Promoting Fiscal Responsibility

Having steered the economy back from the brink of a depression, the Administration is committed to moving the Nation from recession to recovery by sparking job creation to get millions of Americans back to work and building a new foundation for the long-term prosperity for all American families. To do this, the 2011 Budget makes critical investments in the key areas that will help to reverse the decline in economic security that American families have experienced over the past decade with investments in education, clean energy, infrastructure, and innovation.

But even as we meet the challenge of the recession and work to build an economy that works for all American families, we must also change the way Washington does business – ending programs that don't work, streamlining those that do, cracking down on special interest access, and bringing a new responsibility to how tax dollars are spent. At its core, the President's budget takes the steps to help jumpstart job creation, works to strengthen the economic security of American families, and makes the tough choices to put our Nation back on the path to fiscal responsibility.

A part of that commitment to fiscal responsibility – and to cutting the deficit in half by the end of the President's first term – is represented in the Administration's proposal to create a bipartisan fiscal commission charged with identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run. Specifically, the commission is charged with balancing the budget excluding interest payments on the debt by 2015.

The President's Budget does not wait for the commission's recommendations to begin making tough choices. To restore fiscal discipline while laying a new foundation for job creation and economic growth, the Budget includes $1.2 trillion in deficit reduction proposals, which represent an important step toward fiscal responsibility over the medium term. These proposals include:

Freeze Non-Security Discretionary Spending for the Next Three Years. Over the past year, an extraordinary surge in tax cuts and Federal spending helped stimulate macroeconomic demand and bring the economy back from the brink of a second Great Depression. Expanding the short-term deficit during a moment of economic crisis is widely recognized as necessary by economists from across the ideological spectrum. Nonetheless, the ramifications of the large deficits we inherited and the response that was required to stop the economic freefall has repercussions both in the near term and in years to come in the form of higher debt and interest payments. As the economy recovers, we need to rebalance our spending priorities and make tough choices. That is why the President is proposing a three-year freeze in non-security discretionary spending in this year's Budget. This will save an estimated $250 billion over 10 years. The freeze is not an across-the-board cut! Some agencies will see an increase, and some will see a decrease. Within an agency, some programs will be cut, and others will be expanded. Finally, this freeze will not affect mandatory programs such as Social Security, medicare, and Medicaid.

Establish a Bipartisan Fiscal Commission. To help put our Nation on a sustainable fiscal path, the Administration will work to create a fiscal commission charged with identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run. Specifically, the Commission is charged with balancing the budget excluding interest payments on the debt by 2015. The result is projected to stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers. The magnitude and timing of the policy measures necessary to achieve this goal are subject to considerable uncertainty and will depend on the evolution of the economy. In addition, the Commission will examine policies to meaningfully improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.

Require the Financial Services Industry to Pay Back Taxpayers. The assistance given the financial services industry to weather the crisis of the past year represented an extraordinary step that no one wanted to take, but that was necessary to prevent deeper pain to the economy. Yet the largest Wall Street firms have been both the source of extraordinary costs throughout the economy due to their excessive risk-taking, and the beneficiaries of the extraordinary measures taken to prevent a deeper financial crisis. While the expected cost of the TARP program has fallen by $224 billion since the 2010 Mid-Session Review to about $117 billion, shared responsibility requires that the largest financial firms pay back the taxpayer as a result of the extraordinary action taken. Congress recognized that when it wrote the legislation authorizing TARP by requiring the President to propose a way for the financial sector to pay back taxpayers so that not one penny of TARP-related debt is passed on to the next generation. The Administration is therefore calling for a Financial Crisis Responsibility Fee on the largest financial firms that will last at least 10 years, but longer if necessary, to compensate taxpayers fully for the extraordinary support they provided. This fee would be limited to financial firms with over $50 billion in assets. As it would be based on an institution's size and exposure to debt, it would also further the Administration's financial reform goals by providing a check against the risky behavior that contributed to this crisis.

Close the Carried Interest Loophole for Wealthy Investment Managers. The Administration supports reforming our tax code to ensure that the income earned by investment managers is treated the same way as income earned by middle-class families. Currently, a loophole in our tax system allows some investment managers to cut their tax bills by more than half by treating their earned income as capital gains—which is taxed at a 15 percent rate, far less than the marginal tax rate that would otherwise apply. By closing this loophole, we will recognize the "carried interest" earned by these investment managers for what it is—ordinary income that should be taxed at ordinary income tax rates. This measure would raise $24 billion over the next 10 years.

Allow the Bush Tax Cuts for Households Earning More Than $250,000 to Expire. In the last Administration, those at the very top enjoyed large tax breaks and income gains while almost everyone else struggled and real income for the middle class declined. Our Nation cannot afford to continue these tax cuts, which is why the President supports allowing those tax cuts that affect families earning more than $250,000 a year to expire and committing these resources to reducing the deficit instead. This step will have no effect on the 98 percent of all households who make less than $250,000.

Reduce the Itemized Deduction Write-off for Families with Incomes over $250,000. Currently, if a middle-class family donates a dollar to its favorite charity or spends a dollar on mortgage interest, it gets a 15-cent tax deduction, but a millionaire who does the same enjoys a deduction that is more than twice as generous. By reducing this disparity and returning the high-income deduction to the same rates that were in place at the end of the Reagan Administration, we will raise $291 billion over the next decade.

Reform the Taxation of International Income and Eliminate Other Corporate Loopholes. Our corporate tax code is riddled with inefficiencies and loopholes, including the fact that it allows companies to indefinitely defer the payment of U.S. taxes on foreign income while immediately benefiting from the tax deductions associated with these activities. It also allows many companies to take advantage of transfer pricing to shift income earned in the United States to lower-tax countries. The Budget will reform and end these practices.

Eliminate Funding for Inefficient Fossil Fuel Subsidies. As we work to create a clean energy economy, it is counterproductive to spend taxpayer dollars on incentives that run counter to this national priority. To further this goal and reduce the deficit, the Budget eliminates tax preferences and funding for programs that provide inefficient fossil fuel subsidies that impede investment in clean energy sources and undermine efforts to deal with the threat of climate change. We are eliminating 12 tax breaks for oil, gas, and coal companies, closing loopholes to raise nearly $39 billion over the next decade.

Recommit to Cutting the Deficit in Half by the End of the President's First Term. Even though he entered office facing an historic economic and financial crisis, the President committed his Administration to cutting the deficit he inherited upon taking office in half by the end of his first term. Since then, it has become clear that the recession was worse than anyone thought at the beginning of 2009, costing the Government even more in assistance and lost revenue. Nonetheless, the President remains committed to cutting in half by the end of his first term the deficit he inherited on January 20, 2009.

Terminate or Consolidate Outdated or Ineffective Programs. Too often programs and practices persist because of inertia. The President sought to change this mentality by having his Administration conduct a line-by-line review of the Federal budget. In his first Cabinet meeting, he challenged the assembled agency heads to find at least $100 million in collective cuts to their administrative budgets, separate and apart from those identified in the 2010 Budget. They responded by identifying 77 cost-saving measures—amounting to $243 million in savings through 2010. In addition, as part of the 2010 Budget, the President identified 121 programs for reduction, termination, and other savings amounting to $17 billion in savings. While recent administrations have seen between 15 to 20 percent of their proposed discretionary cuts approved by the Congress, this year we were able to see 60 percent become law. Building on that, the President is proposing more than 120 savings proposals totaling approximately $20 billion.

Freeze Pay and Eliminate Bonuses for Senior Political Appointees. The Administration values the essential work of our talented Federal employees, but at a time when millions of Americans are without work and millions more are going without bonuses and raises, the Federal Government too must cut back. Last year, the President ordered a freeze of White House senior staff pay. And for 2011, the Administration proposes to extend this pay freeze to all senior political appointees throughout the Federal Government and continue the policy of no bonuses for all political appointees.

Reduce Improper Payments. Each year, taxpayers lose billions of dollars in wasteful, improper payments by the Federal Government to individuals, organizations, and contractors who inadvertently or deliberately overbill the Government. In 2009, the Administration was able to identify improper payments totaling $100 billion—a figure driven by improved detection and the significant increase in Federal outlays associated with the economic downturn and recovery. In response, agencies will be implementing an Executive Order the President signed at the end of 2009 to rein in improper payments. First, we will bring more transparency to these errors by creating an online dashboard of key indicators and statistics so that the public can access information on improper payments, view payment error rates by agency and program, and see a list of the most egregious actors. Second, we will hold agencies accountable for reducing improper payments while maintaining program access, through—among other steps—designating one Senate-confirmed appointee to be accountable to the President for meeting improper payment reduction targets and consolidating program integrity activities. Third, we will provide incentives for States, agencies, and recipients to report and reduce payment errors by using rewards—such as allowing States that reduce improper payments—to recoup more Federal grant dollars to cover administrative expenses, and use punishments, such as financial penalties on contractors who do not timely disclose an improper payment. Lastly, the Administration is launching the Partnership Fund for Program Integrity Innovation, an initiative which focuses on improving service delivery, payment accuracy, and administrative efficiency in Federal assistance programs while reducing access barriers for beneficiaries.

Cut Waste in Contracting. Since 2002, Federal spending on contracts has more than doubled to more than $500 billion. From 2002 to 2008, the value of contracts awarded without full and open competition increased by 129 percent— from $82 billion to $188 billion. The President has charged Federal departments and agencies with saving $40 billion annually by 2011 through terminating unnecessary contracts, strengthening acquisition management, ending the overreliance on contractors, and reducing the use of high-risk contracts. In the first year of this effort, agencies have identified more than $19 billion of savings in 2010—on track to meet the $40 billion target. In 2011, the Administration will work with agencies on furthering their contracting reform efforts so that the $40 billion target is met. In addition, we will explore ways to gain additional savings through leveraging the purchasing power of the Federal Government. We are also making significant investments in the acquisition workforce to make sure agencies have adequate capacity to oversee and manage contracts—and ultimately to save money and provide better services to the American people. The Department of Defense also will further reduce its use of high-risk contracts by 9 percent and take steps to ensure that military requirements for weapons are reasonable, program costs and schedules are realistic, and acquisition funding is stable.

Rigorously Evaluate Program Performance. In order to drive evidence-based decisions about what works and what doesn't, the Administration is aggressively expanding its program evaluation efforts. In response to the Office of Management and Budget (OMB) guidance, 17 agencies submitted a total of 61 specific proposals ranging from new efforts to evaluate the efficacy of new investments in early child-hood education to a proposal to determine which approaches to foreign assistance are most effective in reducing poverty in poor countries. In the Budget, the Administration will fund 23 of the most promising new program evaluations and strengthen evaluation capacity in other agencies. All major evaluations planned or underway will be posted online from the time they are started, so that agencies cannot hide negative findings.