than 25 percent since 2006. The budget also recognizes the need to reform compensation of postal employees who currently pay a smaller share of the costs of their health and life-insurance premiums than other federal employees. Taken together, these reforms are estimated to save about \$19 billion over ten years and would help restore USPS solvency.

## **FUNCTION 400: TRANSPORTATION**

### **Function Summary**

This budget function includes ground, air, water, and other transportation funding. The major agencies and programs here include the Department of Transportation (which includes the Federal Aviation Administration; the Federal Highway Administration; the Federal Transit Administration; highway, motor-carrier, rail, and pipeline-safety programs; and the Maritime Administration); the Department of Homeland Security (including the Federal Air Marshals, the Transportation Security Administration, and the U.S. Coast Guard); the aeronautical activities of the National Aeronautics and Space Administration; and the National Railroad Passenger Corporation.

### **Summary of Resolution**

The resolution calls for \$34.7 billion in budget authority and \$80.7 billion in outlays in fiscal year 2015. Discretionary budget authority in 2015 is \$30.9 billion, with outlays of \$79.4 billion; and mandatory spending is \$3.8 billion in budget authority and \$1.3 billion in outlays. The large discrepancies between budget authority and outlays here result from the split treatment of the transportation trust funds, such as the Highway Trust Fund, through which funding is provided as a type of mandatory budget authority; and outlays, which are controlled by annual limitations on obligations set in appropriations acts. Over ten years, budget authority totals \$734.6 billion, with outlays of \$789.1 billion.

The Moving Ahead for Progress in the 21st Century (MAP-21) surface-transportation authorization act provided stable funding for major construction projects in 2013 and 2014. However, the law did not include reforms to keep the program solvent beyond the authorization period.

Maintaining the solvency of the Highway Trust Fund and the policy of the trust fund being user-fee supported is a priority. With the Highway Trust Fund facing insolvency in late 2014 or early 2015, efforts need to be made to find a long-term solution to the trust fund's financial challenges. The budget recognizes the need for continued reforms in this area to adequately maintain, improve, and—where appropriate—expand infrastructure. Though the federal-aid highway program was intended to be fully financed by gas-tax revenues, the fund has recently operated at spending levels well in excess of gas-tax receipts. The Highway Trust Fund's financing shortfall has been building for years. Over the next decade, CBO anticipates this gap to continue to increase under current spending levels and policy, causing the Highway Trust Fund to run average annual cash deficits of \$16 to \$17 billion.

As a result of these chronic shortfalls, the trust fund has required several large general-fund contributions totaling more than \$52 billion since 2008, in addition to a general-fund transfer of \$27.5 billion for transportation in the 2009 stimulus. MAP-21 included \$18.8 billion in general-fund transfers that were for the first time offset by spending reductions in other programs and a \$2.4 billion transfer from the Leaking Underground Storage Tank Trust Fund.

Despite these large recent infusions, CBO estimates that the Highway Trust Fund still faces insolvency in 2015 once MAP-21 expires. Over the next decade, CBO projects a growing gap causing the Highway Trust Fund to run cumulative cash deficits of nearly \$173 billion within the budget window.

A loophole in budget rules allows Congress to bail out the Highway Trust Fund without the transfer of taxpayer resources being recorded as a net increase in spending or deficits. The budget resolution once again includes a reform to close this loophole and ensure that any future transfer is fully offset. Instead of continuing to rely on general-fund transfers for solvency going forward, the Congress needs to address the systemic factors that have been driving the trust fund's bankruptcy. Congress also needs to continue to reform the critical surface-transportation infrastructure and safety programs to put them on sound financial footing.

The budget supports maintaining essential funding for surface transportation, aviation, and safety—offset by reductions in other transportation activities of lower priority to the federal government. As is true elsewhere, specific policy decisions will be determined by the committees of jurisdiction. The options below suggest one set of policies that can help meet the budget's levels.

## Illustrative Policy Options

### DISCRETIONARY SPENDING

*Eliminate Funding for Amtrak Operating Subsidies.* The budget supports eliminating operating subsidies that have been insulating Amtrak from making the structural reforms necessary to start producing returns. The 1997 Amtrak authorization law required Amtrak to operate free of subsidies by 2002. The budget supports continued reforms for Amtrak as well as reductions in headquarters and administrative costs for agencies.

*Reductions in Transportation Security Agency Funding.* Enhanced operational efficiencies can be obtained without compromising security priorities. Recently, wasteful procurement practices led to over \$185 million in screening equipment sitting unused in expensive storage facilities. Moreover, TSA has denied applications from airports to opt out of federal screener operations without adequate justification. Applications for private screening that meet security requirements and could improve cost-efficiency goals should be approved expeditiously.

*Prioritize Rail Safety.* The budget supports the vital role of the Federal Railroad Administration in ensuring freight and passenger-rail safety, while reducing spending in non-essential transportation programs.

### MANDATORY SPENDING

*Ensure Solvency of the Highway Trust Fund.* The budget recognizes that the Highway Trust Fund is projected by CBO to run negative balances in fiscal year 2015 under current levels of spending. By existing law and cash-management practices, the Department of Transportation would need to slow down or reduce spending upon the exhaustion of trust-fund balances. Congress needs to reform this critically important trust fund to put it on a sound financial footing without further bailouts that increase the deficit.

The budget recommends sensible reforms to avert the bankruptcy of the Highway Trust Fund by aligning spending from the Trust Fund with incoming revenues collected. The budget also includes a provision to ensure any future general-fund transfers will be fully offset, while at the same time providing flexibility for a surface-transportation reauthorization that does not increase the deficit. The budget includes a reserve

fund to provide for the adjustment of budget levels for consideration of surface-transportation legislation, as long as that legislation is deficit neutral.

Further, the budget recognizes the need to explore innovative financing mechanisms to support surface-transportation infrastructure and safety programs—for example, with further public-private sector partnerships demonstrated in the TIFIA program. The budget also recommends giving states more flexibility to fund the highway projects they feel are most critical. One possible reform could include a pilot program for states to fund their transportation priorities with state revenues, opt out of the federal gas tax, and forgo federal allocations.

*Phase Out Subsidies for Essential Air Service.* Essential Air Service [EAS] is a classic example of a temporary government program that has become immortal. EAS funding—originally intended to provide transitional assistance to small communities to adjust to the airline deregulation in the late 1970s—has not only continued but has grown rapidly in recent years.

## FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

### Function Summary

This function includes programs that provide federal funding for economic and community development in both urban and rural areas, including Community Development Block Grants; the non-power activities of the Tennessee Valley Authority; the regional commissions, including the Appalachian Regional Commission; the Economic Development Administration; and partial funding for the Bureau of Indian Affairs.

Homeland Security spending in this function includes the state- and local-government grant programs of the Department of Homeland Security, including part of the funding for the Federal Emergency Management Agency.

Aside from those programs related to emergency preparedness and critical needs, this resolution supports streamlining non-essential community and regional initiatives that are not core functions of the federal government.

### Summary of Resolution

The resolution calls for \$14.6 billion in budget authority and \$23.6 billion in outlays in fiscal year 2015. Discretionary budget authority in 2015 is \$13.3 billion, with \$21.9 billion in associated outlays. Mandatory spending in 2015 is \$1.3 billion in budget authority and \$1.7 billion in outlays. The ten-year totals for budget authority and outlays are \$154.5 billion and \$170.5 billion, respectively.

### Illustrative Policy Options

As elsewhere, the committees of jurisdiction will make final policy determinations. The proposals below indicate policy options that might be considered.

#### DISCRETIONARY SPENDING

*Eliminate Non-Core Programs.* At a time when shrinking spending is imperative for the government's fiscal well-being, this resolution recommends taking a hard look at community and regional programs; focusing on those that deliver funds for non-core federal-government functions; and consolidating and streamlining programs wherever possible. Among programs that should be considered in this review are the following:

*The Community Development Fund.* Historically, about 80 to 90 percent of funding for the CDF is spent on the Community Development Block Grant program. CDBG is an annual formula grant directed to state and local governments to address a broad array of initiatives. In 2014, \$3.1 billion was appropriated for CDBG. Currently, there is no maximum community-poverty rate to be eligible for funds, nor is there an exclusion for communities with high average income.

*Focus DHS Urban Area Security Initiative Grants to Tier 1 Cities.* Urban Area Security Initiative grants to over 30 cities have not produced measurable results for the most critical cities. This proposal would limit the grants to Tier 1, or the top ten cities, on a risk-based formula basis.

*Federal Emergency Management Agency Reforms.* The budget supports implementation of FEMA reforms passed by Congress to improve service delivery and cost-efficiencies in state and local programs, while at the same time proposing further steps to eliminate overlap and inefficiencies. The budget also acknowledges the need to look at reforms in disaster-relief assistance to ensure that those state and local governments most in need are receiving the assistance required. From 1953 to 1992, presidents made 1,153 total disaster declarations—including Major Disasters Declarations, Emergency Declarations, and Fire Management Assistance Declarations—for an average of 29 declarations per year.<sup>51</sup> The last three administrations alone have made more than 2,400 declarations to date, including a single-year high of 242 made by the current administration in 2011. The disaster declaration is intended as a process to help state and local governments receive federal assistance when the severity and magnitude of the disaster exceeds state and local resources, and when federal assistance is absolutely necessary. When disaster-relief decisions are not made judiciously, limited resources are diverted away from communities that are truly in need.

This budget supports GAO recommendations and takes a closer look at: (1) reducing federal expenditures by updating disaster-declaration-eligibility indicators, like per capita thresholds and other major disaster metrics, by (for example) adjusting for inflation; and (2) providing more scrutiny on cost-share levels and waivers. For example, preparedness programs like the Emergency Management Performance Grants have shown greater buy-in by state and local governments; demonstrated better performance in delivering resources to first responders; and ensured efficient and effective response operations. These types of reforms will increase transparency in the way that disaster declaration decisions are made and in accurately measuring a state's capacity to respond to a disaster.

#### MANDATORY SPENDING

*Reduce energy subsidies for commercial interests.* The budget recommends spending reductions for rural green-energy loan guarantees. These loan guarantees come with federal mandates that channel private investments into financing the administration's preferred interests at taxpayers' expense.

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<sup>51</sup> Federal Emergency Management Agency, "Disaster Declarations by Year," Mar. 2014.

## FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

### Function Summary

A well-educated workforce is one of the key drivers of strong economic growth. In the face of global and technological advances that have made the modern economy more complex and dynamic, it is imperative that all Americans have the opportunity to access a high-quality education. But even though federal spending on the Department of Education and related education programs has grown significantly over the past few decades, academic achievement has not seen a commensurate improvement.

Now more than ever, the nation's students must have the opportunity to access the high-quality education and skills-training needed to enable them to compete in the rapidly changing global economy. At the same time, Congress must make every dollar count by eliminating wasteful, duplicative, and ineffective programs. The Government Accountability Office [GAO] has identified many areas that are ripe for reform. In the area of education, their reports have identified 82 separate programs designed to improve teacher quality across ten federal agencies and dozens of overlapping job-training programs.

Reforms in these areas are reflected in Function 500, which covers federal spending primarily in the Departments of Education, Labor, and Health and Human Services for programs that directly provide—or assist states and localities in providing—services to young people and adults. Activities reflected here provide developmental services to low-income children; help fund programs for disadvantaged and other elementary- and secondary-school students; make grants and loans to post-secondary students; and fund job-training and employment services for people of all ages.

### Summary of Resolution

The resolution provides \$73.9 billion in budget authority and \$91.8 billion in outlays in fiscal year 2015. In that year, discretionary spending is \$92.1 billion in budget authority and \$95.6 billion in outlays; mandatory spending in 2015 is -\$18.2 billion in budget authority and -\$3.9 billion in outlays. Over ten years, spending in this function totals \$864 billion in budget authority and \$889 billion in outlays.

The negative mandatory numbers are due to the direct-lending program, in which the Department of Education acts effectively as a bank making student loans. However, for reasons addressed later in this section, these projected future savings are misleading because they fail to account for the market risk of the loans.

### Illustrative Policy Options

The committees of jurisdiction will make final policy determinations, but options worthy of consideration include the following.

#### DISCRETIONARY SPENDING

*Reform Job-Training Programs.* The Bureau of Labor Statistics reports that 10.5 million Americans are unemployed. Yet they also report 4 million job openings. This gap is due in part to the failure of the



nation's workforce-development programs to successfully match workers' skills with employers' needs. Federal job-training programs are balkanized, difficult to access, and lacking in accountability. In January 2011, the GAO issued a report that identified 47 federal employment and training programs that overlap with at least one other program, providing similar services to similar populations. Together, those GAO-identified programs spent \$18 billion in fiscal year 2009, including stimulus dollars. Since GAO issued that report, the Education and the Workforce Committee has conducted extensive work in this arena and added to the list, identifying more than 50 duplicative and overlapping programs.

This bureaucratic nightmare fails workers and employers alike and wastes taxpayer dollars. Senator Coburn has presented a report highlighting the high amount of waste, fraud, and abuse that occurs in these programs. Even President Obama noted in his 2012 State of the Union address that the maze of confusing training programs must be cut through. He echoed the request in his 2014 State of the Union address, charging Vice President Biden with conducting a review of the job-training system, despite the work already done by GAO and the Education and the Workforce Committee. To that end, all congressional committees with jurisdiction over job-training programs should look to consolidate as many administrative structures as possible to eliminate duplication and maximize taxpayer funds by focusing them on the most effective means of delivering job-training activities. The Education and the Workforce Committee reported legislation to that end, which passed the House in March 2013.

This budget improves accountability by calling for the consolidation of duplicative federal job-training programs into more targeted career-scholarship programs. This budget will also improve these programs' accountability by tracking the type of training provided, the cost per trainee, employment after training, and whether the trainee secures a job in his or her preferred field. A streamlined approach with increased oversight and accountability will not only provide administrative savings but improve access, choice, and flexibility to enable workers and job seekers to respond quickly and effectively to whatever specific career challenges they face.

*Make the Pell Grant Program Sustainable.* Pell Grants are the perfect example of promises that cannot be kept. The program is on an unsustainable path, a fact acknowledged by the President's own fiscal year 2015 budget. The College Cost Reduction and Access Act of 2007, the Higher Education Opportunity Act of 2008, the "stimulus" bill, and the Student Aid and Fiscal Responsibility Act of 2010 all made Pell Grants more generous than the federal budget could afford. These laws expanded eligibility for Pell Grants and increased Pell Grant funding. These expansions, along with a dramatic rise in the number of eligible students due to the recession, have caused program costs to explode since 2008, from \$16.1 billion in 2008 to an estimated \$26.9 billion in fiscal year 2015. Pell was traditionally funded as a discretionary program. Instead of confronting the cost drivers of the program, a Democratic Congress began to increasingly rely on mandatory funding to solve its discretionary shortfalls. Based on current CBO estimates, the program will again face a shortfall in fiscal year 2016.

Instead of making necessary, long-term reforms, previous Congresses again resorted to short-term funding patches—a temporary answer that will not prevent another severe funding cliff for the program in the future. The President's past budgets have failed to make the tough choices about the future of Pell Grants. For instance, his fiscal year 2015 budget only provides funding for an increased level of award through the 2016–2017 award year. These decisions put the program at greater risk of ultimately being unable to fulfill its promises to students.

Reforms are necessary to enable the program to continue helping low-income students gain access to higher education. The budget recommends the following:

- Roll back certain recent expansions to the needs analysis to ensure aid is targeted to the truly needy. The Department of Education attributed 14 percent of program growth between 2008 and 2011 to recent legislative expansions to the needs-analysis formula. The biggest cost drivers come from changes made in the College Cost Reduction and Access Act of 2007, such as the expansions of the level at which a student qualifies for an automatic zero Expected Family Contribution and the income-protection allowance. These should be returned to pre-CCRAA levels.
- Eliminate administrative fees paid to participating institutions. The government pays participating schools \$5 per grant to administer and distribute Pell awards. Schools already benefit significantly from the Pell program because the aid makes attendance at those schools more affordable.
- Consider a maximum-income cap. Currently there is no fixed upper-income limit for a student to qualify for Pell. Figures are simply plugged into a formula to calculate the amount for which the student qualifies. The higher the income level of the student and the student's family, the smaller grant they receive.
- Eliminate eligibility for less-than-half-time students. Funding should be reserved for students with a larger commitment to their education.
- Consider reforms to Return of Title IV Funds regulations. Simple changes to this policy, such as increasing the amount of time a student must attend class in order to withdraw without debt owed for back assistance, will increase the likelihood of students completing their courses and lower incentives for fraud.
- Adopt a sustainable maximum-award level. The Department of Education attributed 25 percent of recent program growth to the \$619 increase in the maximum award done in the stimulus bill that took effect in the 2009–10 academic year. To get program costs back to a sustainable level, the budget recommends maintaining the maximum award for the 2013–2014 award year of \$5,730 in each year of the budget window. This award would be fully funded through discretionary spending.

*Encourage Policies That Promote Innovation.* Federal higher-education policy should increasingly be focused not solely on financial aid but on policies that maximize innovation and ensure a robust menu of institutional options from which students and their families are able to choose. Such policies should include reexamining the data made available to students to make certain they are armed with information that will assist them in making their postsecondary decisions. Additionally, the federal government should act to remove regulatory barriers in higher education that act to restrict flexibility and innovative teaching, particularly as it relates to non-traditional models such as online coursework.

*Eliminate Ineffective and Duplicative Federal Education Programs.* The current structure for K–12 programs at the Department of Education is fragmented and ineffective. Moreover, many programs are duplicative or are highly restricted, serving only a small number of students. Given the budget constraints, Congress must focus resources on programs that truly help students. The budget calls for reorganization and streamlining of K–12 programs and anticipates major reforms to the Elementary and Secondary Education Act, which was last reauthorized by the No Child Left Behind Act. The budget also recommends that the committees of jurisdiction terminate and reduce programs that are failing to improve student

achievement and address the duplication among the 82 programs that are designed to improve teacher quality.

*Encourage Private Funding for Cultural Agencies.* Federal subsidies for the National Endowment for the Arts, the National Endowment for the Humanities, and the Corporation for Public Broadcasting can no longer be justified. The activities and content funded by these agencies go beyond the core mission of the federal government. These agencies can raise funds from private-sector patrons, which will also free them from any risk of political interference.

*Eliminate the Corporation for National and Community Service.* Programs administered out of this agency provide funding to students and others who work in certain areas of public service. Participation in these programs is not based on need. The United States has a long history of robust volunteer work and other efforts that provide services to communities and individuals. Americans' generosity in contributing their time and money to these efforts is extraordinary and should be encouraged. However, the federal government already has aid programs focused on low-income students, and paying volunteers is not a core federal responsibility, especially in times of high deficits and debt. Further, it is much more efficient to have such efforts operate at the state and local level by the community that receives the benefit of the service.

*Eliminate Administrative Fees Paid to Schools in the Campus-Based Student-Aid Programs.* Under current law, participating higher-education institutions are allowed to use a percentage of federal program funds for administrative purposes. The budget recommends prohibiting these funds from being used for administrative costs. Schools already benefit significantly from participating in federal student-aid programs.

*Promote State, Local, and Private Funding for Museums and Libraries.* The Federal Institute of Museum and Library Services is an independent agency that makes grants to museums and libraries. This is not a core federal responsibility. This function can be funded at the state and local level and augmented significantly by charitable contributions from the private sector.

## MANDATORY SPENDING

*Repeal New Funding from the Student Aid and Fiscal Responsibility Act of 2010.* During the debate on SAFRA, the Congressional Budget Office provided estimates showing that projected future savings from a government takeover of all federal student loans decreased dramatically when "market risk" was taken into account. Since that time, the President's National Commission on Fiscal Responsibility and the Pew-Peterson Commission on Budget Reform have recommended the incorporation of fair-value accounting for all federal loan and loan-guarantee programs to enable a true assessment of their cost to taxpayers. In February, the House Committee on the Budget reported H.R. 1872, the Budget and Accounting Transparency Act of 2014, which would mandate fair-value accounting. Unfortunately, SAFRA used the higher non-adjusted savings projection to subsidize the new health-care law and to increase spending on several education programs. Although much of the funding allocations have already been spent, Congress could cancel some of the future spending by repealing the expansion of the Income-Based Repayment program. SAFRA made the income-based repayment plan more generous for new borrowers of Direct Loans. This program, created by the CCRAA and accelerated by the administration, is still relatively new. Moreover, there are concerns that the expansions could disproportionately benefit

graduate and professional students. Congress should ensure the program is meeting its intended goals before it is expanded.

*Accept the Fiscal Commission's Proposal to Eliminate In-School Interest Subsidies for Undergraduate Students.* The federal government focuses aid decisions on family income prior to a student's enrollment and then provides a number of repayment protections and, in some cases, loan forgiveness after graduation. There is no evidence that in-school interest subsidies are critical to individual matriculation.

*Terminate the Duplicative Social Services Block Grant.* The Social Services Block Grant is an annual payment sent to states without a matching requirement to help achieve a range of social goals, including child care, health services, and employment services. Most of these are also funded by other federal programs. States are given wide discretion to determine how to spend this money and are not required to demonstrate the outcomes of this spending, so there is no evidence of its effectiveness. The budget recommends eliminating this duplicative spending.

## FUNCTION 550: HEALTH

### Function Summary

The principal driver of spending in this function is Medicaid, the federal-state low-income health program. It represents more than 70 percent of the function total and will grow at a rate of 9 percent per year through 2018—far faster than the growth of the overall economy. The Congressional Budget Office projects federal spending on this program to be \$298 billion in fiscal year 2014. This is expected to nearly double within the next ten years, reaching \$574 billion by fiscal year 2024.

But this represents only the federal share of Medicaid. State spending on the program is expected to follow these same trends. According to the Centers for Medicare and Medicaid Services' *2012 Actuarial Report on the Financial Outlook on Medicaid*, total state spending will rise from about \$157 billion in fiscal year 2011 to \$317 billion in fiscal year 2021.

While these spending trends are clearly unsustainable, Medicaid also has fostered a two-tiered hierarchy in the health-care marketplace that stigmatizes Medicaid enrollees. Its perverse funding structure is exacerbating budget pressures at the state and federal level, while creating a mountain of waste. With administrators looking to control costs, and providers refusing to participate in a system that severely under-reimburses them for their services, Medicaid beneficiaries are ultimately finding it increasingly difficult to obtain even the most basic medical care. Absent reform, Medicaid will not be able to deliver on its promise to provide a sturdy health-care safety net for society's most vulnerable.

Medicaid's current structure gives states a perverse incentive to expand the program and little incentive to save. For every dollar that a state government spends on Medicaid, the federal government pays an average of 57 cents. Expanding Medicaid coverage during boom years is tempting and easy to do—state governments pay less than half the cost. Yet to restrain Medicaid's growth, states must rescind a dollar's worth of coverage to save 43 cents.

The recently enacted health-care law adds even more liabilities to an already unsustainable program. CBO estimates the new law will increase federal Medicaid spending by \$792 billion over the 2015–2024 period. This is due to the millions of new beneficiaries that the law drives into the program. In fact, CBO estimates that in 2024, 13 million new enrollees will be added to the Medicaid program as a result of the Affordable Care Act.

For all these reasons, this budget recommends a fundamental reform of the Medicaid program. One potential approach is described below.

In addition to Medicaid, this budget function includes spending for the Affordable Care Act's exchange subsidies; State Children's Health Insurance Program; health research and training, including the National Institutes of Health and substance-abuse prevention and treatment; and consumer and occupational health and safety, including the Occupational Safety and Health Administration. Discretionary spending in this function includes funding for Project Bioshield, NIH, the Food Safety and Inspection Service, and the Food and Drug Administration.

## Summary of Resolution

The resolution calls for \$419.8 billion in budget authority and \$416.6 billion in outlays in fiscal year 2015. Discretionary spending for the year is \$55.7 billion in budget authority and \$59.1 billion in outlays; mandatory spending is \$364.1 billion in budget authority and \$357.4 billion in outlays. The ten-year totals for budget authority and outlays are \$4.12 trillion and \$4.11 trillion, respectively.

## Illustrative Policy Options

The exact contours of a Medicaid reform—as well as other policies flowing from the fiscal assumptions in this budget resolution—will be determined by the committees of jurisdiction. Nevertheless, the need for fundamental Medicaid reform and other measures to slow the growth of federal spending are critical, and one set of potential approaches is described below.

### MANDATORY SPENDING

*Provide State Flexibility on Medicaid.* One way to secure the Medicaid benefit is by converting the federal share of Medicaid spending into an allotment that each state could tailor to meet its needs, indexed for inflation and population growth. Such a reform would end the misguided one-size-fits-all approach that has tied the hands of state governments. States would no longer be shackled by federally determined program requirements and enrollment criteria. Instead, each state would have the freedom and flexibility to tailor a Medicaid program that fit the needs of its unique population.

The budget resolution proposes to transform Medicaid from an open-ended entitlement into a block-granted program like SCHIP. These programs would be unified under the proposal and grown together for population growth and inflation.

This reform also would improve the health-care safety net for low-income Americans by giving states the ability to offer their Medicaid populations more options and better access to care. Medicaid recipients, like all other Americans, deserve to choose their own doctors and make their own health-care decisions, instead of having Washington make those decisions for them.

There are numerous examples across the country where states have used the existing, but limited, flexibility of Medicaid's waiver program to introduce innovative reforms that produced cost savings, quality improvements, and beneficiary satisfaction. The state of Indiana implemented such reforms through the *Healthy Indiana Plan*, a patient-centered system that provided health coverage to uninsured residents who didn't qualify for Medicaid. Enrollees in this program had access to benefits such as physician services, prescription drugs, both patient and outpatient hospital care, and disease management.

The Medicaid reforms proposed in the fiscal year 2015 budget provide all states with the necessary flexibility to pursue reforms similar to the Indiana plan.

Based on this kind of reform, this budget assumes \$732 billion in savings over ten years, easing the fiscal burdens imposed on state budgets and contributing to the long-term stabilization of the federal government's fiscal path.

*Repeal the Medicaid Expansions in the New Health-Care Law.* The recently enacted health-care law calls for major expansions in the Medicaid program beginning in 2014. These expansions will have a significant impact on the federal share of the Medicaid program and will dramatically increase outlays.

In the face of enormous stress on federal and state budgets and declining quality of care in Medicaid, the new health-care law would increase the eligible population for the program by one-third. For fiscal years 2015 through 2024, CBO projects the new law will increase federal spending by \$792 billion.

This future fiscal burden will have serious budgetary consequences for both federal and state governments. While the health law requires the federal government to finance 100 percent of the Medicaid costs associated with covering new enrollees, this provision begins to phase out in fiscal year 2016. At that time, state governments will be required to assume a share of this cost. This share increases from fiscal year 2016 through 2020, when states will be required to finance 10 percent of the health law's expansion of Medicaid.

Not only does this expansion magnify the challenges to both state and federal budgets, it also binds the hands of local governments in developing solutions that meet the unique needs of their citizens. The health-care law would exacerbate the already crippling one-size-fits-all enrollment mandates that have resulted in below-market reimbursements, poor health-care outcomes, and restrictive services. The budget calls for repealing the Medicaid expansions contained in the health-care law and removing the law's burdensome programmatic mandates on state governments. Adopting this option would save \$792.4 billion over ten years.

*Repeal the Exchange Subsidies Created by the New Health-Care Law.* According to CBO estimates, the health law proposes to spend \$1.2 trillion over the next ten years providing eligible individuals with subsidies to purchase government-approved health insurance. These subsidies can only be used to purchase plans that meet standards determined by the new health-care law. In addition to this enormous market distortion, the law also stipulates a complex maze of eligibility and income tests to determine how much of a subsidy qualifying individuals may receive.

The new law couples these subsidies with a mandate for individuals to purchase health insurance and bureaucratic controls on the types of insurance that may legally be offered. Taken together, these provisions will undermine the private insurance market, which serves as the backbone of the current U.S. health-care system. Exchange subsidies will undermine the competitive forces of the marketplace. Government mandates will drive out all but the largest insurance companies. Punitive tax penalties will force individuals to purchase coverage whether they choose to or not. Further, this budget does not condone any policy that would require entities or individuals to finance activities or make health decisions that violate their religious beliefs. This budget provides for the repeal of the President's onerous health-care law for this and many other reasons.

Left in place, the health law will create pressures that will eventually lead to a single-payer system in which the federal government determines how much health care Americans need and what kind of care

they can receive. This budget recommends repealing the architecture of this new law, which puts health-care decisions into the hands of bureaucrats, and instead allowing Congress to pursue patient-centered health-care reforms that actually bring down the cost of care by empowering consumers.

For Function 550, repeal of the insurance subsidies and other exchange-related spending would save roughly \$1.2 trillion over ten years. To be clear, this budget repeals all federal spending related to the health law's exchange subsidies and related spending. CBO's \$1.2 trillion estimate for the spending associated with exchange subsidies combines a mix of both outlays and revenues. Function 550 reflects only the savings that would result from repealing the federal-outlay portion of this spending. This budget assumes full repeal of all of the new health-care law's tax increases as part of comprehensive tax reform.



## **FUNCTION 570: MEDICARE**

### **Function Summary**

With the creation of Medicare in 1965, the United States made a commitment to help fund the medical care of elderly Americans without exhausting their life savings or the assets and incomes of their working children and younger relatives. In urging the creation of Medicare, President Kennedy said that such a program was chiefly needed to protect not the poor, but people who had worked for years and suddenly found all their savings gone because of a costly health problem.

But spending for Medicare has grown quickly in recent decades—in part because of rising enrollment and in part because of rising costs per enrollee—and has reached unsustainable rates. Between 1970 and 2012, gross federal spending for Medicare rose from 0.7 percent of GDP to 3.7 percent. In CBO's latest *Long-Term Budget Outlook*, mandatory spending on Medicare is projected to reach 5 percent of GDP by 2040 and 9.4 percent of GDP by 2088. Medicare's trustees project that Medicare's Hospital Insurance Trust Fund will be bankrupt by 2026.

Medicare's imbalance threatens beneficiaries' access to quality, affordable care. The program's fundamentally flawed structure is driving up health-care costs, which are, in turn, threatening to bankrupt the system—and ultimately the nation. Without reform, the program will end up causing exactly what it was created to avoid: millions of America's seniors without adequate health security and a younger working generation saddled with enormous debts to pay for spending levels that cannot be sustained.

Letting government break its promises to current seniors and to future generations is unacceptable. In addition, placing Medicare on a sustainable path is an indispensable part of restoring the federal government's fiscal balance. The reforms outlined in this budget protect and preserve Medicare for those in or near retirement, while saving and strengthening the program so future generations can count on it when they retire.

The Medicare program's spending appears in Function 570 of the budget resolution. The function reflects the Medicare Part A Hospital Insurance Program, Part B Supplementary Medical Insurance Program, Part C Medicare Advantage Program, and Part D Prescription Drug Benefit, as well as premiums paid by qualified aged and disabled beneficiaries.

The various parts of the program are financed in different ways. Part A benefits are financed primarily by a payroll tax (currently 2.9 percent of taxable earnings), the revenues from which are credited to the HI Trust Fund. For Part B, premiums paid by beneficiaries cover about one-quarter of outlays, and the Treasury General Fund covers the rest. (Payments to private insurance plans under Part C are financed by a blend of funds from Parts A and B.) Enrollees' premiums under Part D are set to cover about one-quarter of the cost of the basic prescription-drug benefit, though many low-income enrollees receive larger subsidies; general funds cover most of the remaining cost.

### **Summary of Resolution**

The resolution calls for \$519.2 billion in budget authority and \$519.4 billion in outlays in fiscal year 2015. Discretionary spending is \$6.7 billion in budget authority and \$6.6 in outlays in fiscal year 2015. Mandatory

spending in 2015 is \$512.5 billion in budget authority and \$512.8 in outlays. The ten-year totals for budget authority and outlays are \$6.8 trillion and \$6.8 trillion, respectively.

### Illustrative Policy Options

The Medicare program attempts to do two things to make sure that all seniors have secure, affordable health coverage. First, the program is intended to be an insurance program that pools risk among a specific population of Americans, ensuring that seniors enjoy *secure* access to coverage. The policies supported by this budget strengthen and enhance this aspect of Medicare so seniors will have more health-care choices within the same stabilized risk pool.

Second, Medicare subsidizes coverage for seniors to ensure that coverage is *affordable*. Affordability is a critical goal, but the subsidy structure of Medicare is fundamentally broken and drives costs in the wrong direction. Medicare is an open-ended, blank-check entitlement that operates under a rigid and bureaucratic fee-for-service payment system. This current structure fuels health-care inflation, threatens the solvency of the program, and creates inexcusable levels of waste in the system.

While the committees of jurisdiction will make the final determinations on specific Medicare reforms, the options described below offer one clear and reliable path toward solvency.

#### PREMIUM SUPPORT

In the Medicare system, the federal government—not the patient—is the customer. Unfortunately, the government has been slow to innovate and a clumsy, ineffective steward of value. Controlling costs in an open-ended fee-for-service system has proved impossible to do without limiting access or sacrificing quality. Over the program’s entire history, in a vain attempt to get control of the waste in the system, Washington has made across-the-board payment reductions to providers without regard to quality or patient satisfaction. It has not worked. Costs have continued to grow, seniors continue to lose access to quality care, and the program remains on a path to bankruptcy. Absent reform, Medicare will be unable to meet the needs of current seniors and future generations.

Reform aimed at empowering individuals—with a strengthened safety net for the poor and the sick—will not only ensure the fiscal sustainability of this program, the federal budget, and the U.S. economy but also guarantee that Medicare can fulfill the promise of health security for America’s seniors.

The Medicare reform envisioned in this budget resolution begins with a commitment to keep the promises made to those who now are in or near retirement. Consequently, for those who enter the program before 2024, the Medicare program and its benefits will remain as they are, without change.

For future retirees, the budget supports an approach known as “premium support.”

Starting in 2024, seniors (those who first become eligible by turning 65 on or after January 1, 2024) would be given a choice of private plans competing alongside the traditional fee-for-service Medicare program on a newly created Medicare Exchange. Medicare would provide a premium-support payment either to pay for or offset the premium of the plan chosen by the senior, depending on the plan’s cost. For those who were 55 or older in 2013, they would remain in the traditional Medicare system.

The Medicare recipient of the future would choose, from a list of guaranteed-coverage options, a health plan that best suits his or her needs. This is not a voucher program. A Medicare premium-support payment would be paid, by Medicare, directly to the plan or the fee-for-service program to subsidize its cost. The program would operate in a manner similar to that of the Medicare prescription-drug benefit. The Medicare premium-support payment would be adjusted so that the sick would receive higher payments if their conditions worsened; lower-income seniors would receive additional assistance to help cover out-of-pocket costs; and wealthier seniors would assume responsibility for a greater share of their premiums.

This approach to strengthening the Medicare program—which is based on a long history of bipartisan reform plans—would ensure security and affordability for seniors now and into the future. In September 2013, the Congressional Budget Office analyzed illustrative options of a premium support system. They found that a program in which the premium-support payment was based on the average bid of participating plans would result in savings for affected beneficiaries as well as the federal government.<sup>52</sup>

Moreover, it would set up a carefully monitored exchange for Medicare plans. Health plans that chose to participate in the Medicare Exchange would agree to offer insurance to all Medicare beneficiaries, to avoid cherry-picking, and to ensure that Medicare’s sickest and highest-cost beneficiaries receive coverage.

While there would be no disruptions in the current Medicare fee-for-service program for those currently enrolled or becoming eligible before 2024, all seniors would have the choice to opt in to the new Medicare program once it began in 2024. This budget envisions giving seniors the freedom to choose a plan best suited for them, guaranteeing health security throughout their retirement years. Also starting in 2024, the age of eligibility for Medicare would begin to rise gradually to correspond with Social Security’s retirement age and the fee-for-service benefit would be modernized to have a single deductible and by reforming supplemental insurance policies.

This reform also ensures affordability by fixing the currently broken subsidy system and letting market competition work as a real check on widespread waste and skyrocketing health-care costs. Putting patients in charge of how their health-care dollars are spent will force providers to compete against each other on price and quality.

#### ADDITIONAL IMPROVEMENTS IN THE MEDICARE PROGRAM

*A Long-Term “Doc Fix.”* In recent years, Medicare’s physician reimbursement formula—the “sustained growth rate”—has threatened steep reductions in payments, leaving doctors uncertain about their incomes and, in some cases, reluctant to take on additional Medicare patients. Congress has patched over the problem numerous times with ad hoc increases in reimbursements—a practice known as the “doc fix.” These measures have become increasingly expensive to taxpayers without stabilizing the program. This budget accommodates legislation that fixes the Medicare physician-payment formula for the next ten years so that Medicare beneficiaries continue to have access to health care. It provides for a reimbursement system that fairly compensates physicians who treat Medicare beneficiaries while providing incentives to improve quality and efficiency. The reimbursement-reform process should also protect seniors enrolled in Medicare Advantage plans from premium increases, benefit reductions and

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<sup>52</sup> Congressional Budget Office, “[A Premium Support System for Medicare: Analysis of Illustrative Options](#),” 18 Sept. 2013.

loss of coverage options that would result from certain assumptions made by the Centers for Medicare and Medicaid with respect to the SGR.

*Ending the Raid on the Medicare Trust Fund.* Supporters of the 2010 government takeover of health care insisted the law would both shore up the Medicare Trust Fund and pay for a new health-care entitlement program. In testimony before the Committee, Medicare's chief actuary stated the truism that the same dollar could not be used twice. This budget calls for directing any potential Medicare savings in current law toward shoring up Medicare, not paying for new entitlements. The budget also repeals the health-care law's new rationing board, the Independent Payment Advisory Board.

*Medical-Liability-Insurance Reform.* This budget also advances commonsense curbs on abusive and frivolous lawsuits. Medical lawsuits and excessive verdicts increase health-care costs and result in reduced access to care. When mistakes happen, patients have a right to fair representation and fair compensation. But the current tort-litigation system too often serves the interests of lawyers while driving up costs. The budget supports several changes to laws governing medical liability.

*Means-Testing Premiums for High-Income Seniors.* This budget also advances a bipartisan proposal to further means-test premiums in Medicare Parts B and D for high-income seniors, with the same provisions the President's proposed in his fiscal year 2014 budget.

## **FUNCTION 600: INCOME SECURITY**

### **FUNCTION SUMMARY**

The welfare reforms of the late 1990s are a success story of modern domestic policy, but they did not go as far as many think. Reformers were not able to extend their work beyond cash welfare to other means-tested programs. Notably, programs that subsidize food and housing for low-income Americans remain dysfunctional, and their explosive growth is threatening the overall strength of the safety net. If the government continues running trillion-dollar deficits and experiences a debt crisis, the poor and vulnerable will undoubtedly be the hardest hit, as the federal government's only recourse will be severe, across-the-board cuts.

Most of the federal government's income-support programs are included in Function 600, Income Security. These include federal-employee-retirement and disability benefits (including military retirees); general retirement and disability insurance (excluding Social Security)—mainly through the Pension Benefit Guaranty Corporation—and benefits to railroad retirees. unemployment compensation; low-income housing assistance, including Section 8 housing; food and nutrition assistance, including food stamps and school-lunch subsidies; and other income-security programs.

This last category includes: Temporary Assistance to Needy Families, the government's principal welfare program; Supplemental Security Income; spending for the refundable portion of the Earned Income Credit; and the Low Income Home Energy Assistance Program. Agencies administering these programs include the Departments of Agriculture, Health and Human Services, Housing and Urban Development, the Social Security Administration (for SSI), and the Office of Personnel Management (for federal-retirement benefits).

### **Summary of Resolution**

The resolution calls for \$505.7 billion in budget authority and \$505.0 billion in outlays in fiscal year 2015. Discretionary spending is \$62.3 billion in budget authority and \$64.6 billion in outlays in fiscal year 2015. Mandatory spending in 2015 is \$443.4 billion in budget authority and \$440.4 billion in outlays.

The Committee's recommendation is a disciplined budget that will require committees of jurisdiction and agencies to set priorities and achieve efficiencies. In addition to implementing needed reforms in these programs, it will avoid the sudden and arbitrary benefit cuts that would result in the event of a fiscal crisis.

### **Illustrative Policy Options**

Reforming the federal government's income-security programs can both strengthen the safety net and protect taxpayers. Among reforms that could be considered by the committees of jurisdiction are the following.

## DISCRETIONARY SPENDING

*Reform Supplemental Nutrition Assistance Program Outreach Funding.* This budget assumes that outreach funding for the SNAP program is reduced, and the reduction is shifted toward programs that facilitate upward mobility, such as properly reformed job-training programs.

*Make Responsible Reforms to Housing-Assistance Programs.* This resolution supports taking actions that would make housing-assistance programs more sustainable and work to direct federal dollars to serve those most in need. Spending on the Tenant-Based Section 8 program increased by 80 percent from 2005 to 2013. However, HUD's most recent Worst Case Housing Needs Report to Congress suggests the number of families who are severely rent burdened or live in substandard conditions continues to grow.<sup>53</sup> Reforms are needed both to ensure the affordability of these programs to the taxpayer and to ensure that assistance is available to those most in need. One reform could include the gradual expansion of the Moving to Work program to high-performing public housing authorities. Moving to Work gives public housing authorities more flexibility in how they spend funds so that they can serve families more efficiently.

## MANDATORY SPENDING

*Block-Grant the Supplemental Nutrition Assistance Program.* Spending on SNAP—formerly known as the Food Stamp Program—has increased dramatically over the past three years. SNAP spending grew from \$20.6 billion in 2002 to nearly \$40 billion in 2008—and \$83 billion in 2013. Although the increase between 2008 and 2013 is partially due to the recession, SNAP spending is forecast to be permanently higher than previous estimates even after the recession is long past. A variety of factors are driving this growth, but one major reason is that though the states have the responsibility of administering the program, they have little incentive to ensure it is well run.

The budget resolution envisions converting SNAP into an allotment tailored for each state's low-income population, indexed for inflation and eligibility. This option would make no changes to SNAP until 2019—after employment has recovered—providing states with time to structure their own programs. It would also envision improving work incentives by requiring a certain amount of people to engage in work activity, such as job search, community-service activities, and education and job training. This proposal is estimated to save \$125 billion over ten years.

*Eliminate Broad-Based Categorical Eligibility.* Broad-based categorical eligibility allows households to become eligible for SNAP by receiving a minimal Temporary Assistance for Needy Families fund benefit or service. Typically, an individual is made eligible by receiving a TANF brochure or being referred to a social services “800” telephone number. This allows individuals to qualify for SNAP benefits under less restrictive criteria. For example, 40 states currently have no asset test for receiving SNAP benefits.

*Eliminate Abuse of LIHEAP:* The Low Income Home Energy Assistance Program provides low-income families with help to pay heating bills. However, states can provide as little as \$20 in LIHEAP benefits in order to increase SNAP benefits (see “Categorical Eligibility” above). The recently passed Farm Bill reformed this practice, but it did not end the abuse entirely—and this proposal would.

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<sup>53</sup>“Worst Case Housing Needs 2011: Report to Congress,” U.S. Department of Housing and Urban Development, Feb. 2013.

*Eliminate the Failed Troubled Asset Relief Program [TARP] Housing Subsidies.* This resolution supports ending the loan-subsidy initiative, the Home Affordable Modification Program [HAMP], created by the Obama administration as a part of TARP for distressed homeowners. In addition to serving far fewer households than planned, HAMP has experienced alarmingly high re-default rates. The Special Inspector General for the Troubled Asset Relief Program’s most recent quarterly report states that \$1.1 billion of TARP monies have been spent through HAMP on modifications that ultimately re-defaulted.<sup>54</sup>

*Eliminate Certain Waivers from Work Requirements for Abled-Bodied Adults without Dependents.* H.R. 3102, the Nutrition Reform and Work Opportunity Act of 2013 included the elimination of certain waivers from SNAP work requirements for Abled-Bodied Adults without Dependents (ABAWDs). As was demonstrated by the welfare reforms of the 1990s, work requirements are central to ensuring that public assistance helps individuals transition to independence.

*Institute Work Requirements.* The Obama administration, in contravention of current law, has claimed authority to waive the work requirements of the Temporary Assistance to Needy Families program. This budget calls for rescinding any authority the Obama administration thinks it has to provide for waivers of the work requirement of the TANF program. It assumes that President Clinton and the Republican majority at the time were correct in requiring robust work requirements for the TANF program, which contributed to the largest sustained reduction in child poverty since the onset of the “Great Society.” It also calls for the Secretary of the U.S. Department of Agriculture to test work-first pilot projects under the authority granted by Sec. 4022 of the Agriculture Act of 2014.

*Reform Civil-Service Pensions.* In keeping with a recommendation from the National Commission on Fiscal Responsibility, this option calls for federal employees—including members of Congress and staff—to make greater contributions toward their own retirement. It would also reform the ability for individuals to receive a “special retirement supplement,” which pays federal employees the equivalent of their Social Security benefit at an earlier age. This would achieve significant budgetary savings and also help facilitate a transition to a defined-contribution system for new federal employees that would give them more control over their own retirement security. This option would save an estimated \$125 billion over ten years.

*Reform Supplemental Security Income.* Welfare programs typically pay benefits on a sliding scale. However, SSI is different, paying an average of \$600 for each and every child in a household who receives benefits. This reform would create a sliding scale for children on SSI. Advocates for the disabled have expressed support in the past for creating a sliding scale for children on SSI. For example, Jonathan Stein—the lead advocate attorney in the landmark 1990 Supreme Court Case expanding SSI eligibility for children and witness for the Democrats at an October 27, 2011 Ways and Means Subcommittee hearing on SSI—in 1995 said the following about this proposal: “[W]e have a long list of reforms that we do not have time to get into, but we would say for very large families there should be some sort of family cap or graduated sliding scale of benefits.”<sup>55</sup> Additionally, Congress should review mental-health categories in the children’s SSI program, which have been the fastest-growing categories of eligibility. These reforms could save up to \$5 billion over ten years.

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54 “Quarterly Report to Congress,” Office of the Special Inspector General for the Troubled Asset Relief Program, 29 Jan. 2014.

55 U.S. House, Committee on Ways and Means. *Contract with America: Welfare Reform, Part 2*, Hearing, February 2, 1995 (Serial No. 104-44). Washington: Government Printing Office, 1995.

*Eliminate the Ability to Receive Both Unemployment Insurance and Disability Insurance.* This option would eliminate the ability of individuals to receive both Unemployment Insurance benefits and Disability Insurance benefits. A condition of receiving UI benefits is that the individual is available and seeking work. In direct contradiction, Disability Insurance is available to benefit only those who are unable to work. The President included a similar proposal in his fiscal year 2015 budget. This could save up to \$5.4 billion over ten years.



## FUNCTION 650: SOCIAL SECURITY

### FUNCTION SUMMARY

This category consists of the Social Security Program, or Old Age, Survivors, and Disability Insurance. It is the largest budget function in terms of outlays and provides funds for the government's largest entitlement programs. Under provisions of the Congressional Budget Act and the Budget Enforcement Act, the Social Security trust funds are considered to be off-budget. But a small portion of spending within Function 650—including general-fund transfers of taxes paid on Social Security benefits—is on-budget. Therefore, though the discussion below describes both the on-budget and off-budget components, the budget resolution itself contains only the on-budget portion.

Social Security must be reformed to prevent severe cuts in future benefits. This budget strengthens the program by calling on policymakers to come to the table and enact commonsense reforms to keep the program solvent for current beneficiaries and make it stronger for future generations.

More immediately, the Disability Insurance program is expected to go bankrupt in 2016. This will require a nearly 25 percent cut to the benefits of current recipients. The Obama administration has called on diverting funds from the retirement system (Old Age and Survivors Insurance or OASI) for Social Security to the Disability Insurance system.<sup>56</sup> This will accelerate the insolvency of the OASI trust fund, necessitating earlier cuts to Social Security benefits for current and future retirees. This budget does not support the raid on the OASI trust fund—rather, it continues to call for a bipartisan solution to Social Security's finances.

The Disability Insurance program has seen huge growth over the past decades. According to a 2012 report by the Congressional Budget Office, the share of working-age adults receiving Disability Insurance benefits rose from 1.3 percent to 4.5 percent. CBO also predicts that the share of working-age adults will continue to rise, reaching 5.0 percent in 2022. This increase in the number of adults on Disability Insurance has also sharply increased spending. As a percentage of GDP, the DI program was .27 percent in 1970; CBO is projecting that in 2024 the DI program will be .72 percent of GDP.

### Summary of Resolution

Social Security contains both on-budget and off-budget spending—the latter consisting of benefit payments for the OASDI program. The budget resolution reflects only the on-budget spending. In that category, the resolution calls for \$31.4 billion in budget authority and \$31.5 billion in outlays in fiscal year 2015. Over ten years, the on-budget totals are \$453.5 billion in budget authority and \$453.6 billion in outlays.

In the off-budget category, the budget calls for \$864.5 billion in budget authority for fiscal year 2015 and \$860.5 billion in outlays for fiscal year 2015. Over ten years, the off-budget totals are \$11.4 trillion in budget authority and \$10.3 trillion in outlays.

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<sup>56</sup> In March 5 testimony before the House Budget Committee, Sylvia Burwell said that the administration supported “Congress for taking the efforts that it [has] historically taken with regard to reallocation of the trust.”

## Illustrative Policy Options

### FACING SOCIAL SECURITY'S FISCAL PROBLEM

An all-too-common reaction to the fiscal problem in Social Security has been denial that a problem exists. It is claimed that the Social Security Trust Fund will remain solvent for at least a decade, at which point the government could theoretically cover any shortfall by raising taxes. Others downplay the necessity for change, contending that sustained economic growth could take care of the problem all by itself.

Neither is correct. First, any value in the balances in the Social Security Trust Fund is derived from dubious government accounting. The trust fund is not a real savings account. From 1983 to 2010, it collected more Social Security taxes than it paid out in Social Security benefits. But the government borrowed all of these surpluses and spent them on other government programs unrelated to Social Security. The Trust Fund holds Treasury securities, but the ability to redeem these securities is completely dependent on the Treasury's ability to raise money through taxes or borrowing.

Social Security is currently paying out more in benefits than it collected in taxes—in other words, running cash deficits—a trend that will worsen as the baby boomers continue to retire. To pay full benefits, the government must pay back the money it owes Social Security. In testimony before the House Budget Committee, CBO Director Doug Elmendorf stated that:

Well, again, Congressman, on a unified budget basis, taking account of just the tax revenues, the dedicated tax revenues, and the benefits, [Social Security] is contributing [to] the deficit now. If one instead looks at just the balance in the Social Security Trust Fund, that balance is, the annual balance is positive now, but will be negative within about a half dozen years.<sup>57</sup>

Social Security's fragile condition poses a serious problem that threatens to break the broader compact in which workers support current retirees, and earn the support of those who follow.

There is a bipartisan path forward on Social Security—one that requires all parties first to acknowledge the fiscal realities of this critical program. The President's Fiscal Commission made a positive first step by advancing solutions to ensure the solvency of Social Security. They suggested a more progressive benefit structure, with benefits for higher-income workers growing more slowly than those of workers with lower incomes who are more vulnerable to economic shocks in retirement. The Commission also recommended reforms that take account of increases in longevity, to arrest the demographic problems that are undermining Social Security's finances.

In addition, there is bipartisan support that Social Security reform should provide more help to those who fall below the poverty line after retirement. There is no security in a program that fails to meet needs of the nation's most vulnerable citizens—lower-income seniors should receive more targeted assistance than those who have had ample opportunity to save for retirement.

While certain details of the commission's Social Security proposals, particularly on the tax side, are of debatable merit, the commission undoubtedly took several steps forward on bipartisan solutions to strengthen Social Security. This budget seeks to build on the Commission's important work, calling on

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57 U.S. House, Committee on the Budget. *The Congressional Budget Office's Budget and Economic Outlook*, Hearing, 13 Feb. 2013 (Serial No. 113-1). Washington: Government Printing Office, 2013.

action to solve this pressing problem by requiring the President to put forward specific ideas on fixing Social Security. The budget also puts the onus on Congress to offer legislation to ensure the sustainable solvency of this critical program. To be clear, nothing in this budget calls for the privatization of Social Security.

#### STARTING THE PROCESS

This budget calls for setting in motion the process of reforming Social Security by altering a current-law trigger that, in the event that the Social Security program is not sustainable, requires the President, in conjunction with the Social Security Board of Trustees, to submit a plan for restoring balance to the fund. This provision would then require congressional leaders to put forward their best ideas as well. Although, in the House, the Committee on Ways and Means would make the final determination, this provision would require that:

- If in any year the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in its annual Trustees' Report, determines that the 75-year actuarial balance of the Social Security Trust Funds is in deficit, and the annual balance of the Social Security Trust Funds in the 75<sup>th</sup> year is in deficit, the Board of Trustees should, no later than the 30<sup>th</sup> of September of the same calendar year, submit to the President recommendations for statutory reforms necessary to achieve a positive 75-year actuarial balance and a positive annual balance in the 75<sup>th</sup> year.
- No later than the 1<sup>st</sup> of December of the same calendar year in which the Board of Trustees submits its recommendations, the President shall promptly submit implementing legislation to both Houses of Congress including recommendations necessary to achieve a positive 75-year actuarial balance and a positive annual balance in the 75<sup>th</sup> year.
- Within 60 days of the President's submitting legislation, the committees of jurisdiction to which the legislation has been referred shall report the bill, which shall be considered by the full House or Senate under expedited procedures.

Again, the aim of this option is to force recognition of the need to save Social Security. This procedure offers a first step in that direction.

## **FUNCTION 700: VETERANS BENEFITS AND SERVICES**

### **Function Summary**

Function 700 includes funding for the Department of Veterans Affairs, which provides benefits to veterans who meet various eligibility rules. Benefit programs include veterans' medical care, disability compensation and pensions, education and rehabilitation benefits, and housing programs. Function 700 also includes other government agencies and programs that serve veterans, such as the Department of Labor's Veterans' Employment and Training Service, the United States Court of Appeals for Veterans Claims, and the American Battle Monuments Commission.

The past two decades have seen extraordinary growth in funding for benefits and services for the nation's 22 million veterans. Over the past decade, veterans discretionary spending (mostly health care) has increased 80 percent, while mandatory costs have increased 119 percent, mostly attributable to increasing disability compensation and the expansion of benefits.

### **Summary of Resolution**

The resolution calls for \$153.0 billion in budget authority and \$153.0 billion in outlays in fiscal year 2015. Discretionary spending is \$65.5 billion in budget authority and \$65.5 billion in outlays in fiscal year 2015. This is an increase of 3 percent from last year's discretionary level. Mandatory spending in 2015 is \$87.6 billion in budget authority and \$87.5 billion in outlays. The ten-year totals for budget authority and outlays are \$1.8 trillion and \$1.8 trillion, respectively.

This resolution also accommodates up to \$58.662 billion for fiscal year 2016 in advance appropriations for medical care, consistent with the Veterans Health Care Budget and Reform Transparency Act of 2009.

This budget does not assume any savings in Function 700 and fully funds the nation's commitment to the services and benefits earned by veterans through their selfless military service. This budget matches the President's discretionary request for fiscal year 2015, in addition to matching the President's fiscal year 2016 request for advance appropriations for veteran medical care. It also fully funds the mandatory benefits provided for under current law according to CBO's estimates. As of the writing of this concurrent resolution, CBO has yet to revise its current-law baseline, and the resolution provides the authority for the chairman of the Committee on the Budget to adjust the mandatory funding levels in this budget to reflect CBO's updated baseline. Veterans are, and will remain, the highest priority within this budget.

However, the committee is concerned with the VA's progress in eliminating the disability-claims backlog and ending veteran homelessness. While funding for the Veterans Benefits Administration and homelessness initiatives has significantly increased in recent years to achieve these goals by 2015, success remains elusive. The committee will continue to closely monitor VA's progress to ensure resources provided by Congress are sufficient and efficiently used to achieve these top priorities as soon as possible.

## FUNCTION 750: ADMINISTRATION OF JUSTICE

### Function Summary

The Administration of Justice function consists of federal law-enforcement programs, litigation and judicial activities, correctional operations, and state- and local-justice assistance. It includes most of the Department of Justice and several components of the Department of Homeland Security.

Activities funded within this function include the Federal Bureau of Investigation; the Drug Enforcement Administration; border security; the Bureau of Alcohol, Tobacco, Firearms and Explosives; the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

### Summary of Resolution

The resolution calls for \$54 billion in budget authority and \$54.3 billion in outlays in fiscal year 2015. Discretionary spending is \$52.1 billion in budget authority and \$52.8 billion in outlays in fiscal year 2015. Mandatory spending in 2015 is \$1.9 billion in budget authority and \$1.4 billion in outlays. The ten-year totals for budget authority and outlays are \$619.9 billion and \$619.3 billion, respectively.

According to the Government Accountability Office [GAO], from fiscal year 2005 to 2011, over \$30 billion was disbursed to more than 200 DOJ programs authorized through three sources: Community Oriented Policing Services, the Office of Justice Programs, and the Office on Violence Against Women.<sup>58</sup> The GAO has determined that many of these grants were awarded without consideration of overlap or duplication with other DOJ grant programs, leading to significant waste.

With the risk of terrorism as well as a tidal wave of debt, federal taxpayer money for the Departments of Justice and Homeland Security should be focused on administering justice, arresting and prosecuting terrorists, investigating crimes, and seeking punishment for those guilty of unlawful behavior. Local law enforcement is the responsibility of the states and communities, and they should determine the best course of action in deterring crime. This budget focuses on funding core government responsibilities and reducing duplication, excess, and unnecessary spending.

### Illustrative Policy Options

As elsewhere, the committees of jurisdiction will make final policy determinations. The proposals below indicate policy options that might be considered.

#### DISCRETIONARY SPENDING

*Consolidate Justice Grants.* In 2010, DOJ awarded nearly \$3.9 billion in grants, including \$4.0 billion provided in the 2009 stimulus bill. The Congressional Research Service and GAO have identified overlap and duplication within many of these grant programs, and it is clear that they address law-enforcement

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58 Government Accountability Office, "2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue," Feb. 2012.

issues that are primarily state and local responsibilities. This option streamlines grants into three categories—first responder, law enforcement, and victims—while eliminating waste, inefficiency, and bureaucracy.

*Eliminate Unnecessary Headquarters Funding for DHS, DOJ, and Judiciary.* Underperforming IT projects, representational fees for receptions, and new construction funds should be reduced in agency headquarters' management and operations programs. The budget recommends additional scrutiny of cost overruns of DHS's St. Elizabeth's project, the largest federal building project in D.C. since the Pentagon.

#### MANDATORY SPENDING

*Extend Customs User Fees.* Continuing the policy of the Bipartisan Budget Act of 2013, the budget assumes that the Bureau of Customs and Border Protection continues to collect customs user fees through 2024. With the passage of the BBA, authority to collect these fees expires in 2023.

## **FUNCTION 800: GENERAL GOVERNMENT**

### **Function Summary**

General government consists of the activities of the legislative branch; the Executive Office of the President; general tax administration and fiscal operations of the Department of the Treasury (including the Internal Revenue Service); the Office of Personnel Management; the real-property and personnel costs of the General Services Administration; general-purpose fiscal assistance to states, localities, the District of Columbia, and U.S. territories; and other general government activities.

Several programs in general government have seen steady growth since 2008. The stimulus act increased the General Services Administration's budget by \$5.8 billion, for example.

### **Summary of Resolution**

The resolution calls for \$23.7 billion in budget authority and \$23.6 billion in outlays in fiscal year 2015. Of that total, discretionary spending in fiscal year 2015 totals \$17.3 billion in budget authority and \$16.8 billion in outlays. Mandatory spending in 2015 is \$6.4 billion in budget authority and \$6.8 billion in outlays. The ten-year totals for budget authority and outlays are \$247.3 billion and \$244.3 billion, respectively.

### **Illustrative Policy Options**

The resolution aims to eliminate identified waste across all federal-government branches and agencies. Federal pay, benefits, and mismanagement of properties are just a few areas where savings should be achieved. Although the committees of jurisdiction will determine the actual policies in pursuit of these goals, the options below offer several potential approaches.

#### **MANDATORY SPENDING**

*Adopt "YouCut" Proposals.* The budget incorporates several of the House Republican "YouCut" proposals introduced during the 111<sup>th</sup> and 112<sup>th</sup> Congresses. One example in Function 800 is the elimination of the Presidential Election Campaign Fund. The budget reflects the changes to the Presidential Election Campaign Fund due to the passage of the Gabriella Miller Kids First Research Act.

#### **DISCRETIONARY SPENDING**

*Decrease Costs of the Government Printing Office by Increasing the Use of Electronic Copies.* The GPO prints thousands upon thousands of pages of government documents each year. However, the online presence of this material has become ubiquitous. This resolution supports policy that guides the GPO to print materials on a more selective basis, allowing users to rely more heavily on increased electronic access to materials.

*Terminate the Election Assistance Commission.* This independent agency was created in 2002 as part of the Help America Vote Act to provide grants to states to modernize voting equipment. Its mission has been fulfilled. The National Association of Secretaries of State, the association of state officials

responsible for administering elections, has passed resolutions stating that the EAC has served its purpose, and funding is no longer necessary. The EAC should be eliminated and any valuable, residual functions transferred to the Federal Election Commission.

*Accompany Pro-Growth Tax Reform with Responsible Reductions to the Internal Revenue Service.* The IRS has over 85,500 employees and spends more than \$12 billion annually. The Internal Revenue Code now contains approximately 4 million words, and each year taxpayers and businesses spend over 6 billion hours complying with filing requirements.<sup>59</sup> The President's budget makes the tax code more complex and proposes to increase the IRS budget by approximately \$1.2 billion. This resolution calls for simplifying the burdensome tax code through tax reform, naturally reducing the agency's size by promoting policies that lead to less reliance on the IRS. As outlined in a 2012 GAO report, simplifying our increasingly complex tax code may reduce accidental errors in tax filing and improve voluntarily compliance.<sup>60</sup> A simplified tax code would have the dual benefits of reducing both the time taxpayers devote to complying with an overly complex code and the taxpayer dollars needed to administer and enforce it.

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59 "2013 Annual Report to Congress," National Taxpayer Advocate, 31 Dec. 2013.

60 "Opportunities to Improve the Taxpayer Experience and Voluntary Compliance," GAO, 26 April 2012.



## **FUNCTION 900: NET INTEREST**

### **Function Summary**

An adverse effect of chronic budget deficits is the high interest cost it produces. Interest payments result in no government services or benefits; they are simply excess costs resulting from a history of spending beyond the government's means. These costs are reflected in Function 900, which presents the interest paid for the federal government's borrowing less the interest received by the federal government from trust-fund investments and loans to the public. It is a mandatory payment, with no discretionary components.

According to CBO, if we do nothing, net interest payments are projected to nearly quadruple from \$233 billion in 2014 to \$880 billion by 2024. At this alarming growth rate, net interest spending is projected to exceed the entire amount spent on national defense by 2020. Reducing interest costs will require sustained spending restraint. This budget resolution provides such restraint, and it reduces net interest by \$893 billion over ten years compared with the CBO baseline.

### **Summary of Resolution**

The resolution calls for \$267.3 billion in mandatory budget authority and outlays in fiscal year 2015. The ten-year totals for budget authority and outlays are \$4.9 trillion.

On-budget mandatory budget authority and outlays are \$366.0 billion in fiscal year 2015 and \$6.0 trillion over ten years. The on-budget figures are larger than the function totals because the former are offset by off-budget interest payments from the general fund to the Social Security Trust Fund, which are reflected as off-budget collections (negative numbers).

These off-budget mandatory collections (negative budget authority and outlays) amount to \$98.7 billion in fiscal year 2015, and -\$1.1 trillion over ten years.

## FUNCTION 920: ALLOWANCES

### Function Summary

Function 920 is a category called “allowances” that represents a place-holder for any budgetary impacts that the Congressional Budget Office has yet to assign to a specific budget function. CBO typically reassigns the budgetary effects of any legislation enacted within Function 920 once a new baseline update is released.

### Summary of Resolution

In August 2011, the President and Congress enacted the Budget Control Act of 2011 (P.L. 112-25) that provided for significant spending reductions enforced by statutory spending caps and an automatic enforcement procedure. The BCA did not specify a distribution of spending reductions in specific budget functions other than for defense (Function 050) and Medicare (Function 570), even though the law does require reductions in non-defense and non-Medicare areas of the budget. At the time that the February 2014 baseline was released, CBO did not provide forward-looking, function-level information on what non-defense and non-Medicare reductions are under the terms of the BCA. CBO has, instead, assigned the non-defense and non-Medicare reductions required by the BCA to Function 920.

This budget resolution makes no changes in this function, leaving it instead at the CBO baseline levels.

The CBO baseline for Function 920 includes a total of \$575 billion and \$521 billion in reductions for budget authority and outlays, respectively, to reflect the impact of the BCA on non-defense and non-Medicare spending. The following two components are included in the baseline:

1. A \$534 billion and \$480 billion reduction in non-defense budget authority and outlays, respectively, needed to comply with the discretionary spending caps set by section 101 of the BCA.
2. A \$41 billion reduction in both budget authority and outlays to non-Medicare and non-defense mandatory programs necessary to comply with the automatic-enforcement procedure (i.e. sequester) mandated by the BCA.

## **FUNCTION 930: GOVERNMENT-WIDE SAVINGS**

### **Summary of Resolution**

Function 930 includes various policies that produce government-wide budget effects in multiple functions rather than in a single, specific budget function. The resolution calls for spending \$25.9 billion and \$20.1 billion in budget authority and outlays, respectively, in fiscal year 2015. The ten-year totals for budget authority and outlay savings are -\$501.8 billion and -\$396.0 billion, respectively.

### **Illustrative Policy Options**

#### DISCRETIONARY SPENDING

*Abiding by the Bipartisan Budget Act of 2013.* The total base discretionary budget authority for fiscal year 2015 assumed in the resolution is \$1,013.6 billion—the same level set by the Bipartisan Budget Act of 2013 (BBA). The resolution offers approximately \$26 billion in fiscal year 2015 non-defense discretionary savings in several budget functions should Congress choose to enact additional deficit reduction next year. Because these additional savings would cause the resolution to display a lower total base discretionary level than contemplated by the BBA, \$26 billion in non-defense discretionary spending is added back to Function 930 in order to make the total budget-resolution base discretionary level match the amount specified in the BBA.

*Federal-Employee Attrition.* The budget includes discretionary savings by assuming a reduction in the federal civilian workforce through attrition, whereby the administration would be permitted to hire one employee for every three who leave government service. National-security positions would be subject to exemption.

*Elimination of Student-Loan Repayment for Government Employees.* The budget assumes discretionary savings by eliminating the repayment by the government of student loans for federal employees.

*Reform Civil Service Pensions.* The policy described in the Income Security chapter of this report would increase the share of federal retirement benefits funded by the employee. This policy has the effect of reducing the personnel costs for the employing agency. The budget assumes savings from a reduction in agency appropriations associated with the reduction in payments that agencies make into the Civil Service Retirement and Disability Fund for federal-employee retirement.

#### MANDATORY SPENDING

*Program Integrity.* This budget assumes program integrity savings by assuming that Continuing Disability Reviews (CDRs) and Supplemental Security Income Redeterminations are fully funded and that additional steps are taken to reduce improper payments in the Medicare, Medicaid, and Unemployment Insurance programs. By ensuring that all benefits are targeted towards the appropriate households, this budget will reduce fraud and improper payments in these programs. This could save up to \$27 billion over ten years.

## FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

### Function Summary

This function consists of offsetting receipts to the Treasury, which are recorded as negative budget authority and outlays. Receipts recorded in this function are either intra-budgetary (a payment from one federal agency to another, such as agency payments to the retirement trust funds) or proprietary (a payment from the public for some kind of business transaction with the government). The main types of receipts recorded in this function are the payments federal employees and agencies make to employee retirement trust funds; payments made by companies for the right to explore and produce oil and gas on the Outer Continental Shelf; and payments by those who bid for the right to buy or use public property or resources, such as the electromagnetic spectrum. The function also contains an off-budget component that reflects the federal government's share of Social Security contributions for federal employees.

### Summary of Resolution

All transactions within Function 950 are recorded as mandatory. The resolution calls for -\$95.6 billion in budget authority and outlays in fiscal year 2015 (with the minus sign indicating receipts into the Treasury). Over ten years, budget authority and outlays total -\$1.1 trillion.

On-budget amounts are -\$78.6 billion in budget authority and outlays in fiscal year 2015, and -\$935.3 billion in budget authority and outlays over ten years.

Off-budget amounts are -\$17.0 billion in budget authority and outlays in fiscal year 2015, and -\$201.4 billion in budget authority and outlays over ten years.

### Illustrative Policy Options

*Federal Fleet Sales.* The President's Fiscal Commission recommended several ways to achieve savings. This resolution adopts many of their proposals, such as reducing the federal auto fleet by 20 percent, excluding the Department of Defense and the U.S. Postal Service. In 2010, the federal government reported a worldwide inventory of more than 662,000 vehicles and spent \$4.6 billion on its fleet. In addition, the 2009 stimulus bill provided \$300 million to "green the Federal fleet" by purchasing 17,205 vehicles.

This resolution builds on the Fiscal Commission's recommendation by proposing to sell a portion of the federal fleet to reduce the deficit and to get rid of unneeded vehicles, saving hundreds of millions of dollars.

*Federal Real-Property Sales.* The Fiscal Commission highlighted potential budget savings from another area where the mismanagement of taxpayer-owned assets and sheer amount of waste are staggering: federal real estate and other property. The federal real-property inventory is so massive that the report accounting for it lags two years behind the current budget year. Complex procedural requirements, lack of organization, and delayed data reporting provide agencies very little incentive to dispose of unneeded properties and very few repercussions for holding onto these properties indefinitely. According to the most recent Federal Real Property Report, from fiscal year 2012,

the federal government owns or leases over 360,000 buildings and 485,000 structures. Of the buildings in the federal government's portfolio, non-defense buildings accounted for at least 148,000 of the total.

The government's track record for real-estate asset sales has been poor. The fiscal year 2012 report shows that of the 23,663 assets the federal government disposed of in that year, 6,066, or 25.6 percent, were disposed of via demolition. Only 515, or 2.2 percent, were disposed of through a sale. Many assets were simply given away at below-market value or even for free.

The Committee urges the Office of Management and Budget to pursue streamlining the asset-sale process; loosening regulations for the disposal and sale of federal property to eliminate red tape and waste; setting enforceable targets for asset sales; and holding government agencies accountable for the buildings they oversee. If done correctly, taxpayers can recoup billions of dollars from selling unused government property.

*Federal Land.* Currently, the federal government owns nearly 650 million acres of land—almost 30 percent of the land area of the United States. In addition to federal-fleet and real-property sales, this resolution supports examining federal land to see where cost savings can be achieved by selling unneeded acreage in the open market—excluding National Parks, wilderness areas, wildlife refuges, and wild and scenic rivers.

## FUNCTION 970: OVERSEAS CONTINGENCY OPERATIONS/GLOBAL WAR ON TERRORISM

### Function Summary

This function includes funding for the prosecution of Overseas Contingency Operations/Global War on Terrorism and other closely related activities.

### Summary of Resolution

This resolution calls for \$85.4 billion in budget authority and \$52.6 billion in new outlays in fiscal year 2015. These amounts are the same as the President's request. This function accommodates all of the funding requested by the Department of State for the incremental, non-enduring civilian activities in Afghanistan, Pakistan, and Iraq. However, because troop levels beyond the end of 2014 are undecided, this budget includes the same \$79.4 billion placeholder for the Department of Defense as the President's budget. The fact that this function includes a temporary placeholder is not an invitation for the funding budgeted in this function to be used as a reserve fund for other activities not related to the war.

The budget resolution includes authority for the chairman of the Budget Committee to adjust the relevant levels and allocations for war-related spending to account for a future budget request from the President consistent with the decisions that are ultimately made on troop levels. In making any adjustments, the Budget Committee will be vigilant that the OCO/GWOT cap adjustment is not abused as a means of evading the statutory caps on discretionary spending.

*Defense Activities.* The United States and the Government of Afghanistan have negotiated a Bilateral Security Agreement, which is currently awaiting approval by the Afghan government. The outgoing president of Afghanistan has refused to sign the agreement, leaving the ultimate disposition of the agreement to be determined by the next president, who will be elected in April. Until the agreement is concluded, the U.S. Government has been unable to determine what the troop level will be after 2014 and therefore what funding will be needed.

*Civilian Activities* This budget fully funds the \$5.9 billion request for the activities of civilian agencies—primarily the State Department and the U.S. Agency for International Development—as part of the integrated civil-military strategy for securing American objectives in the frontline states.

However, the Committee notes concern regarding past, present, and future use of OCO/GWOT funds for civilian efforts:

- In past legislation, including the Consolidated Appropriations Act of 2014, OCO/GWOT has been used to fund accounts that the Committee does not view as critical to efforts related to the global war on terrorism, for example Education and Cultural Exchange Programs. Funding for these programs should be provided within their respective base budgets.
- Wasteful spending of war funding, especially for Afghanistan reconstruction efforts, is unacceptable. The Special Inspector General for Afghanistan Reconstruction has highlighted several recent examples, including multi-million-dollar infrastructure projects that have never been used, nor will be used for the intended purpose, if at all. The Committee will continue to closely monitor the use of OCO/GWOT funds to ensure taxpayer dollars are spent effectively and efficiently in achieving our

strategic goals overseas. Continued reports of waste, fraud, and/or abuse will be taken into consideration as OCO/GWOT funding levels are determined going forward.

- The administration's decision to expand the scope of programs eligible for OCO/GWOT funding to include not only the frontline states of Iraq, Afghanistan, and Pakistan, but also Syria, Africa, and other areas of conflict, could lead to potential abuse of the OCO/GWOT designation. OCO/GWOT was originally intended to fund only extraordinary, and thus temporary, costs of U.S. operations in Iraq, Afghanistan, and Pakistan. While this budget fully supports U.S. missions in other conflict areas, it does not recommend expanding OCO's purpose and believes such missions should be funded in the relevant base budget accounts in Function 150.





# Pro-Growth Tax Reform

## Pro-Growth Tax Reform

A world-class tax system should be simple, fair, and promote (rather than impede) economic growth. The U.S. tax code fails on all three counts—it is notoriously complex, patently unfair, and highly inefficient. The tax code’s complexity distorts decisions to work, save, and invest, which leads to slower economic growth, lower wages, and less job creation. This budget proposes to solve this problem by calling for a reformed tax code that is simpler, fairer, and pro-growth.

### *Challenge*

The current tax code is needlessly complex. It is estimated that individuals, families, and employers spend over 6 billion hours and over \$160 billion a year trying to negotiate a labyrinth of special rules, deductions and tax schedules. Over the past decade alone, there have been more than 4,400 changes to the tax code, more than one per day. Many of the major changes over the years have involved carving out special preferences, exclusions, or deductions for various activities or groups. These loopholes add up to more than \$1 trillion per year. To put that figure in perspective, that is nearly the same amount that we *collected* in individual income taxes last year. Many of the deductions and preferences in the system are mainly used by a relatively small class of mostly higher-income individuals.

The large amount of tax preferences that pervade the code ends up narrowing the tax base. A narrow tax base requires much higher tax rates to raise a given amount of revenue. Standard economic theory shows that high marginal tax rates dampen the incentives to work, save, and invest, which reduces economic output and job creation. Lower economic output, in turn, mutes the intended revenue gain from higher marginal tax rates.

The top tax rate has actually risen and fallen dramatically throughout U.S. history, with little effect on tax revenue as a share of the economy. For instance, the top U.S. tax rate has been as high as 90 percent and as low as 28 percent, but income-tax revenue has remained fairly steady despite these sharp rate swings. It turns out that the biggest driver of revenue to the federal government isn’t higher tax rates, but economic growth. And the lion’s share of economists point out that a tax system with a broad tax base and low rates are keys to fostering economic growth and competitiveness.

One important hallmark of the U.S. economy is the importance of smaller, unincorporated businesses. Roughly half of U.S. active business income and half of private-sector employment are derived from business entities (such as partnerships, S corporations, and sole proprietorships) that are taxed on a “pass-through” basis, meaning the income flows through to the tax returns of the individual owners and is taxed at the individual-rate structure rather than at the corporate rate. Small businesses, in particular, tend to choose this form for federal tax purposes, and the top federal rate on such small-business income reaches 44.6 percent. For these reasons, sound economic policy requires lowering marginal rates on these pass-through entities.

The U.S. corporate income tax rate (including federal, state, and local taxes) sums to just over 39 percent, the highest rate in the industrialized world. This tax discourages investment and job creation, distorts business activity, and puts American businesses at a competitive disadvantage against foreign competitors. Yet the tax itself raises relatively little revenue—only 10 percent of the total federal revenue

take comes from taxing corporate income. Any tax that raises little revenue and creates a lot of economic distortions is particularly ripe for reform.

Elevated corporate tax rates hinder American competitiveness by making the U.S. a less desirable destination for investment and jobs. Business location and investment decisions are becoming ever more sensitive to country tax rates as global integration increases. Foreign investment is important to an economy because it is a key source of funding to finance innovation and jobs. To enhance their competitiveness, many countries have been lowering business taxes. But the U.S. risks falling behind as it maintains its high tax rate while other countries lower theirs. By deterring potential investment, the U.S. corporate tax restrains economic growth and job creation. The U.S. tax rate differential with other countries also fosters a variety of complicated multinational corporate behaviors intended to avoid the tax, which have the effect of moving the tax base offshore, destroying American jobs, and decreasing corporate revenue.

The structure of U.S. international taxation is also out of sync with the international standard used by the majority of other countries, putting U.S. businesses operating abroad at a competitive disadvantage. Most countries operate under a so-called “territorial” system of international taxation, whereby their businesses operating abroad are only subject to the tax of the country where they do business. The U.S. has an antiquated “worldwide” system of international taxation, whereby U.S. multinationals operating abroad pay both the foreign-country tax and U.S. corporate taxes when profits are repatriated. They are essentially taxed twice. This puts them at an obvious competitive disadvantage. Reforming the U.S. tax code to a more competitive international system would boost the competitiveness of U.S. companies operating abroad, and it would also greatly reduce tax avoidance.

#### *Solution: Pro-Growth Tax Reform*

Given the many problems with the current system, Congress should enact legislation that provides for a comprehensive reform of the U.S. tax code to promote economic growth, create American jobs, and increase wages. This can be achieved through revenue-neutral fundamental tax reform that –

- Simplifies the tax code to make it fairer to American families and businesses and reduces the amount of time and resources necessary to comply with tax laws;
- Substantially lowers tax rates for individuals, with a goal of achieving a top individual rate of 25 percent and consolidating the current seven individual income-tax brackets into two brackets with a first bracket of 10 percent;
- Repeals the Alternative Minimum Tax;
- Reduces the corporate tax rate to 25 percent; and
- Transitions the tax code to a more competitive system of international taxation.

Economists have shown that lowering overall rates and broadening the tax base will promote economic growth and support job creation by the private sector.

This resolution calls on comprehensive tax reform and lays out some principles, but it does not embrace any particular plan. There are many good ideas on that front—growth-oriented tax plans that could strengthen the economy and support the nation’s funding priorities.

Ways and Means Committee Chairman David Camp has proposed a comprehensive, revenue-neutral tax reform plan that would lower individual and corporate tax rates and remove a number of distortions in the code. The Joint Committee on Taxation has analyzed this plan and determined that it would increase real GDP by between 0.1 percent and 1.6 percent depending on the economic model used.

Congressman Burgess has also introduced a plan to dramatically simplify the tax code by offering individuals and businesses the option to pay a single flat tax on their income instead of navigating the maze of existing tax provisions. His plan would also repeal estate and gift taxes.

In addition, Congressman Woodall has submitted a fundamental tax-reform plan for consideration by the Ways and Means Committee that would eliminate taxes on wages, corporations, self-employment, capital gains, and gift and death taxes in favor of a personal-consumption tax that would provide the economic certainty that American businesses, entrepreneurs, and taxpayers desire.

Congress should consider these and the full myriad of pro-growth plans as it moves toward implementing the tax reform called for under this budget.

# Long-Term Budget Outlook

## Long-Term Budget Outlook

The growing probability of a debt crisis is the most urgent challenge we face today. And the source of the crisis is the drift, under both parties, to expand the size of government. To avert a future debt crisis, we need to stop this encroachment and to revive community in American civil society.

This budget turns the tide. It makes \$5.1 trillion in spending reductions over the next ten years. This budget reforms government spending programs responsibly. It protects key priorities while eliminating waste. And it avoids sudden and arbitrary cuts to current services, such as those the country would experience in a debt crisis.

These reductions are hardly draconian. Over the years, Congress has put two-thirds of the budget on auto-pilot, and spending in those areas grows each year. The Congressional Budget Office has said the current laws and policies cannot be sustained. However, any effort to restrain the growth in this spending is cast as “cut.”

Under current policy, the federal government will spend \$47.8 trillion over the next ten years. Under this proposal, it will spend roughly \$42.6 trillion. And this budget does not make sudden cuts. Instead, it increases spending at a more manageable rate. For instance, on the current path, spending will rise by an annual average of 5.2 percent. Under this budget, it will rise by only 3.5 percent.

Washington cannot keep spending money it does not have. So this budget achieves balance in 2024 by bringing spending down below 19 percent of GDP by 2024. In the country’s entire history, Congress has never balanced the budget when spending was higher than 18.7 percent of GDP.

To achieve this outcome, it puts in place fundamental reforms to protect and strengthen Medicare by gradually transitioning the program to a premium-support system. Along with Medicaid and other spending reforms, these changes are critical to putting the nation on sound financial footing going forward.

According to analysis by CBO, the spending path assumed in this budget will result in a balanced budget in ten years and a growing surplus that will lead to a sharp reduction in the national debt. CBO says a small budget surplus of 0.1 percent of GDP in 2025 will eventually grow to 1.8 percent of GDP by 2040. At the same time, debt held by the public will decline from over 73 percent of GDP today to 54 percent of GDP in 2025 to just 18 percent of GDP by 2040—a glide path to fully paying off the national debt.

Over the long term, the budget assumes revenue follows CBO’s extended baseline and is allowed to grow from 18.4 percent of GDP in 2024 to 19 percent of GDP by 2035 and then remain at that share of the economy through 2040.

The United States has dealt with financial problems in the past. In 1997, a Democratic president and a Republican Congress passed the Balanced Budget Act of 1997, which inaugurated four years of balanced budgets. This budget follows that model. It incorporates ideas from both parties to address the most pressing issue of the day: our national debt.

# Appendix I: Summary Tables





## FY2015 House Budget (Nominal Dollars in Billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
<b>House Budget</b>											
Outlays	3,664	3,676	3,787	3,927	4,134	4,334	4,516	4,733	4,865	4,995	42,632
Revenue	3,305	3,481	3,631	3,770	3,932	4,104	4,288	4,490	4,702	4,926	40,630
Macroeconomic Fiscal Impact	+21	+31	+24	-9	-4	-25	-36	-44	-59	-74	-175
Deficit(+)/Surplus(-)	+380	+227	+180	+147	+198	+206	+191	+199	+104	-5	
Debt Held by Public	13,213	13,419	13,800	13,860	14,080	14,427	14,579	14,940	15,080	15,176	
<b>As a Share of GDP</b>											
Outlays	20.2%	19.5%	18.9%	18.7%	18.8%	18.9%	18.9%	19.0%	18.7%	18.4%	19.0%
Revenue	18.3%	18.4%	18.2%	18.0%	17.9%	17.9%	17.9%	18.0%	18.1%	18.2%	18.1%
Macroeconomic Fiscal Impact	0.1%	0.2%	0.1%	0.0%	0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.3%	-0.1%
Deficit(+)/Surplus(-)	+2.1%	+1.2%	+0.9%	+0.7%	+0.9%	+0.9%	+0.8%	+0.8%	+0.4%	-0.0%	
Debt Held by Public	73.0%	71.0%	69.0%	66.0%	64.0%	63.0%	61.0%	60.0%	58.0%	56.0%	

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**FY2015 House Budget vs. Current Policy**

(Nominal Dollars in Billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Outlays	-127	-305	-368	-431	-476	-525	-598	-677	-758	-870	-5,135
Revenue	0	0	0	0	0	0	0	0	0	0	0
Macroeconomic Fiscal Impact	+21	+31	+24	-9	-4	-25	-36	-44	-59	-74	-175
Deficit	-105	-274	-344	-440	-481	-549	-634	-721	-818	-944	-5,310
Debt Held by Public	-57	-411	-619	-1,202	-1,719	-2,188	-2,924	-3,554	-4,403	-5,317	

S-3	FY2015 House Budget by Major Category (Outlays in Billions)										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Social Security	886	933	989	1,050	1,116	1,188	1,263	1,341	1,422	1,506	11,694
Medicare (Net)	513	552	563	583	644	684	729	807	827	855	6,757
Medicaid & Other Health	357	311	316	317	329	343	355	367	381	403	3,480
President's Health-Care Law	0	0	0	0	0	0	0	0	0	0	0
Other Mandatory	454	434	422	407	406	422	425	439	420	384	4,215
Discretionary (Base)	1,133	1,091	1,082	1,088	1,105	1,122	1,137	1,159	1,173	1,186	11,276
Global War on Terrorism	53	38	33	31	31	30	30	11	4	2	262
Net Interest	267	317	382	450	502	547	579	609	637	659	4,949
<b>Total Outlays</b>	<b>3,664</b>	<b>3,676</b>	<b>3,787</b>	<b>3,927</b>	<b>4,134</b>	<b>4,334</b>	<b>4,516</b>	<b>4,733</b>	<b>4,865</b>	<b>4,995</b>	<b>42,632</b>

FY2015 House Budget vs. Current Policy by Major Category											
(Outlays in Billions)											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Social Security	0	0	0	0	0	0	0	0	0	0	0
Medicare (Net)	0	-3	-3	-7	-9	-13	-15	-19	-21	-38	-129
Medicaid & Other Health	0	-31	-47	-62	-71	-80	-93	-106	-118	-124	-732
President's Health-Care Law	-76	-156	-187	-198	-209	-222	-236	-248	-263	-272	-2,066
Other Mandatory	-37	-82	-86	-97	-93	-88	-99	-110	-121	-154	-966
Discretionary (Base)	-13	-26	-24	-28	-36	-45	-55	-66	-77	-89	-460
Global War on Terrorism	0	0	0	0	0	0	0	0	0	0	0
Net Interest	-1	-8	-20	-39	-58	-77	-101	-128	-158	-192	-783
<b>Total Outlays</b>	<b>-127</b>	<b>-305</b>	<b>-368</b>	<b>-431</b>	<b>-476</b>	<b>-525</b>	<b>-598</b>	<b>-677</b>	<b>-758</b>	<b>-870</b>	<b>-5,135</b>

**S-5 FY2015 House Budget Base Discretionary Budget Authority vs. Budget Control Act Caps**  
(Nominal Dollars in Billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Total in Budget Resolution	1,014	1,016	1,033	1,051	1,069	1,087	1,105	1,124	1,143	1,163	10,805
Defense	521	566	590	603	616	630	644	661	678	696	6,204
Non-Defense	492	450	443	448	453	457	461	463	465	467	4,600
Global War on Terrorism	85	30	30	30	30	30	30	0	0	0	265
Total in Budget Control Act Caps <sup>1</sup>	1,014	1,016	1,040	1,065	1,092	1,119	1,146	1,176	1,206	1,238	11,112
Defense	521	523	536	549	562	576	590	605	621	637	5,722
Non-Defense	492	493	504	516	530	543	556	570	585	600	5,391
Total Difference	0	0	-7	-14	-23	-33	-41	-52	-63	-75	-308
Defense	0	+43	+54	+54	+54	+54	+54	+55	+57	+58	+483
Non-Defense	0	-43	-61	-68	-77	-87	-95	-107	-120	-133	-791

<sup>1</sup>Budget Control Act spending caps are valid for fiscal years 2015-2021. For fiscal years 2022-2024, the data reflects CBO's baseline estimate for base discretionary budget authority.

## S-6 Long-Term Analysis of the FY2015 House Budget with Economic Feedback (Percentage of Gross Domestic Product)

	2025	2030	2035	2040
Revenues	18.4	18.8	19.0	19.0
Spending Excluding Interest Payments	16.0	16.4	16.4	16.3
Surplus Excluding Interest Payments	2.5	2.4	2.6	2.7
Total Surplus	0.1	0.3	1.1	1.8
Federal Debt Held by the Public	54	43	31	18

## S-7

## Cross-Walk from CBO February 2014 Baseline to Current Policy

(Figures in Billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
<b>CBO February Baseline Deficit(+)/Surplus(-)</b>	478	539	581	655	752	836	912	1,031	1,047	1,074	7,904
Revenue Changes (none)	0	0	0	0	0	0	0	0	0	0	0
Outlay Effect of Spending Adjustments	7	-38	-55	-62	-66	-70	-72	-93	-102	-106	-656
Debt Service	0	-1	-2	-5	-8	-11	-14	-18	-23	-29	-110
<b>Total Current Policy Deficit (+)/Surplus (-)</b>	485	501	524	587	679	755	826	920	922	939	7,137
<b>CBO February Baseline Outlays</b>	3,783	4,020	4,212	4,425	4,684	4,939	5,200	5,522	5,749	6,000	48,534
Global War on Terrorism Policy	7	-38	-55	-62	-66	-70	-72	-93	-102	-106	-656
Debt Service	0	-1	-2	-5	-8	-11	-14	-18	-23	-29	-110
<b>Total Current Policy Outlays</b>	3,790	3,982	4,155	4,358	4,611	4,859	5,114	5,410	5,624	5,865	47,767
<b>CBO February Baseline Revenue</b>	3,305	3,481	3,631	3,770	3,932	4,104	4,288	4,490	4,702	4,926	40,630
Revenue Changes (None)	0	0	0	0	0	0	0	0	0	0	0
<b>Total Current Policy Revenue</b>	3,305	3,481	3,631	3,770	3,932	4,104	4,288	4,490	4,702	4,926	40,630
<b>CBO February Baseline Debt Held by Public</b>	13,263	13,861	14,507	15,218	16,028	16,925	17,899	19,001	20,115	21,260	
Current Policy Impact on Debt	7	-31	-88	-156	-229	-309	-396	-507	-632	-767	
<b>Total Current Policy Debt Held by Public</b>	13,270	13,830	14,419	15,062	15,799	16,615	17,503	18,494	19,483	20,493	





# Appendix II: Policy Statements

## Appendix II: Policy Statements

The following is a list of additional policy statements and reserve funds, which can be accessed in full at <http://budget.house.gov/UploadedFiles/fy15billtext.pdf>:

### TITLE III—RESERVE FUNDS

- Sec. 301. Reserve fund for the repeal of the 2010 health care laws.
- Sec. 302. Deficit-neutral reserve fund for the reform of the 2010 health care laws.
- Sec. 303. Deficit-neutral reserve fund related to the Medicare provisions of the 2010 health care laws.
- Sec. 304. Deficit-neutral reserve fund for the sustainable growth rate of the Medicare program.
- Sec. 305. Deficit-neutral reserve fund for reforming the tax code.
- Sec. 306. Deficit-neutral reserve fund for trade agreements.
- Sec. 307. Deficit-neutral reserve fund for revenue measures.
- Sec. 308. Deficit-neutral reserve fund for rural counties and schools.
- Sec. 309. Deficit-neutral reserve fund for transportation.
- Sec. 310. Deficit-neutral reserve fund to reduce poverty and increase opportunity and upward mobility.

### TITLE VI—POLICY STATEMENTS

- Sec. 601. Policy statement on economic growth and job creation.
- Sec. 602. Policy statement on tax reform.
- Sec. 603. Policy statement on replacing the President's health care law.
- Sec. 604. Policy statement on Medicare.
- Sec. 605. Policy statement on Social Security.
- Sec. 606. Policy statement on higher education and workforce development opportunity.
- Sec. 607. Policy statement on deficit reduction through the cancellation of unobligated balances.
- Sec. 608. Policy statement on responsible stewardship of taxpayer dollars.
- Sec. 609. Policy statement on deficit reduction through the reduction of unnecessary and wasteful spending.
- Sec. 610. Policy statement on unauthorized spending.
- Sec. 611. Policy statement on Federal regulatory policy.
- Sec. 612. Policy statement on trade.
- Sec. 613. No budget, no pay.

