

THE BUDGET MESSAGE OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

America is emerging from the worst recession in generations. In 2010, an economy that had been shrinking began to grow again. After nearly 2 years of job losses, America's businesses added more than one million jobs. Our capital and credit markets are functioning and strong. Manufacturing is coming back. And after teetering on the brink of liquidation just 2 years ago, America's auto industry is posting healthy gains and returning money to the taxpayers who helped it through a period of turmoil. The determination and resilience of the American people and the tough choices we made over the past 2 years helped to pull our economy back from the brink of a second Great Depression.

Two years after those dark days, the stock market is booming. Corporations are posting record profits. Momentum is building. Yet, in America, we have always had a broader measure of economic health. We believe in a country where everyone who is willing to work for it has the opportunity to get ahead; where the small businessperson with a dream or entrepreneur with a great new idea has their best chance to make them a reality; where any child can go as far as their talent and tenacity will take them. That is the genius of America. That spirit is what has built the greatest prosperity the world has ever known.

So even as recovery begins to take hold, we have more work to do to live up to our promise by repairing the damage this brutal recession has inflicted on our people, generating millions of new jobs, and seizing the economic opportunities of this competitive, new century.

These must be the priorities as we put together our Budget for the coming year. The fiscal realities we face require hard choices. A decade of deficits, compounded by the effects of the recession and the steps we had to take to break it, as well as the chronic failure to confront difficult decisions, has put us on an unsustainable course. That's why my Budget lays out a path for how we can pay down these debts and free the American economy from their burden.

But in an increasingly competitive world in which jobs and businesses are mobile, we also have a responsibility to invest in those things that are absolutely critical to preparing our people and our Nation for the economic competition of our time.

We do this by investing in and reforming education and job training so that all Americans have the skills necessary to compete in the global economy. We do this by encouraging American innovation and investing in research and development—especially in the job-creating industries of tomorrow such as clean energy. We do this by rebuilding America's infrastructure so that U.S. companies can ship their products and ideas from every corner in America to anywhere in the world. And finally, we do this by coming together as Americans, not Democrats or Republicans, to make the tough choices that get America's fiscal house in order, investing in what works, cutting what doesn't, and changing the way business is done in Washington.

Growing the economy and spurring job creation by America's businesses, large and small, is my top priority. That's why, over the course of the last year, I pushed for additional measures to jump-start our economic recovery: tax credits for businesses that hire unemployed workers; assistance to States to prevent the layoffs of teachers; and tax cuts and expanded access to credit for small businesses. At the end of the year, I signed into law a measure that provided tax cuts for 159 million workers saving the typical worker \$1,000 per year. And the same law extended important tax credits to help families make ends meet and afford to send their kids to college. This bipartisan tax cut plan also gave businesses two powerful incentives to invest and create jobs: 100 percent expensing on the purchase of equipment and an extension of the research and experimentation tax credit.

Moreover, my Administration has moved aggressively to open markets abroad and boost exports of American made goods and services, signing a new trade agreement with South Korea, the twelfth-largest economy in the world. And last month, I laid out a balanced approach to regulation that is pragmatic, driven by data, and that will protect the health and well-being of the American people and help lay the groundwork for economic growth and job creation.

These steps will help the economy this year. But it is also essential that we take stock and look to the future—to what kind of America we want to see emerge from this crisis and take shape for the generations of Americans to come. This Budget lays out our roadmap not just for how we should invest in our economy next year, but how we should start preparing our Nation to grow, create good jobs, and compete in the world economy in the years ahead.

At its heart is a recognition that we live in a world fundamentally different than the one of previous generations. Revolutions in communication and technology have made businesses mobile and commerce global. Today, a company can set up shop, hire workers, and sell their products wherever there is an Internet connection. It is a transformation that has touched off a fierce competition among nations for the jobs and industries of the future.

The winners of this competition will be the countries that have the most skilled and educated workers; a serious commitment to research and technology; and access to quality infrastructure like roads and airports, high-speed rail, and high-speed Internet. These are the seeds of economic growth in the 21st century. Where they are planted, the most jobs and businesses will take root.

In the last century, America's economic leadership in the world went unchallenged. Now, it is up to us to make sure that we maintain that leadership in this century. At this moment, the most important contest we face as a Nation is not between Democrats and Republicans or liberals and conservatives. It's between America and our economic competitors around the world.

There is no doubt in my mind that we can win this competition. The United States is home to the world's best universities and research facilities, the most brilliant scientists, the brightest minds, and some of the hardest-working, most entrepreneurial people on Earth. But our leadership is not guaranteed unless we redouble our efforts in the race for the future.

In a generation, we've fallen from first place to ninth place in the proportion of our young people with college degrees. We lag behind other nations in the quality of our math and science education. The roads and bridges that connect the corners of our country and made our economy grow by leaps and bounds after World War II are aging and in need of repair. Our rail and air traffic systems are in need of modernization, and our mobile networks and high-speed Internet access have not kept pace with some of our rivals, putting America's businesses and our people at a competitive disadvantage.

In 1957, when the Soviet Union beat us into space by launching a satellite called Sputnik, it was a wake-up call that caused the United States to boost our investment in innovation and education—particularly in math and science. As a result, we not only surpassed the Soviets, we developed new American technologies, industries, and jobs. Fifty years later, our generation’s Sputnik moment has arrived. Our challenge is not building a new satellite, but to rebuild our economy. If the recession has taught us anything, it is that we cannot go back to an economy driven by too much spending, too much borrowing, and the paper profits of financial speculation. We must rebuild on a new, stronger foundation for economic growth. We need to do what America has always been known for: building, innovating, and educating. We don’t want to be a nation that simply buys and consumes products from other countries. We want to create and sell products all over the world that are stamped with three simple words: “Made in America.”

My Budget makes investments that can help America win this competition and transform our economy, and it does so fully aware of the very difficult fiscal situation we face. When I took the oath of office 2 years ago, my Administration was left an annual deficit of \$1.3 trillion, or 9.2 percent of GDP, and a projected 10-year deficit of more than \$8 trillion. These deficits were the result of a previous 8 years of not paying for programs—notably, two large tax cuts and a new Medicare prescription drug benefit—as well as the financial crisis and recession that exacerbated our fiscal situation as revenue decreased and automatic Government outlays increased to counter the recession and cushion its impact.

We took many steps to re-establish fiscal responsibility, from instituting a statutory pay-as-you-go rule for spending to going line by line through the budget looking for outdated, ineffective, or duplicative programs to cut or reform. And, most importantly, we enacted the Affordable Care Act. Along with giving Americans more affordable choices and freedom from insurance company abuses, reform of our health care system will, according to the latest analysis by the non-partisan Congressional Budget Office, reduce our budget deficits by more than \$200 billion in its first decade and more than \$1 trillion over the second.

Now that the threat of a depression has passed, and economic growth is beginning to take hold, taking further steps toward reducing our long-term deficit has to be a priority, and it is in this Budget. The reason is simple: in the long run, we will not be able to compete with countries like China if we keep borrowing more and more from countries like China. That’s why in this Budget, I put forward a number of steps to put us on a fiscally sustainable path.

First, I am proposing a 5-year freeze on all discretionary spending outside of security. This is not an across-the-board cut, but rather an overall freeze with investments in areas critical for long-term economic growth and job creation. A commonsense approach where we cut what doesn’t work and invest in those things that make America stronger and our people more prosperous. Over a decade, this freeze will save more than \$400 billion, cut non-security funding to the lowest share of the economy since at least 1962, and put the discretionary budget on a sustainable trajectory.

Making these spending cuts will require tough choices and sacrifices. One of them is the 2-year freeze on Federal civilian worker salaries. This is in no way a reflection on the dedicated service of Federal workers, but rather a necessary belt-tightening measure during these difficult times when so many private sector workers are facing similar cuts. This Budget also includes many terminations and reductions to programs across the entire Federal Government. These cuts include many programs whose mission I care deeply about, but meeting our fiscal targets while investing in our future demands no less. All told, we have put forward more than 200 terminations and reductions for over \$30 billion in savings.

Even in areas outside the freeze, we are looking for ways to save money and cut unnecessary costs. At the Department of Defense, for instance, we are reducing its funding by \$78 billion over the next 5 years on a course for zero real growth in funding. To do this, Secretary Gates is pursuing a package of terminations, consolidations, and efficiencies that include, for example, the elimination of the Marine Corps Expeditionary Fighting Vehicle; the consolidation of four Air Force air operations centers into two; and reducing the number of Generals and Admirals by more than 100. And throughout the entire Government, we are continuing our efforts to make Government programs and services work better and cost less: using competition and high standards to get the most from the grants we award, getting rid of excess Federal real estate, and saving billions of dollars by cutting overhead and administrative costs.

Second, I continue to oppose the permanent extension of the 2001 and 2003 tax cuts for families making more than \$250,000 a year and a more generous estate tax benefiting only the very largest estates. While I had to accept these measures for 2 more years as a part of a compromise that prevented a large tax increase on middle-class families and secured crucial job-creating support for our economy, these policies were unfair and unaffordable when enacted and remain so today. I will push for their expiration in 2012. Moreover, for too long we have tolerated a tax system that's a complex, inefficient, and loophole-riddled mess. For instance, year after year we go deeper into deficit and debt to pay to prevent the Alternative Minimum Tax (AMT) from hurting many middle-class families. As a start, my Budget proposes a 3-year fix to the AMT that is paid for by an across-the-board 30 percent reduction in itemized deductions for high-income taxpayers. My Administration will work with the Congress on a long-term offset for these costs.

Third, to address looming, long-term challenges to our fiscal health, the Budget addresses future liabilities in the unemployment insurance system; the Pension Benefit Guaranty Corporation, which protects the pensions of workers whose companies have failed; and the Federal Housing Administration, which plays a critical role in affordable housing. It also is committed to implementing the Affordable Care Act swiftly and efficiently since rising health care costs are the single biggest driver of our long-term fiscal problems. Finally, as a down payment toward a permanent fix, the Budget proposes additional reforms to our health care system that would be sufficient to pay for 2 years of fixing the Medicare's sustainable growth rate, thus preventing a large cut in Medicare reimbursements for doctors that would jeopardize care for older Americans.

In addition, I believe that we need to act now to secure and strengthen Social Security for future generations. Social Security is a solemn commitment to America's seniors that we must preserve. That is why I have laid out my principles for reform and look forward to working with the Congress on ensuring Social Security's compact for future generations.

As we move to rein in our deficits, we must do so in a way that does not cut back on those investments that have the biggest impact on our economic growth because the best antidote to a growing deficit is a growing economy. So even as we pursue cuts and savings in the months ahead, we must fund those investments that will help America win the race for the jobs and industries of the future—investments in education, innovation, and infrastructure.

In an era where most new jobs will require some kind of higher education, we have to keep investing in the skills of our workers and the education of our children. And that's why we are on our way to meeting the goal I set when I took office: by 2020, America will once again have the highest proportion of college graduates in the world.

To get there, we are making college more affordable for millions of students, through the extension of the American Opportunity Tax Cut and maintaining our historic expansion of the Pell Grant program while putting it on firm financial footing. We are taking large steps toward my goal of preparing 100,000 science, technology, engineering, and mathematics teachers over the next decade. And we are continuing our reform of elementary and secondary education—not from the top-down, but from the bottom-up. Instead of indiscriminately pouring money into a system that doesn't always work, we are challenging schools and States to compete in a "Race to the Top" to see who can come up with reforms that raise standards, recruit and retain good teachers, and raise student achievement, especially in math and science. We are expanding the "Race to the Top" to school districts, and since in today's economy learning must last a lifetime, we are extending this competitive framework to early childhood education, universities and colleges, and job training.

Once our students graduate with the skills they need for the jobs of the future, we also need to make sure those jobs end up in America. In today's high-tech, global economy, that means the United States must be the best place to do business and the best place to innovate. That will take reforming our tax code, and I am calling for immediate action to rid the corporate tax code of special interest loopholes and to lower the corporate rate to restore competitiveness and encourage job creation—while not adding a dime to the deficit.

And since many companies do not invest in basic research that does not have an immediate pay off, we—as a Nation—must devote our resources to these fundamental areas of scientific inquiry. In this Budget, we are increasing our investment in research and development that contributes to fields as varied as biomedicine, cyber-security, nano-technology, and advanced manufacturing. We are eliminating subsidies to fossil fuels and instead making a significant investment in clean energy technology—boosting our investment in this high-growth field by a third—because the country that leads in clean energy will lead in the global economy. Through a range of programs and tax incentives, this Budget supports my goals of the United States becoming the first country to have one million electric vehicles on the road by 2015 and for us to reach a point by 2035 where 80 percent of our electricity will come from clean energy sources. We also are working toward a 20 percent decrease in energy usage in commercial and institutional buildings by 2020, complementing our ongoing efforts to improving the efficiency of the residential sector. If this is truly our Sputnik moment, we need a commitment to innovation that we have not seen since President Kennedy challenged us to go to the moon.

To flourish in the global economy, we need a world-class infrastructure—the roads, rails, runways, and information superhighways that are fundamental to commerce. Over the last 2 years, our investments in infrastructure projects already have led to hundreds of thousands of good private sector jobs and begun upgrading our infrastructure across the country. But we still have a long way to go.

In this Budget, I am proposing a historic investment in repairing, rebuilding, and modernizing our transportation infrastructure. The Budget features an immediate, up-front investment of \$50 billion to both generate jobs now and lay a foundation for future economic growth. Looking toward the future, the Budget provides funds to develop and dramatically expand access to high-speed rail as well as the creation of a National Infrastructure Bank to support projects critical to our national competitiveness. While this transportation bill is a major investment of funds, it is also a major reform of how transportation funds have been invested in the past. We are committing to paying for our surface transportation plan and making it subject to the Congress' pay-as-you-go law; to

consolidating duplicative, earmarked programs; and to making tens of billions of dollars of funds subject to a competitive “Race to the Top” process.

And looking to what we will need to thrive in the 21st century, I am proposing an ambitious effort to speed the development of a cutting-edge, high-speed wireless data network that will reach across our country to 98 percent of Americans and provide for the needs of both our citizens and our first responders. We are the Nation that built the transcontinental railroad and the first airplanes to take flight. We constructed a massive interstate highway system and introduced the Internet to the world. America has always been built to compete, and if we want to attract the best jobs and businesses to our shores, we have to be that Nation again.

Finally, to make it easier for our businesses and workers to sell their products all over the globe, we are working toward our goal of doubling U.S. exports by 2014. This will take specific efforts to open up markets and promote American goods and services. It also will take maintaining American leadership abroad and ensuring our security at home. This Budget invests in all elements of our national power—including our military—to achieve our goals of winding down the war in Iraq; defeating al Qaeda in Afghanistan and around the world; reducing the threat of nuclear weapons; and preparing our Nation for emerging threats. We also invest resources to provide for our men and women in uniform and to honor the service of our veterans. And we do this all with an eye to cutting waste, finding efficiencies, and focusing resources on what is essential to our security.

Throughout our history, the investments this Budget makes—in education, innovation, and infrastructure—have commanded support from both Democrats and Republicans. It was Abraham Lincoln who launched the transcontinental railroad and opened the National Academy of Sciences; Dwight Eisenhower who helped build our highways; and Republican Members of Congress who worked with Franklin Roosevelt to pass the GI Bill. In our own time, leaders from both sides of the aisle have come together to invest in our infrastructure, create incentives for research and development, and support education reform such as those my Administration has been pursuing. Moreover, when faced with tough, fiscal challenges, our country’s leaders have come together to find a way forward to save Social Security in the 1980s and balance the budget in the 1990s.

There are no inherent ideological differences that should prevent Democrats and Republicans from making our economy more competitive with the rest of the world. We are all Americans, and we are all in this race together. So those of us who work in Washington have a choice to make in this coming year: we can focus on what is necessary for each party to win the news cycle or the next election, or we can focus on what is necessary for America to win the future.

I believe we must do what this moment demands, and do what we must to spur job creation and make the United States competitive in the world economy. For as difficult as the times may be, the good news is that we know what the future could look like for the United States. We can see it in the classrooms that are experimenting with groundbreaking reforms and giving children new math and science skills at an early age. We can see it in the wind farms and advanced battery factories that are opening across America. We can see it in the laboratories and research facilities all over this country that are churning out discoveries and turning them into new startups and new jobs.

And when you meet these children and their teachers, these scientists and technicians, and these entrepreneurs and their employees, you come away knowing that despite all we have been through these past 2 years, we will succeed. The idea of America is alive and well. As long as there are people willing to dream, willing to work hard, and willing to look past the disagreements of the moment to focus on the future we share, I have no doubt that this will be remembered as another American century.

BARACK OBAMA

THE WHITE HOUSE,
FEBRUARY 14, 2011.