

# THE BUDGET MESSAGE OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

America was built on the idea that anyone who is willing to work hard and play by the rules, can make it if they try—no matter where they started out. By giving every American a fair shot, asking everyone to do their fair share, and ensuring that everyone played by the same rules, we built the great American middle class and made our country a model for the world.

Today, America is still home to the world's best universities, most productive workers, and most innovative companies. But for many Americans, the basic bargain at the heart of the American Dream has eroded.

Long before this recession hit, there was a widespread feeling that hard work had stopped paying off; that fewer and fewer of those who contributed to the success of our economy actually benefited from that success. Those at the very top grew wealthier while everyone else struggled with paychecks that did not keep up with the rising cost of everything from college tuition to groceries. And as a result, too many families found themselves taking on more and more debt just to keep up—often papered over by mounting credit card bills and home equity loans.

Then, in the middle of 2008, the house of cards collapsed. Too many mortgages had been sold to people who could not afford—or even understand—them. Banks had packaged too many risky loans into securities and then sold them to investors who were misled or misinformed about the risks involved. Huge bets had been made and huge bonuses had been paid out with other people's money. And the regulators who were supposed to prevent this crisis either looked the other way or did not have the authority to act.

In the end, this growing debt and irresponsibility helped trigger the worst economic crisis since the Great Depression. Combined with new tax cuts and new mandatory programs that had never been paid for, it threw our country into a deep fiscal hole. And millions of hardworking Americans lost their jobs, their homes, and their basic economic security.

Today, we are seeing signs that our economy is on the mend. But we are not out of the woods yet. Instead, we are facing a make-or-break moment for the middle class, and for all those who are fighting to get there. What is at stake is whether or not this will be a country where working people can earn enough to raise a family, build modest savings, own a home, and secure their retirement. This is the defining issue of our time.

This Budget reflects my deep belief that we must rise to meet this moment—both for our economy and for the millions of Americans who have worked so hard to get ahead.

We built this Budget around the idea that our country has always done best when everyone gets a fair shot, everyone does their fair share, and everyone plays by the same rules. It rejects the “you're

on your own” economics that have led to a widening gap between the richest and poorest Americans that undermines both our belief in equal opportunity and the engine of our economic growth. When the middle class is shrinking, and families can no longer afford to buy the goods and services that businesses are selling, it drags down our entire economy. And countries with less inequality tend to have stronger and steadier economic growth over the long run.

The way to rebuild our economy and strengthen the middle class is to make sure that everyone in America gets a fair shot at success. Instead of lowering our standards and our sights, we need to win a race to the top for good jobs that pay well and offer security for the middle class. To succeed and thrive in the global, high-tech economy, we need America to be a place with the highest-skilled, highest-educated workers; the most advanced transportation and communication networks; and the strongest commitment to research and technology in the world. This Budget makes investments that can help America win this race, create good jobs, and lead in the world economy.

And it does so with the understanding that we need an economy that is no longer burdened by years of debt and in which everyone shoulders their fair share to put our fiscal house in order. When I took office 3 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 undertaking initiatives, but not paying for them—especially two large tax cuts and a new Medicare prescription drug benefit—as well as the financial crisis and recession that made the fiscal situation worse as revenue decreased and automatic Government outlays increased to counter the downturn.

We have taken many steps to re-establish fiscal responsibility, from instituting a statutory pay-as-you-go rule for spending to going through the budget line by line looking for outdated, ineffective, or duplicative programs to cut or reform. Importantly, we enacted the Affordable Care Act, which will not only provide Americans with more affordable choices and freedom from insurance company abuses, but will also reduce our budget deficits by more than \$1 trillion over the next two decades.

As economic growth was beginning to take hold last year, I took further steps to put our Nation on a fiscally sustainable path that would strengthen the foundation of the economy for years to come. In April of 2011, I put forward my Framework for Shared Prosperity and Shared Fiscal Responsibility that built on the 2012 Budget to identify \$4 trillion in deficit reduction. During negotiations over extending the debt ceiling in the summer, I presented to congressional Republicans another balanced plan to achieve \$4 trillion in deficit reduction. Finally, in September, I sent my Plan for Economic Growth and Deficit Reduction to the Joint Select Committee on Deficit Reduction, which detailed a way to achieve \$3 trillion in deficit reduction on top of the \$1 trillion already achieved in the Budget Control Act of 2011 that I signed into law the previous month.

I also made sure that this plan covered the cost of the American Jobs Act—a set of bipartisan, commonsense proposals designed to put more people back to work, put more money in the pockets of the middle class, and do so without adding a dime to the deficit at a time when it was clear that global events were slowing the economic recovery and our ability to create more jobs. Unfortunately, Republicans in Congress blocked both our deficit reduction measures and almost every part of the American Jobs Act for the simple reason that they were unwilling to ask the wealthiest Americans to pay their fair share.

In the year ahead, I will continue to pursue policies that will shore up our economy and our fiscal situation. Together with the deficit reduction I signed into law this past year, this Budget will cut the

deficit by \$4 trillion over the next decade. This will put the country on a course to a level of deficits below 3 percent of GDP by the end of the decade, and will also allow us to stabilize the Federal debt relative to the size of the economy. To get there, this Budget contains a number of steps to put us on a fiscally sustainable path.

First, this Budget implements the tight discretionary spending caps that I signed into law in the Budget Control Act of 2011. These caps will generate approximately \$1 trillion in deficit reduction over the next decade. Building on reductions we already have made, this will result in a cut in discretionary spending of \$42 billion since 2010 when higher levels of Federal spending were essential to provide a jumpstart to the economy. Meeting the spending targets in this Budget meant some very difficult choices: reforming, consolidating, or freezing programs where we could; cutting programs that were not effective or essential and even some that were, but are now unaffordable; and precisely targeting our investments. Every department will feel the impact of these reductions as they cut programs or tighten their belts to free up more resources for areas critical to economic growth. And throughout the entire Government, we will continue our efforts to make 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, this Budget begins the process of implementing my new defense strategy that reconfigures our force to meet the challenges of the coming decade. Over the past 3 years, we have made historic investments in our troops and their capabilities, military families, and veterans. After a decade of war, we are at an inflection point: American troops have left Iraq; we are undergoing a transition in Afghanistan so Afghans can assume more responsibility; and we have debilitated al Qaeda's leadership, putting that terrorist network on the path to defeat. At the same time, we have to renew our economic strength here at home, which is the foundation of our strength in the world, and that includes putting our fiscal house in order. To ensure that our defense budget is driven by a clear strategy that reflects our national interests, I directed the Secretary of Defense and military leadership to undertake a comprehensive strategic review.

I presented the results of the review, reflecting my guidance and the full support of our Nation's military leadership, at the Pentagon on January 5. There are several key elements to this new strategy. To sustain a global reach, we will strengthen our presence in the Asia Pacific region and continue vigilance in the Middle East. We will invest in critical partnerships and alliances, including NATO, which has demonstrated time and again—most recently in Libya—that it is a force multiplier. Looking past Iraq and Afghanistan to future threats, the military no longer will be sized for large-scale, prolonged stability operations. The Department of Defense will focus modernization on emerging threats and sustaining efforts to get rid of outdated Cold War-era systems so that we can invest in the capabilities we need for the future, including intelligence, surveillance and reconnaissance capabilities. My Administration will continue to enhance capabilities related to counterterrorism and countering weapons of mass destruction, and we will also maintain the ability to operate in environments where adversaries try to deny us access. And, we will keep faith with those who serve by giving priority to our wounded warriors, servicemembers' mental health, and the well-being of military families.

Adapting our forces to this new strategy will entail investing in high-priority programs, such as unmanned surveillance aircraft and upgraded tactical vehicles. It will mean terminating unnecessary and lower-priority programs such as the C-27 airlift aircraft and a new weather satellite and maintaining programs such as the Joint Strike Fighter at a reduced level. All told, reductions in the growth of defense spending will save \$487 billion over the next 10 years. In addition, the end of our

military activities in Iraq and the wind-down of operations in Afghanistan will mean that the country will spend 24 percent less on overseas contingency operations (OCO) this year than it did last year, saving \$30 billion. I also am proposing a multi-year cap on OCO spending so that we fully realize the dividends of this change in policy.

Third, I believe that in our country, everyone must shoulder their fair share—especially those who have benefited the most from our economy. In the United States of America, a teacher, a nurse, or a construction worker who earns \$50,000 a year should not pay taxes at a higher rate than somebody making \$50 million. That is wrong. It is wrong for Warren Buffett's secretary to pay a higher tax rate than Warren Buffett. This is not about class warfare; this is about the Nation's welfare. This is about making fair choices that benefit not just the people who have done fantastically well over the last few decades, but that also benefit the middle class, those fighting to get into the middle class, and the economy as a whole.

In the Budget, I reiterate my opposition to permanently extending the Bush tax cuts for families making more than \$250,000 a year and my opposition to a more generous estate tax than we had in 2009 benefiting only the very largest estates. These policies were unfair and unaffordable when they were passed, and they remain so today. I will push for their expiration in the coming year. I also propose to eliminate special tax breaks for oil and gas companies; preferred treatment for the purchase of corporate jets; tax rules that give a larger percentage deduction to the wealthiest two percent than to middle-class families for itemized deductions; and a loophole that allows some of the wealthiest money managers in the country to pay only 15 percent tax on the millions of dollars they earn. And I support tax reform that observes the "Buffett Rule" that no household making more than \$1 million annually should pay a smaller share of its income taxes than middle-class families pay.

Fourth, to build on the work we have done to reduce health care costs through the Affordable Care Act, I am proposing more than \$360 billion in reforms to Medicare, Medicaid, and other health programs over 10 years. The goal of these reforms is to make these critical programs more effective and efficient, and help make sure our health care system rewards high-quality medicine. What it does not do—and what I will not support—are efforts to turn Medicare into a voucher or Medicaid into a block grant. Doing so would weaken both programs and break the promise that we have made to American seniors, people with disabilities, and low-income families—a promise I am committed to keeping.

Finally, to address other looming, long-term challenges to our fiscal health, I have put forward a wide range of mandatory savings. These include reductions in agricultural subsidies, changes in Federal employee retirement and health benefits, reforms to the unemployment insurance system and the Postal Service, and new efforts to provide a better return to taxpayers from mineral development. Drawn from the plan I presented to the Joint Select Committee on Deficit Reduction, these mandatory proposals would save \$217 billion over the next decade.

Reining in our deficits is not an end in and of itself. It is a necessary step to rebuilding a strong foundation so our economy can grow and create good jobs. That is our ultimate goal. And as we tighten our belts by cutting, consolidating, and reforming programs, we also must invest in the areas that will be critical to giving every American a fair shot at success and creating an economy that is built to last.

That starts with taking action now to strengthen our economy and boost job creation. We need to finish the work we started last year by extending the payroll tax cut and unemployment benefits for the rest of this year. We also need to take additional measures to put more people back to work. That

is why I introduced the American Jobs Act last year, and why I will continue to put forward many of the ideas it contained, as well as additional measures, to put people back to work by rebuilding our infrastructure, providing businesses tax incentives to invest and hire, and giving States aid to rehire teachers and first responders.

We also know that education and lifelong learning will be critical for anyone trying to compete for the jobs of the future. That is why I will continue to make education a national mission. What one learns will have a big impact on what he or she earns: the unemployment rate for Americans with a college degree or more is only about half the national average, and the incomes of college graduates are twice as high as those without a high school diploma.

When I took office, I set the goal for America to have the highest proportion of college graduates in the world by 2020. To reach that goal, we increased the maximum annual Pell Grant by more than \$900 to help nearly 10 million needy students afford a college education. The 2013 Budget continues that commitment and provides the necessary resources to sustain the maximum award of \$5,635. In this Budget, I also propose a series of new proposals to help families with the costs of college including making permanent the American Opportunity Tax Credit, a partially refundable tax credit worth up to \$10,000 per student over 4 years of college, and rewarding colleges and universities that act responsibly in setting tuition, providing the best value, and serving needy students well.

To help our students graduate with the skills they will need for the jobs of the future, we are continuing our effort to prepare 100,000 science and math teachers over the next decade. To improve our elementary and secondary schools, we are continuing our commitment to the Race to the Top initiative that rewards the most innovative and effective ways to raise standards, recruit and retain good teachers, and raise student achievement. My Budget invests \$850 million in this effort, which already has been expanded to cover early learning and individual school districts.

And to prepare our workers for the jobs of tomorrow, we need to turn our unemployment system into a re-employment system. That includes giving more community colleges the resources they need to become community career centers—places that teach skills that businesses are looking for right now, from data management to high-tech manufacturing.

Once our students and workers gain 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 in the world to take an idea from the drawing board to the factory floor to the store shelves. In this Budget, we are sustaining our level of investment in non-defense research and development (R&D) even as overall spending declines, thereby keeping us on track to double R&D funding in the key R&D agencies. We are supporting research at the National Institutes of Health that will accelerate the translation of new discoveries in biomedical science into new therapies and cures, along with initiatives at the Food and Drug Administration that will speed the approval of new medicines. We make important investments in the science and research needed to tackle the most important environmental challenges of our time, and we are investing in fields as varied as cyber-security, nano-technology, and advanced manufacturing. This Budget also puts an emphasis on the basic research that leads to the breakthroughs of tomorrow, which increasingly is no longer being conducted by the private sector, as well as helping inventors bring their innovations from laboratory to market.

This Budget reflects the importance of safeguarding our environment while strengthening our economy. We do not have to choose between having clean air and clean water and growing the economy.

By conserving iconic American landscapes, restoring significant ecosystems from the Everglades to the Great Lakes, and achieving measurable improvements in water and air quality, we are working with communities to protect the natural resources that serve as the engines of their local economies.

Moreover, this Budget continues my Administration's commitment to developing America's diverse, clean sources of energy. The Budget eliminates unwarranted tax breaks for oil companies, while extending key tax incentives to spur investment in clean energy manufacturing and renewable energy production. The Budget also invests in R&D to catalyze the next generation of clean energy technologies. These investments will help us achieve our goal of doubling the share of electricity from clean energy sources by 2035. By promoting American leadership in advanced vehicle manufacturing, including funding to encourage greater use of natural gas in the transportation sector, the Budget will help us reach our goal of reducing oil imports by one-third by 2025 and position the United States to become the first country to have one million electric vehicles on the road by 2015. We also are working to decrease the amount of energy used by commercial and industrial buildings by 20 percent to complement our ongoing efforts to improving the efficiency of the residential sector. And we will work with the private sector, utilities, and States to increase the energy productivity of American industries while investing in the innovative processes and materials that can dramatically reduce energy use.

It is also time for government to do its part to help make it easier for entrepreneurs, inventors, and workers to grow their businesses and thrive in the global economy. I am calling on Congress to immediately begin work on corporate tax reform that will close loopholes, lower the overall rate, encourage investment here at home, simplify taxes for America's small businesses, and not add a dime to the deficit. Moreover, to further assist these companies, we need a comprehensive reorganization of the parts of the Federal Government that help businesses grow and sell their products abroad. If given consolidation authority—which Presidents had for most of the 20<sup>th</sup> century—I will propose to consolidate six agencies into one Department, saving money, and making it easier for all companies—especially small businesses—get the help they need to thrive in the world economy.

Finally, this Budget advances the national security interests of the United States, including the security of the American people, the prosperity and trade that creates American jobs, and support for universal values around the world. It increases funding for the diplomatic efforts that strengthen the alliances and partnerships that improve international cooperation in meeting shared challenges, open new markets to American exports, and promote development. It invests in the intelligence and homeland security capabilities to detect, prevent, and defend against terrorist attacks against our country.

As we implement our new defense strategy, my Administration will invest in the systems and capabilities we need so that our Armed Forces are configured to meet the challenges of the coming decade. We will continue to invest in improving global health and food security so that we address the root causes of conflict and security threats. And we will keep faith with our men and women in uniform, their families, and veterans who have served their Nation.

These proposals will take us a long way towards strengthening the middle class and giving families the sense of security they have been missing for too long. But in the end, building an economy that works for everyone will require all of us to take responsibility. Parents will need to take greater responsibility for their children's education. Homeowners will have to take more responsibility when it comes to buying a house or taking out a loan. Businesses will have to take responsibility for doing

right by their workers and our country. And those of us in public service will need to keep finding ways to make government more efficient and more effective.

Understanding and honoring the obligations we have to ourselves and each other is what has made this country great. We look out for each other, pull together, and do our part. But Americans also deserve to know that their hard work will be rewarded.

This Budget is a step in the right direction. And I hope it will help serve as a roadmap for how we can grow the economy, create jobs, and give Americans everywhere the security they deserve.

BARACK OBAMA

THE WHITE HOUSE,  
FEBRUARY 13, 2012.

