Obama Budget: Some Cuts, Focus on Economy

WASHINGTON (AP) - Putting on the brakes after two years of big spending increases, President Barack Obama unveiled a $3.7 trillion budget plan Monday that would freeze or reduce some safety-net programs for the nation's poor but turn aside Republican demands for more drastic cuts to shrink the government to where it was before he took office.

The 10-year blueprint makes "tough choices and sacrifices," Obama said in his official budget message. Yet the plan, which sets the stage for this week's nasty congressional fight over cuts in the budget year that's already more than one-third over, steers clear of deeply controversial long-term problem areas such as Social Security and Medicare.

The budget relies heavily on the recovering economy, tax increases and rosy economic assumptions to estimate that the federal deficit would drop from this year's record $1.6 trillion - an astronomical figure that requires the government to borrow 43 cents out of every dollar it spends - to about $600 billion after five years.

Obama foresees a deficit of $1.1 trillion for the new budget year, which begins Oct. 1, still very high by historical benchmarks but moving in the right direction.

The president claims $1.1 trillion in deficit savings over the coming decade for his plan, a 12 percent cut from the federal deficits the administration otherwise projects. But that figure includes almost $650 billion in spending cuts and new transportation revenues the administration won't specify.

Obama would trade cuts to some domestic programs to pay for increases in education, infrastructure and research as necessary investments that he judges to be important to the country's competitiveness in a global economy.

But he also raises taxes by $1.6 trillion over the coming decade, much of it from allowing recently renewed tax cuts for families making more than $250,000 a year to expire in two years - he signed a two-year extension of them into law just two months ago - and from curbing their tax deductions for charitable contributions, mortgage interest and state and local tax payments.

Despite his spending cuts and tax increases, the government's total debt would still mushroom from $14.2 trillion now to almost $21 trillion by 2016. Republicans assailed his blueprint for failing to take the lead on the nation's daunting fiscal problems.

"People vote for presidents because they want leadership," House Budget Committee Chairman Paul Ryan, R-Wis., said in an interview. "They expect presidents to take on the greatest challenges facing the country. Well, the biggest crisis we have is the debt, and he's doing absolutely nothing to get it under control."

While Obama's budget total of $3.7 trillion would be down slightly from this year's estimated $3.8 trillion, lower war costs and naturally declining stimulus spending are chiefly responsible.

A year after appointing a bipartisan commission to recommend ways to deal with the debt, Obama would bypass almost all of its painful prescriptions to cut huge benefit programs like Social Security and Medicare. But the president said he understood more must be done.

"The only way to truly tackle our deficit is to cut excessive spending wherever we find it, in domestic spending, defense spending, health care spending and spending through tax breaks and loopholes," Obama said at a middle school outside Baltimore. "So what we've done here is make a down payment."

The White House and its allies said the administration was willing to go further in taking on the long-term problems of Social Security, Medicare and other huge benefit programs. But for Obama to go out on a limb and propose them now, they said, could be counterproductive. It would invite partisan attacks and rally interest groups in opposition.

Instead, Obama appears to be counting on private talks with lawmakers to spark action on the deficit this year, especially in the Senate, where a bipartisan group including several members of the Obama's debt commission are trying to be that catalyst.

"Ultimately the best strategy for getting a result is if we demonstrate in the Senate - Republicans and Democrats - that there's some serious prospect of taking this on," said Budget Committee Chairman Kent Conrad, D-N.D., who's taking part in the Senate talks.

The $1.1 trillion in claimed budget savings over the coming decade combines cuts in domestic agency budgets with tax increases and modest curbs to benefit programs like Medicare. But the administration claims more than $300 billion of that savings - to pay for preventing a cut in Medicare payments to doctors - without specifying where it would come from. An additional $328 billion would come from unspecified "bipartisan financing" to pay for transportation infrastructure projects like high speed rail lines and road and bridge construction.

To reduce the annual deficit to a relatively manageable $607 billion by 2015, or 3.2 percent of gross domestic product, the White House gives optimistic estimates for the cost of the wars in Iraq and Afghanistan and relies on significantly rosier economic predictions than does the nonpartisan Congressional Budget Office. The White House estimates economic growth averaging 4 percent over 2013-2016; CBO predicts a more modest 3.4 percent.

"They are certainly on the upbeat side," said David Wyss, chief economist at Standard & Poor's in New York.

The rosy economic projections help the administration project significantly more tax revenues than otherwise would occur - on the order of $1.7 trillion over the upcoming decade when compared with CBO estimates.

While the budget deficit would drop to $645 billion in 2014, Obama's policies have virtually nothing to do with it. In fact, his promised $36 billion in deficit reduction in 2014 could be erased by higher war costs than the administration estimates. In the current year, the administration's policies actually would increase the deficit by $31 billion, in part by proposing a $250 payment to Social Security beneficiaries that's already been rejected on Capitol Hill.

The president's projected $1.6 trillion deficit for the current year would be the highest dollar amount ever, surpassing the $1.4 trillion deficit hit in 2009. It would also represent 10.8 percent of the total economy, the highest level since the deficit stood at 21.5 percent of gross domestic product in 1945, reflecting heavy borrowing to fight World War II.

The president's 2012 budget projects that the deficits will total $7.2 trillion over the next decade with the imbalances never falling below $607 billion. Even that would exceed the deficit record before Obama took office of $459 billion in 2008, President George W. Bush's last year in office.

Obama's budget would also raise $46 billion over 10 years by eliminating various tax breaks to oil, gas and coal companies - proposals that went nowhere when Democrats controlled Congress and are even less likely to pass now that Republicans control the House.

While Obama's budget avoided painful choices in entitlement programs, it did call for $78 billion in cuts from the Pentagon's future plans, to kill a program opposed by Obama to build an alternative engine for the F-35 Joint Strike Fighter, a move opposed by House Speaker John Boehner, R-Ohio, whose state is a principal beneficiary. Obama would also terminate a new amphibious assault vehicle for the Marine Corps; it's well behind schedule and way over budget.

Administration officials also said that the savings from limiting tax deductions for high income taxpayers would be used to keep the Alternative Minimum Tax from hitting more middle-class families over the next two years.

The budget proposes cutting grants for airports and funding awarded to states for water treatment plants, and proposes cutting energy subsidies for the poor in half, reversing huge gains awarded by Democrats the past two years.

Obama's budget for next year comes as House Republicans are trying to slash current-year spending by $61 billion, a proposal that would cut domestic agencies funded by Congress each year by almost one-quarter over the second half of the budget year.

Republicans are taking on many of the very programs Obama wants to increase. Obama is seeking $53 billion for high-speed rail over the next few years; Republicans are trying to pull back $2.5 billion that's already been promised. He's seeking increases for his "Race to the Top" initiative that provides grants to better-performing schools; Republicans on Friday unveiled a 5 percent cut to schools serving the disadvantaged.

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AP Economics Writer Martin Crutsinger contributed to this report.

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