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# Obama's Budget Seeks Deep Cuts in Domestic Spending

By JACKIE CALMES

WASHINGTON — **President Obama**, who is proposing his third annual budget on Monday, will say that it can reduce projected deficits by \$1.1 trillion over the next decade, enough to stabilize the nation's fiscal health and buy time to address its longer-term problems, according to a senior administration official.

Two-thirds of the reductions that Mr. Obama will claim are from cuts in spending, including in many domestic programs that he supports. Among the reductions for just the next fiscal year, 2012, which starts Oct. 1, are more than \$1 billion from airport grants and nearly \$1 billion from grants to states for water treatment plants and similar projects. Public health and forestry programs would also be cut.

Home energy assistance to low-income families and community service block grants would be cut in half, and an initiative to restore the Great Lakes' environmental health would be reduced by one-quarter.

The administration readily concedes, even boasts, that the president will not win any race to outcut Republicans. In the House, Republicans are trying to slash up to \$100 billion in the current fiscal year alone before they begin writing their own proposed budget for 2012 and beyond.

But the administration contends that its plan would leave the country in better overall fiscal health than the path Republicans envision. Even as they seek to downsize domestic programs, they would exempt the Pentagon from budget reductions, make permanent all the **Bush-era tax cuts** that are to expire at the end of 2012 and repeal cost-saving provisions of the health care law.

Mr. Obama would also extend the Bush tax cuts, but not for people whose taxable income is more than \$250,000 a year. His budget does not count that proposed change as a savings; in fact, the huge revenue loss from extending the tax cuts for all income below that amount is included in his deficit projections for the remainder of the decade.

By 2015, the senior administration official said, Mr. **Obama's budget** would show a deficit of just over 3 percent of the gross domestic product, down from three times that level, and at roughly the point that economists consider stable; it would hover around that point through 2021. But beyond 2021, an aging population and rising health care costs are forecast to drive annual deficits higher again.

With Republicans in charge of the House, Mr. Obama's budget is more a statement of his priorities and philosophy than an actual template for federal spending and tax policy. Long-term budget projections — and especially deficit forecasts — are frequently unreliable because they are subject to so many political and economic variables. The point of Mr. Obama's forecast is less to promise a specific result than to signal to voters and financial markets that he is serious about reducing annual deficits.

Mr. Obama's budget will also serve as his frame for the debate with Republicans over the highly political act of writing next year's budget — even as he tests Republicans' willingness to compromise on the more divisive solutions to the nation's long-range imbalances. “This is the opening bid in a long process,” said Senator **Richard J. Durbin**, Democrat of Illinois and the second-ranking Senate leader.

Previewing his budget message, Mr. Obama has argued for weeks that cuts deeper than he is seeking could threaten the fragile economic recovery and that America's future growth and competitiveness demand increases in programs for education, infrastructure, innovation and research.

Mr. Obama would reduce military spending and some health program costs, but neither party is tackling the unsustainable long-term growth of entitlement programs like Medicare or proposing to raise revenues significantly to close the budget gap.

“This is a budget that’s at that pivot point where we’re saying we now have to move from making sure the recovery takes hold, while being careful not to undermine it, to start to move in the direction of putting policies in place that deal with the deficit,” said the administration official, who spoke on the condition of anonymity in order to preview budget details, “because if we don’t deal with the deficit, it becomes the potential next substantial economic challenge.”

The \$1.1 trillion in total deficit reduction that the administration will claim through the 2021 fiscal year is measured from spending levels enacted by Congress and the president for the 2010 fiscal year. Comparisons of the impact of Mr. Obama’s new budget and House Republicans’ proposals on deficits and the size of government are difficult to make until both budgets are available.

House Republicans will begin work on a 2012 budget after they finish trying to shrink current spending. But their proposed \$100 billion cut for this fiscal year, already four months old, would translate over a decade into more than \$1 trillion in deficit reductions, budget analysts say.

Yet even if House Republicans can resolve internal fights over the cuts and pass them, such reductions will not survive opposition from Mr. Obama and the Democratic-controlled Senate. The Republicans’ zeal for spending cuts, however, suggests that Mr. Obama ultimately could be forced to accept bigger reductions in overall nonsecurity spending than he now supports.

The president has proposed a five-year freeze of such spending, through 2015, which the administration estimates would save \$400 billion in the next 10 years.

Decades of budget history would suggest, however, that neither party can sustain the levels of cuts they are proposing for nonsecurity discretionary spending, which while just over a tenth of the federal budget covers most government programs, like air traffic control, national parks and cancer research.

Typically, such spending has grown faster than inflation, but not nearly as fast as that for much bigger items whose costs are driving projections of a dangerously mounting debt — the military, the entitlement programs Medicare, **Medicaid** and **Social Security**, and interest on that debt.

While the Pentagon would not be subject to his freeze, Mr. Obama proposes reducing its previous spending plans by \$78 billion over five years and cutting several weapons programs, including a Joint Strike Fighter engine and Marine expeditionary vehicle.

Together with “a pretty big reduction” in war costs from troop withdrawals in Iraq, the overall military budget would be smaller in real terms than it currently is, the administration official said. “We’re going from an environment where, if something was for defense, it was outside of normal budgetary discipline,” the official said, “and we’re saying that can’t be anymore.”

Mr. Obama’s budget assumes new revenues, mostly from tax changes he has already proposed that would affect multinational corporations and upper-income individuals, and savings from reduced interest payments on what he calculates as a lower federal debt.

The president will also challenge Congress to offset the high costs of two actions repeatedly approved by lawmakers and presidents — one prevents the **alternative minimum tax** from annually hitting many middle-class households rather than only the affluent taxpayers it was intended for, and the other blocks a law that would slash payments to doctors who treat Medicare patients. In past years, the costs of those remedies have often simply been added to deficits.

To pay for adjusting the alternative minimum tax for three years, through 2014, Mr. Obama again will propose a limit on the tax deductions that people in the top brackets can claim. Congress has rejected that idea, which would raise roughly \$300 billion over 10 years.

To offset the cost of protecting physicians’ reimbursements for two years, he will propose \$62 billion in savings through changes that squeeze Medicare and Medicaid payments to hospitals and doctors and expand the use of generic drugs in federal health programs.

The budget confirms that Mr. Obama is not taking the lead in embracing the kind of far-reaching deficit-reduction plan recommended in December by a bipartisan majority of his fiscal commission. It proposed saving \$4 trillion over a decade through specific cuts in spending for domestic, military and entitlement programs and new revenues from overhauling the tax code.

Instead, he has called on Republicans to negotiate with him to reach that goal.

While that disappoints deficit hawks in both parties, many say they are sympathetic or even supportive of his caution because neither party seems ready to compromise.

Senator [Kent Conrad](#) of North Dakota, chairman of the Senate Budget Committee and a Democratic member of the fiscal commission, said: “In this highly partisan environment, if the president proposes something, there is automatically some group that is opposed. It may be better for him to play the role of referee.”

Mr. Conrad added: “To get a result, the president has got to be part of a larger process that involves Republicans and Democrats, the House and Senate. How one gets to the table is not just one move, it’s a series of moves. And it’s very, very difficult.”



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