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What to Look for in President Obama's FY 2010 Budget February 24, 2009

The new Administration will be releasing the broad outlines of its first budget on Thursday. This FY 2010 budget will be a critically important document in that it is the Obama Administration's first opportunity to lay out a specific vision of what policy choices they would like to implement and what fiscal goals they would like to achieve. Given the dramatic deterioration in the economy and financial sector, their policy agenda will and should have changed dramatically since the presidential campaign.

Important things to look for in this budget include:

1) Ten Year Budgeting. The budget should include 10-year numbers rather than a truncated 5-year budget. This longer timer frame will be particularly important to show an expected budgetary path during both the recession (when stimulative policies and larger deficits will be appropriate) and the recovery (when deficit-reducing policies should be phased in).

2) Reasonable Budget Assumptions. A realistic budget should include all expected costs. Full funding for the wars in Iraq and Afghanistan, and all tax changes the Administration supports (such as continuing patches of the Alternative Minimum Tax and/or extension of some 2001/2003 tax cuts) should be included. Including such policies in the baseline however, should not serve as an excuse not to pay for them.

3) Clear Fiscal Goals. The Administration should provide clear fiscal goals that put the government on a sustainable fiscal path once the recession ends and large deficits are no longer needed to prop up the economy. These goals could take any of a number of different forms, but they should aim to reduce structural budget deficits aggressively while at the same time remaining flexible enough to deal with the current economic crisis.

4) Deficit-Reducing Policies. In order to move toward a sustainable fiscal path after the recovery, the government will need to increase revenues, reduce expenditures, or both. The Administration should put forward specific and realistic proposals to reduce both the short- and long-term deficits.

5) Process Reform. The budget process is, in many ways, broken. The Administration should offer reforms to improve transparency, shift the focus toward the long-term, and provide adequate rules and enforcement mechanisms to control unfettered (and unfinanced) growth in the budget.