



**CHAIRMEN**

BILL FRENZEL  
JIM NUSSLE  
TIM PENNY  
CHARLIE STENHOLM

**PRESIDENT**

MAYA MACGUINEAS

**DIRECTORS**

BARRY ANDERSON  
ERSKINE BOWLES  
CHARLES BOWSHER  
DAN CRIPPEN  
VIC FAZIO  
WILLIS GRADISON  
WILLIAM GRAY, III  
WILLIAM HOAGLAND  
JIM JONES  
LOU KERR  
JIM KOLBE  
JAMES MCINTYRE, JR.  
DAVID MINGE  
MARNE OBERNAUER, JR.  
JUNE O'NEILL  
PAUL O'NEILL  
BOB PACKWOOD  
RUDOLPH PENNER  
PETER PETERSON  
ROBERT REISCHAUER  
ALICE RIVLIN  
CHARLES ROBB  
MARTIN SABO  
ALAN K. SIMPSON  
JOHN SPRATT  
GENE STEUERLE  
DAVID STOCKMAN  
JOHN TANNER  
LAURA TYSON  
GEORGE VOINOVICH  
PAUL VOLCKER  
CAROL COX WAIT  
DAVID M. WALKER  
JOSEPH WRIGHT, JR.

**SENIOR ADVISOR**

ROBERT STRAUSS

**CBO's Analysis of the President's FY 2014 Budget  
May 20, 2013**

On Friday, the Congressional Budget Office (CBO) released its analysis of the President's FY 2014 budget, applying its own assumptions and methodologies in estimating the President's proposed policies. CBO finds the President's proposals taken on the whole would result in modestly declining debt levels throughout the next decade, reaching a low of 70 percent of GDP in 2023.

Among the main findings from the report:

- Debt would peak at 77 percent of GDP under the budget, and fall gradually to 70 percent in 2023.
- Deficits will continue to fall under the budget, reaching a low of 2.0 percent of GDP (\$399 billion) in 2017 and then remaining between 2.0 and 2.5 percent through the end of the decade.
- Revenue in the budget would rise from 17.5 percent of GDP in 2013 to 19.6 percent by 2016 and settle in around that level through 2023.
- Spending in the budget would fall from 22.5 percent of GDP in 2014 to a low of 21.3 percent by 2018 before rising gradually to 21.8 percent by 2023.
- The total deficit reduction estimated by CBO – \$1.1 trillion relative to current law and \$1.7 trillion relative to the CRFB Realistic Baseline – is modestly smaller than OMB estimates. Despite that, debt levels are lower due to more optimistic underlying assumptions.

The CBO analysis confirms that the President's budget would put the debt on a slight downward path relative to the economy. Although it falls somewhat short of our proposed "minimum path," which would assure debt continues to decline under more pessimistic scenarios, it is nonetheless a step in the right direction. In particular, the inclusion of the President's deficit reduction offer to Speaker Boehner in late 2012 as part of (but by no means all of) this year's budget proposal represents an important overture.

Still, more will have to be done to put the debt on a sustainable path this decade and over the long run. This is particularly true of the mandatory spending side of the budget. Both parties should work together on a comprehensive package of tax and spending reforms that truly address our long-term debt situation.

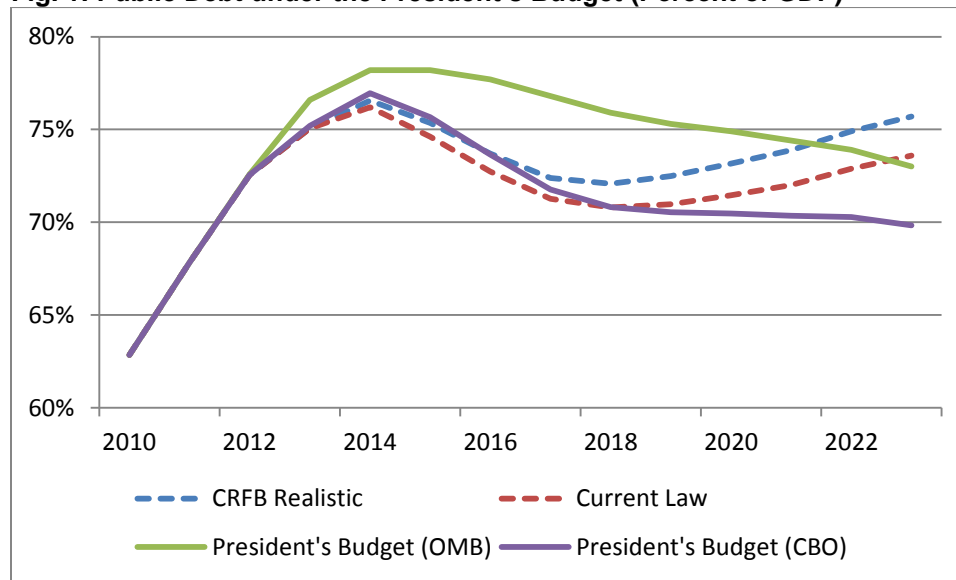


## Budget Projections

CBO estimates that deficits under the President's budget would fall from 4.2 percent of GDP (\$669 billion) in 2013 to 2.0 percent of GDP (\$399 billion) in 2017 before rising modestly to 2.5 percent (\$583 billion) by 2020 and then falling to 2.1 percent of GDP (\$542 billion) in 2023. By comparison, OMB had estimated deficits of 1.7 percent of GDP in 2023 under the President's budget. Both the CBO current law baseline and the CRFB Realistic baseline show higher deficits in 2023 than under the President's budget (though importantly, both baselines project *lower* deficits in 2014 than in the President's budget).

With deficits at or below 2.5 percent of GDP from 2015 onward, CBO expects the economy will begin to grow faster than debt levels. As a result, the debt-to-GDP ratio falls from a high of 77 percent in 2014 down to 70 percent by 2023, much lower than the 73 percent projected by OMB. By contrast, debt would rise to nearly 76 percent of GDP by 2023 under the CRFB Realistic Baseline and to nearly 74 percent under CBO's current law baseline.

**Fig. 1: Public Debt under the President's Budget (Percent of GDP)**



Spending under the President's budget would fall from 22.5 percent of GDP in 2014 to 21.3 percent in 2018 before steadily rising to 21.8 percent by 2023, in part due to demographic and health care pressures. These spending levels would be somewhat above the historical average of about 21 percent of GDP but lower than the 22.6 percent and 22.7 percent in 2023 under current law and CRFB Realistic Baselines, respectively.

Revenue under the President's budget is projected to rise substantially due to the continued economic recovery, new revenue from the Affordable Care Act and American Taxpayer Relief Act (fiscal cliff deal), and the revenue increases within the President's budget. Specifically, revenue would grow from 17.5 percent in 2013 to 19.6 percent by 2016, and remain between 19 to 20 percent of GDP through the rest of the ten-year period. This is well above the historical average of about 18 percent, and somewhat higher than revenue levels under current law and the CRFB Realistic Baseline (about 19 percent of GDP in both cases).



**Fig. 2: Budget Metrics in CBO's Analysis of the President's Budget (Percent of GDP)**

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
<b>REVENUE</b>												
<b>2014 Budget (CBO)</b>	17.5%	18.4%	19.5%	19.6%	19.4%	19.3%	19.2%	19.2%	19.4%	19.6%	19.7%	19.4%
<b>2014 Budget (OMB)</b>	16.7%	17.8%	18.6%	18.8%	18.8%	18.9%	19.2%	19.4%	19.6%	19.8%	20.0%	19.1%
<b>Current Law (CBO)</b>	17.5%	18.3%	19.3%	19.2%	18.9%	18.8%	18.7%	18.7%	18.8%	19.0%	19.1%	18.9%
<b>CRFB Realistic</b>	17.5%	18.3%	19.3%	19.2%	18.9%	18.8%	18.7%	18.7%	18.8%	19.0%	19.1%	18.9%
<b>OUTLAYS</b>												
<b>2014 Budget (CBO)</b>	21.7%	22.5%	22.0%	21.8%	21.4%	21.3%	21.6%	21.8%	21.8%	22.0%	21.8%	21.8%
<b>2014 Budget (OMB)</b>	22.7%	22.2%	21.8%	21.6%	21.3%	21.2%	21.5%	21.6%	21.7%	21.9%	21.7%	21.6%
<b>Current Law (CBO)</b>	21.5%	21.6%	21.4%	21.5%	21.3%	21.4%	21.7%	21.9%	22.1%	22.6%	22.6%	21.9%
<b>CRFB Realistic</b>	21.5%	22.0%	21.8%	21.8%	21.6%	21.6%	22.0%	22.2%	22.3%	22.8%	22.7%	22.1%
<b>DEFICITS</b>												
<b>2014 Budget (CBO)</b>	4.2%	4.1%	2.5%	2.2%	2.0%	2.0%	2.4%	2.5%	2.4%	2.4%	2.1%	2.4%
<b>2014 Budget (OMB)</b>	6.0%	4.4%	3.2%	2.8%	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%	1.7%	2.5%
<b>Current Law (CBO)</b>	4.0%	3.4%	2.1%	2.3%	2.4%	2.6%	3.0%	3.2%	3.3%	3.6%	3.5%	3.0%
<b>CRFB Realistic</b>	4.0%	3.7%	2.5%	2.6%	2.6%	2.8%	3.2%	3.5%	3.5%	3.8%	3.6%	3.2%
<b>DEFICITS (billions)</b>												
<b>2014 Budget (CBO)</b>	\$669	\$675	\$437	\$413	\$399	\$427	\$529	\$583	\$584	\$606	\$542	\$5,195
<b>2014 Budget (OMB)</b>	\$973	\$744	\$576	\$528	\$487	\$475	\$498	\$503	\$501	\$519	\$439	\$5,271
<b>Current Law (CBO)</b>	\$642	\$560	\$378	\$432	\$482	\$542	\$648	\$733	\$782	\$889	\$895	\$6,340
<b>CRFB Realistic</b>	\$642	\$620	\$448	\$484	\$526	\$583	\$711	\$793	\$841	\$939	\$939	\$6,884

Note: CRFB Realistic Baseline not fully updated and will change modestly as new data becomes available.

## Policy Changes

The President's budget is split into two parts: a deficit reduction package, reflecting the top-line numbers in the President's offer to Speaker Boehner last December, and additional policy initiatives representing the President's priorities.

As estimated by OMB, the offer through 2023 includes \$585 billion in tax revenue from higher earners, \$200 billion in discretionary savings, \$400 billion in health care savings, \$200 billion in other mandatory savings (including certain items which in reality represent new revenue), and \$230 billion in savings from switching to the chained CPI. Based on CBO's estimates, the offer includes about \$600 billion in tax revenue from higher earners, \$200 billion in discretionary savings, \$380 billion in health care savings, \$100 billion in other mandatory savings, and \$235 billion in savings from switching to the chained CPI.

On the revenue side, the vast majority of the revenue – \$490 billion – would come from limiting the value of various deductions and exclusions to the 28 percent tax bracket. On the spending side, large savings come from various policies to reduce prescription drug costs (\$160 billion), from increasing Medicare premiums for high earners (\$56 billion), and from reducing farm subsidies (\$35 billion).

On its own, the President's deficit reduction offer includes \$740 billion of primary spending reductions, \$700 billion of revenue increases, and \$240 billion of interest savings – compared to CRFB's Realistic Baseline. However, this offer represents only a part of the budget.



**Fig. 3: Summary of Policy Changes in the President's Budget (Billions)**

	Current Law (CBO Convention)		CRFB Realistic Baseline	
	CBO	OMB	CBO	OMB
<b>Discretionary Savings</b>	<b>\$200</b>	<b>\$200</b>	<b>\$200</b>	<b>\$200</b>
Defense Reductions	\$100	\$100	\$100	\$100
Non-Defense Reductions	\$100	\$100	\$100	\$100
<b>Health Savings</b>	<b>\$240</b>	<b>\$150</b>	<b>\$380</b>	<b>\$400</b>
Drug Rebates and Related Reforms	\$160	\$160	\$160	\$160
Post-Acute Care Provider Reductions	\$55	\$95	\$55	\$95
Other Provider Reductions (including SGR)	-\$100	-\$195	\$40	\$55
Income-Related Premiums	\$55	\$50	\$55	\$50
Cost-Sharing Reforms	\$40	\$15	\$40	\$15
Other Changes	\$30	\$30	\$30	\$30
<b>Other Mandatory Savings</b>	<b>\$100</b>	<b>\$145</b>	<b>\$100</b>	<b>\$145</b>
Agriculture Reductions	\$35	\$40	\$35	\$40
Civilian/Military Health and Retirement Changes	\$25	\$25	\$25	\$25
Other Changes	\$40	\$80	\$40	\$80
<b>Infrastructure Spending</b>	<b>-\$50</b>	<b>-\$50</b>	<b>-\$50</b>	<b>-\$50</b>
<b>Chained CPI w/ Low-Income Protections</b>	<b>\$235</b>	<b>\$230</b>	<b>\$235</b>	<b>\$230</b>
Revenue Impact	\$100	\$100	\$100	\$100
Spending Impact	\$135	\$130	\$135	\$130
<b>Revenue</b>	<b>\$600</b>	<b>\$630</b>	<b>\$600</b>	<b>\$630</b>
Tax Expenditure Limitation for Higher Earners	\$490	\$530	\$490	\$530
"Buffett Rule"	\$70	\$55	\$70	\$55
Program Integrity/Tax Gap	\$40	\$45	\$40	\$45
<b>Net Interest</b>	<b>\$210</b>	<b>\$170</b>	<b>\$240</b>	<b>\$200</b>
<b>Subtotal, Deficit Reduction Package</b>	<b>\$1,535</b>	<b>\$1,475</b>	<b>\$1,705</b>	<b>\$1,755</b>
<b>Other Spending Changes</b>	<b>-\$310</b>	<b>-\$275</b>	<b>-\$180</b>	<b>-\$190</b>
Repeal Sequester	-\$970	-\$1,020	-\$50	\$0
Lower War & Disaster Funds	\$890	\$1,035	\$100	\$100
Spending Proposals & Offsets	-\$255	-\$315	-\$255	-\$315
<b>Other Tax Changes</b>	<b>\$70</b>	<b>\$120</b>	<b>\$210</b>	<b>\$280</b>
Tax Reduction Proposals	-\$220	-\$250	-\$80	-\$90
Tax Increase Proposals	\$290	\$370	\$290	\$370
<b>Net Interest</b>	<b>-\$120</b>	<b>\$10</b>	<b>-\$25</b>	<b>-\$40</b>
<b>Total Deficit Reduction</b>	<b>\$1,145</b>	<b>\$1,305</b>	<b>\$1,690</b>	<b>\$1,780</b>
<b>Addendum:</b>				
<b>Total Effect of Primary Spending Policies</b>	<b>\$280</b>	<b>\$280</b>	<b>\$560</b>	<b>\$610</b>
<b>Total Effect of Tax Policies</b>	<b>\$770</b>	<b>\$845</b>	<b>\$910</b>	<b>\$1,005</b>
<b>Total Interest Savings</b>	<b>\$90</b>	<b>\$180</b>	<b>\$215</b>	<b>\$160</b>

Note: Numbers are rounded and rough. They represent our best estimates of allocated savings given the available information. However, due to treatment differences and availability issues, some numbers may not perfectly reflect CBO's estimated allocation of costs and savings.

The President includes a number of his own initiatives in the budget that are outside the deficit reduction offer. These include several new spending initiatives – including \$75 billion for universal preschool and related primary education spending, nearly \$170 billion for jobs and infrastructure spending, and many other investments and reforms throughout federal agencies.



The budget also incorporates new tax breaks to encourage investment, promote savings, and subsidize child care, as well as a reserve fund for revenue-neutral corporate tax reform.

The budget pays for these initiatives through some spending cuts along with substantial new revenue. On the spending side, many of the reductions come from imposing or increasing user fees and from reducing and reforming higher education spending. Tax increases include a financial crisis responsibility fee, an increase in the cigarette tax, and the re-establishment of 2009 estate tax parameters.

**Fig. 4: Summary of Policy Changes in the President's Budget (Billions)**

	Current Law (CBO Convention)		CRFB Realistic Baseline	
	CBO	OMB	CBO	OMB
<b>Spending Measures</b>	<b>\$310</b>	<b>\$375</b>	<b>-\$190</b>	<b>-\$195</b>
Early Childhood Investment	-\$75	-\$75	-\$75	-\$75
Infrastructure and Jobs	-\$170	-\$170	-\$170	-\$170
Universal Displaced Worker Program	-\$20	-\$25	-\$20	-\$25
War Drawdown	\$600	\$670	\$100	\$100
Other Spending Adjustments	\$10	-\$45	\$10	-\$45
<b>Tax Measures</b>	<b>\$75</b>	<b>\$120</b>	<b>\$210</b>	<b>\$280</b>
Hiring and Infrastructure Incentives	-\$50	-\$50	-\$55	-\$50
Tax Breaks for Individuals and Families	-\$175	-\$200	-\$35	-\$40
Cigarette Tax Increase	\$85	\$80	\$85	\$80
Estate Tax Increase	\$75	\$80	\$75	\$80
Financial Crisis Responsibility Fee	\$50	\$60	\$50	\$60
Other	\$90	\$150	\$90	\$150
<b>Repeal Sequester</b>	<b>-\$970</b>	<b>-\$1,020</b>	<b>-\$50</b>	<b>\$0</b>
<b>Net Interest</b>	<b>-\$170</b>	<b>-\$50</b>	<b>-\$75</b>	<b>-\$90</b>
<b>Total Other Policies</b>	<b>-\$755</b>	<b>-\$575</b>	<b>-\$105</b>	<b>-\$5</b>

\*\*\*\*\*

CBO's analysis of the President's budget shows a broadly similar fiscal outlook to OMB's estimates. As CBO's estimates demonstrate, the President's budget would make encouraging improvements to begin reducing the debt relative to the economy. However, while CBO projects lower debt levels than OMB, it also projects that debt would decline more slowly relative to GDP at the end of the budget window.

At the same time, the modest pace at which the President's budget would reduce debt levels would leave little room for error. To put the debt on a clear downward path as a share of the economy later this decade, CRFB has made calls for a somewhat greater level of deficit reduction (<http://crfb.org/document/report-our-debt-problems-are-still-far-solved>). This is especially true over the long run, when population aging and growing health care costs threaten to drive up spending levels substantially.

Policymakers should begin immediate negotiations on a bipartisan plan to put the debt on a downward path and improve the country's long-term sustainability.