COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

What We'd Like to See in the President's FY2012 Budget
January 24, 2011

Tomorrow night in his State of the Union address, President Obama will offer a preview of his policy priorities that will be reflected in his FY2012 budget. Given the severity of the country's medium- and long-term debt problem, the President must focus on preparing the country for the need for a comprehensive fiscal consolidation package. Then, in his budget, the President should provide the specific policies that will control the debt.

To successfully move the country toward a more sustainable path, the President's FY2012 budget should do the following:

1. **Meet the White House's fiscal goals.** Last year, the White House charged the National Commission on Fiscal Responsibility and Reform (Fiscal Commission) with reducing the deficit to about 3 percent of GDP by 2015 (primary balance in that year) and significantly improving the long-term budget outlook. The President's budget did not provide details, leaving the specifics to be filled in by the Commission. Now that the Commission has reported, the Administration needs to propose a budget that meets or exceeds its own goals.

2. **Use the Fiscal Commission's recommendations as a starting point.** The purpose of the Bowles-Simpson Commission was to identify a package of recommendations that could not only reduce the deficit, but provide political cover and garner bipartisan support. Though there is a number of ways for the White House to meet its fiscal goals, the Administration should propose policies that lend themselves to bipartisan agreement. The Bowles-Simpson Commission demonstrated what a number of those compromises might include, and the White House should use the plan as the basis for a bipartisan proposal of its own.

3. **Call for the enactment of a fiscal plan this year**. The country is running out of time to begin addressing its unsustainable fiscal path on its own terms. With the economy still recovering and the presidential election quickly approaching, there is never a perfect time to enact a set of tax and spending adjustments. But the longer we wait the more likely it is that credit markets will start to lose faith in the United States, making the task even more difficult. The President should commit to putting a plan in place by the end of the year. That plan must gradually reduce deficits without disrupting the fragile recovery.

4. **Call for a broad deficit reduction plan.** A narrow focus on non-security discretionary spending would be both an unfair and ultimately insufficient way to stabilize the debt – even over the medium-term. The President should strengthen and expand last year's proposal for a three-year freeze in this area of the budget, bringing security spending into the mix. In addition, the President should propose comprehensive Social Security reform to achieve sustainable solvency and comprehensive tax reform to make the tax code more efficient and reduce the deficit at the same time. Finally, the President must propose substantial reductions in federal health care spending, recognizing that whatever the fiscal consequences of the recent health reform legislation (PPACA), health care spending remains the biggest long-term driver of federal spending.

5. **Recognize that enacting a fiscal plan can also help the recovery.** Given the tepid economic recovery, the President should continue to put economic growth and job creation at the forefront of his agenda. Calls for additional targeted stimulus and new investments may, indeed, be warranted. But the President must also recognize – and make the case to the American people – that fiscal reforms are in fact a *key ingredient* of a sustained economic recovery. Putting into place a credible plan today which defers most deficit reduction until future years can have a positive *announcement effect* on businesses and investors today, while helping to avert economic turmoil in the future. This is especially true if the specifics of the reforms make taxes and spending more efficient and pro-growth. While any deficit plan must be crafted to work with the economic recovery, it is a necessary component of a sustained recovery, and thus the weak economy is no longer an acceptable excuse to delay passing a plan.

What the country needs is not deficit reduction just for the sake of deficit reduction. Restructuring our tax and entitlement systems and our discretionary spending programs offers us the chance to make them more efficient at promoting economic growth and saving money. Deficit reduction that relies on pro-growth policies offers the best of both worlds: eliminating the risk of a fiscal crisis and setting the foundations for a stronger economy in the future.

Absent such reforms, this country will remain on an unsustainable path and sooner or later fall into a fiscal crisis. Under such a situation, where markets force immediate and painful changes upon us, all of the Administration's other goals for the future will fall flat, as will the goals of future administrations of both parties.