POLICY BRIEF
PRESIDENT BIDEN’S 2023 BUDGET

March 30, 2022

The President submitted this week his proposed budget for Fiscal Year (FY) 2023. Traditionally the President’s budget proposals are more important as indicators of policy priorities than they are of absolute dollar amounts. The major themes of the Budget are generally increased spending (for both domestic programs and defense), significant tax increases for corporations and high-earning individuals, and a path to reduction of projected Federal budget deficits from their current, highly dangerous, trajectory.

Spending – winners and winners

Total spending under the President’s proposal is $5.792 trillion, a decrease of over $1 trillion from the $6.822 trillion in total outlays in FY 2021 during the height of the pandemic and just under the estimated total outlays of $5.852 trillion for FY 2022.¹ (For comparison, the FY 2021 budget request, prepared just before the pandemic, was $4.829 trillion – in terms of Gross Domestic Product (GDP), this is 20.7% of GDP in comparison to the proposed 22.7% of GDP for FY 2023. In the current budget.) In the FY 2023 budget, every major agency of the Federal Government would spend more, often at double-digit increases. Proposed defense spending is $773 billion, 9.8% above FY 2021, in a budget which “prioritizes China as the [Defense] Department’s pacing challenge.” Total non-defense domestic “discretionary” spending (excluding items such as Social Security and Medicare) is $873 billion – a decline from the comparable estimated figure of $928 billion for FY 2022. Notable spending increases include the Department of Veterans Affairs at $119 billion ($31 billion above 2021 spending), Commerce at $11.7 billion (a 31.2% increase), and EPA at $11.9 billion (up 29%).

Items of recent CED focus in the proposed budget include the following. On broadband, the budget proposes $600 million in new funding through USDA’s ReConnect program in addition to the $65 billion approved in the Bipartisan Infrastructure Law last fall. For the pandemic, the Budget proposes a sizeable increase in HHS’ funding for public health agencies ($81.7 billion over five years), promoting pandemic relief and preparedness and “build[ing] towards a goal of making effective vaccines and therapeutics available within 100 days of identifying a new pathogen” and $9.9 billion “to build capacity” at the Centers for Disease Control and Prevention and state and local health agencies – $2.8 billion above 2021, all part of a 26.8% proposed increase for HHS above FY 2021. HHS’ early care and child education programs would receive $20.2 billion, $3.3 billion above 2021 levels, and $12.2 billion for Head Start,” up $1.5 billion over 2021. The Education Department would receive $88.3 billion, up

¹ Because the continuing resolution funding the government for the remainder of Fiscal Year 2022 was enacted so recently, the 2023 budget document generally compares spending to a Fiscal Year 2021 baseline, although a few 2022 figures do reflect the first continuing resolution and four supplemental appropriations bills enacted before March 1, 2022, including the Infrastructure Investment and Jobs Act. See “General Notes,” https://www.whitehouse.gov/wp-content/uploads/2022/03/budget_fy2023.pdf (this document is the source of all quotations unless otherwise noted). Comparing the 2023 budget request to actual 2021 spending makes the percentage increases in proposed spending look more dramatic.
$15.3 billion from FY 2021, including $36.5 billion for Title I programs that support 25 million students in low-income communities “in nearly 90 percent of school districts [.]”

**The President’s priorities – some political, some not**

Every Administration uses the proposed Budget as a political document. The President wrote in his introductory message that the Budget is “anchored in my bedrock belief that America is at its best when we invest in the backbone of our Nation: the hardworking people in every community who make our Nation run.” This runs through the emphasis on infrastructure, increases in fighting crime and enforcement of antitrust laws, and the proposed tax increases discussed below to promote what the President called “a sound fiscal course,” one that “fights inflation and helps families deal with rising costs by growing our economy, making more goods in America, and lowering the costs families face.”

As the Washington Post noted, this Budget is a sharp contrast to President Obama’s attempt to cut entitlement programs such as Social Security and Medicare and other programs. Instead, this Budget presumes rising spending – and seeks tax increases, as well as generous assumptions on economic growth, to finance it.

While the overall theme of the Budget is “Building a Better America,” the document takes an ambiguous attitude towards the Build Back Better program the President has advocated. It notes that “[b]ecause discussions with the Congress continue,” the Budget “includes a deficit neutral reserve fund to account for future legislation, preserving the revenue from proposed tax and prescription drug reforms for the investments needed to bring down costs for American families and expand our productive capacity.” This signals strong continued Administration interest in reaching a deal on a smaller Build Back Better package in the Senate, presumably one that Senator Joe Manchin (D-WV) can support, in areas from the child tax credit to environmental provisions.

As he signaled during the State of the Union address, the President is proposing “a bipartisan unity agenda – areas where we can all come together to make progress,” including funding for a “Cancer Moonshot” to reduce death rates and increased funding for mental health and opioid death prevention (while also requiring private insurers to cover substance abuse and mental health), and veterans’ care as well as the new ARPA-H health research center modeled on the Defense Department’s research agency. While the President has been passionately committed to each of these issues throughout his career, it is also easy to see these issues becoming a campaign theme for the fall midterms if Republicans do not embrace this piece of the agenda. It is unclear whether Republicans will support these measures; there is a controversy as to which agency would host the new ARPA-H center, with at least some Republicans opposing putting it in the National Institutes of Health, though there is apparently some Republican support for the Cancer Moonshot.

**Proposed tax changes**

Increased spending with reduced deficits can come from economic growth – or from tax increases. While the Biden budget assumes economic growth (see below), it also proposes a series of tax increases. Getting most attention is a proposed “20 percent minimum tax on multi-millionaires and billionaires”
who frequently pay lower rates than working families. The tax would apply to those with more than $100 million, the wealthiest 0.01 percent of households, projected to raise $36 billion in FY 2024. The budget claims that “over half the revenue would come from billionaires alone.” In a significant change, the tax would apply to net worth and capture unrealized gains as a “prepayment of tax obligations” and “pay as they go, just like everyone else” (because most workers pay taxes on their full income every year). This, like earlier proposals from Senator Elizabeth Warren (D-MA) and others is an attempt to end “special treatment for the types of income that wealthy people enjoy” on the view that “our tax code has rewarded wealth, not work, and contributed to growing income and wealth inequality.” The proposal has been criticized as potentially violating the Constitution’s prohibition on “capitation” taxes unless “in proportion to” population (Article I, Section 9); other scholars strongly disagree.

The proposed budget would also raise the corporate tax rate to 28 percent from its current 21 percent, halfway between the current rate and the 35 percent “that prevailed for most of the last several decades.” The language on this proposal is harsh: “While [corporations’] profits have soared, their investment in the economy did not. Those tax breaks [from 2017] did not trickle down to workers or consumers.” The criticism of corporate investment levels is at minimum a debatable point, even with the pandemic; figures from the St. Louis Fed for gross private domestic investment and nonfinancial corporate business investment show overall increases since enactment of the 2017 tax law. The budget proposes other changes to corporate taxes to promote investment and jobs. Beyond this, it proposes taxing carried interests of partnerships as ordinary income rather than at lower capital gains rates. While the proposal also increases the top marginal income tax rate to 39.6% for earners above $400,000 (single) or $450,000 (married), it does not raise taxes on anyone making less than $400,000 per year, fulfilling a campaign promise.

Total proposed revenue increases are about $2.5 trillion over ten years.

Effect on deficits and debt

Using the White House’s estimates, the proposed budget would cut deficits around $1 trillion over the next decade. But because the Federal government will still run deficits, under this budget proposal, the national debt will still increase — a dangerous outcome, particularly given higher interest rates, as a recent CED Solutions Brief “Dealing With Fiscal Debt: A Policy Roadmap” explained. Deficits over the next ten years never go under $1 trillion and generally rise each year after a projected low of $1.154 trillion in 2023. As a percentage of GDP, deficits would fall from 5.8% this year and remain below 5% through FY 2032. Outlays stay generally between 22.7 and 24.0% of GDP for the period, rising to a projected $8.867 trillion by FY 2032. Under these assumptions, total public debt held by the public is estimated to equal 107% of GDP in 2032, slightly less than the 110% in the Congressional Budget Office’s 2021 Long-Term Budget Outlook cited in CED’s Solutions Brief.

The Administration justifies the deficits in part by its view of the real interest on the debt, noting that since the 1990s, as a percentage of “the economy”

the effective real interest rate on Federal debt has fallen ten-fold, from over 4 percent to 0.4 percent in the 2010s. As a result, real interest has fallen—and real interest costs are expected to
remain negative in 2022. The Budget’s economic assumptions anticipate that real interest rates would rise over the coming decade, using projections in line with private forecasters. Nevertheless, under these assumptions, the President’s policies would keep real interest at or below the historical average over the coming decade. This means that we have the capacity to make fully-offset, critical investments that expand the productive capacity of the economy while also keeping real interest cost burdens low by historical standards.

However, the budget does not define “historical average” – presumably the figure is closer to the one percent of “the economy” in the 1980s. Its projections on future interest rates may well be too low. As the Solutions Brief noted, the prospect of rising interest rates means that under current baseline projections for spending and revenue, small increases in interest rates will cut further into the nation’s ability to pay for current spending obligations and future priorities, crowding out other spending.

**Economic Assumptions in the Budget**

The Budget relies on economic assumptions through 2032 using data available through October 2021. The projection for growth of real GDP shows year-over-year growth of 4.2% in 2022, 2.8% in 2023, and then muted 2.2% annual growth, on average, from 2024-2032. This is roughly in line with average real GDP growth of 2.3% year-over-year from 2010-2019, post 2008-09 recession and pre-pandemic.

Inflation, as measured by the Consumer Price Index (CPI), is projected to level off to year-over-year growth of 2.3% each year from 2023-2032. In 2021, the year-over-year change in the CPI was 4.7%, according to the Bureau of Labor Statistics. The economic assumptions have growth remaining at this level in 2022. For the year so far, in both January and February 2022, the CPI grew by 7%, year-over-year, well above the projection for the year.

Interest rates, which have been at historically low levels, are assumed to increase. On March 16, the Federal Reserve implemented the first interest rate increase since December 2018. More increases are expected to follow as the Fed works to ‘promote a long [economic] expansion’ in an ‘environment of price stability.’ After 2023, the rate increases are more gradual and are expected to reach projection-period terminal levels in 2028.

**Prospects**

President Franklin Roosevelt’s statement that “It is the duty of the President to propose and it is the privilege of the Congress to dispose” (generally shortened to “the President proposes and Congress disposes”) is never more accurate than with the annual budget. The document simply states the President’s and the Administration’s priorities. It will receive Congressional hearings at which various members of the Administration will testify, but it will almost certainly never receive a formal vote. Instead, Congress will begin working on 13 appropriations bills, holding hearings and making what progress it can in a sharply partisan atmosphere.

But if Congress cannot enact these bills, then the portions of the government not funded for FY 2023 through individual appropriations bills – or perhaps, as so many times in the recent past, the entire
Federal government – will be funded through a continuing resolution (CR). (Ironically, a CR might have a positive effect on the Federal deficit and debt because spending on most items would likely be held to the levels of FY 2022 rather than increasing.) And if Congress cannot even enact a CR, then it faces a government shutdown, perhaps as early as October 1 but more likely after the Congressional elections this Fall. That is a dispiriting prospect, but for now, the President has fulfilled his duty, and it is up to Congress to act.