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Federal Budget (2011 and 2012) — Obama and Ryan Budget Plans

E-MAIL

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The Republican capture of the House in the November 2010 elections set the stage for a series of confrontations in 2011 between President Obama and his Democratic allies in the Senate and conservatives who campaigned on making steep cuts to government spending. The clashes played out against the backdrop of deficits that had risen sharply since the recession began in 2007, and unemployment levels that remained high even as the economy began a faltering recovery.

In April 2011, the federal government came within hours of a shutdown before Mr. Obama and [John A. Boehner](#), the Ohio Republican who became Speaker of the House in January struck a deal that was described as reducing spending by \$38 billion over the six months left in the 2010 fiscal year.

But even before the agreement was reached, the two sides had begun jockeying for advantage on two fronts involving far bigger numbers that could produce much larger clashes: the 2012 budget, and the federal [debt limit](#), which the government hit in May, although the Treasury said it could manage to pay the bills until Aug. 2.

Mr. Obama at first demanded a "clean" debt limit bill, but entered into negotiations with Republicans, hoping for a "grand bargain" that would reduce deficits by \$4 trillion over 10 years through spending cuts, entitlement changes and new tax revenue.

By the end of July, increasingly bitter talks still continued, as an event that had one seemed unthinkable — a default by the federal government — loomed only days away.

Late on the night of July 31, [President Obama and Congressional leaders of both parties announced an agreement](#) that would raise the debt ceiling by up to \$2.4 trillion in two stages, enough to keep borrowing into 2013. The pact called for at least \$2.4 trillion in spending cuts over 10 years, with \$900 billion in across the board cuts to be enacted immediately.

A bipartisan Congressional commission would be given the task of coming up with the second round of deficit reduction. To put pressure on, the failure of Congress to enact those cuts would trigger automatic spending cuts that [would trigger across-the-board cuts](#) in military spending, education, transportation and [Medicare](#) payments to health care providers.

The two-stage structure of the deal guarantees that Republicans and Democrats will keep wrestling over big changes to long-term budget plans through the presidential campaign in 2012.

At the same time, they face another flashpoint when the current budget expires on Sept. 30, to be replaced either by a 2012 budget or a series of continuing resolutions that would keep the government functioning until an agreement is reached or talks end in a shutdown.

The 2012 Budget

In February, President Obama began the longer-term discussion by proposing a \$3.7 trillion 2012 budget that reflected a cut-and-invest agenda: It would create winners and big losers as he proposes to slash spending in some domestic programs to both reduce deficits and make room for increases in education, infrastructure, clean energy, innovation and research to promote long-term economic growth and global competitiveness.

But the proposal shied away from many of the biggest long-term issues, as White House officials decided to let the short-term struggle over the 2011 budget play itself out first.

The Republican response came in April, as those negotiations were reaching a climax, when Representative [Paul D. Ryan](#) of Wisconsin unveiled his party's 2012 budget. He said the plan would reduce the deficit by \$5.8 trillion over the next decade, mainly by making deep cuts in discretionary spending programs and turning [Medicare](#) into a "defined benefit," in which seniors would get vouchers to buy private insurance. Medicaid would shrink as the federal contribution to state programs would be capped. It also proposes reducing the top corporate and individual tax rates to 25 percent in what Republicans say is a move to improve American economic competitiveness.

Mr. Ryan's budget plan was [passed by the House on April 15](#) by a vote of 235 to 193, almost entirely on party lines. Not a single Democrat voted for it; four Republicans voted against it.

Republican leaders said they were well aware of the political dangers that lie in proposing changes to popular programs like Medicare. But they insisted that their momentum from their big victories in the midterm elections will allow them to push for sweeping cuts; their leaders also acknowledged that the energized conservative wing of their caucus might not accept anything less.

But in early May, Republican leaders [signaled they were backing away from the Medicare plan](#), saying it would do no good to pass legislation that

could not pass the Democratically held Senate.

The Senate in May voted down both Mr. Obama's budget and Mr. Ryan's. Senate Democrats decided not to produce a budget plan while negotiations continued in connection with the debt limit. Mr. Boehner said a debt deal would require at least \$2 billion in spending cuts, and made clear he would resist making tax increases part of the package, as Democrats have urged.

Separately from his budget proposal, Mr. Obama on April 12 laid out a plan that called for cutting the nation's budget deficits by \$4 trillion over the next 12 year, offering what he said was a more balanced approach that relies in part on tax increases for the wealthy as well as on spending cuts.

In a speech that served as the administration's opening bid for negotiations over the nation's fiscal future, Mr. Obama conceded a need to cut spending, rein in the growth of entitlement programs and close tax loopholes, officials said shortly before he spoke.

But he also insisted that the government must maintain what he called investment in programs that are necessary to compete globally. And he made clear that, despite his compromise with Congressional leaders in December, Mr. Obama would fight Republicans to end lowered tax rates for wealthy Americans that have been in place since President [George W. Bush](#) championed them in the last decade.

Mr. Obama gained few of those points in the debt ceiling deal reached at the end of July. Administration officials said they were hopeful that Republicans would be willing to consider some new revenues in exchange for protecting military spending from deep cuts.

And if a stalemate persists, the Bush tax cuts will expire at the end of 2012.

Background: 2011 Budget

The deficit rose through the 1980s and played a role in the election of 1992. It receded during the Clinton administration, turning — briefly — into a surplus, before rising again under George W. Bush. The economic meltdown of 2008 led to a spike in borrowing, as tax revenues fell and the government stepped up stimulus spending to try to get the economy moving.

To address the long-term picture, President Obama appointed the [National Commission on Fiscal Responsibility and Reform](#), a bipartisan panel. In November 2010, after the fall Congressional elections, the panel's two chairmen produced a draft report calling for deep cuts in domestic and military spending, a gradual 15-cents-a-gallon increase in the federal [gasoline tax](#), limiting or eliminating popular tax breaks in return for lower rates, and benefit cuts and an increased retirement age for [Social Security](#).

The plan eventually won the support of 11 of the panel's 18 members. That fell short of the "supermajority" requirement of 14 needed to send the plan directly to Congress for a vote.

By January 2011, the deficit for the current budget year was projected to reach \$1.5 trillion.

That rise was followed by an increase in angry opposition to government spending, most notably in the Tea Party movement, which helped propel Republicans to control of the House in the November 2010 elections. That momentum set the stage for what could be months of fighting, although both parties supported the \$858 billion compromise package that extended tax cuts and unemployment benefits during the lame-duck Congress. All of that was added to the deficit.

In December, after joining to pass the tax package, Senate Republicans and Democrats fought over a spending plan. The Democrats packaged appropriations bills into a \$1.2 trillion omnibus spending bill that would cover the government's expenses through the end of the fiscal year on Sept. 30, 2011. The plan was \$26 billion less than Mr. Obama's original budget request and contained many items requested by Republicans.

In January, the new Republican speaker, Representative [John A. Boehner](#) of Ohio, made one of his top priorities cutting back domestic spending unrelated to security to its 2008 level, a cut of about \$100 billion. After taking over the House, Republican leaders planned to scaled that back to about \$32 billion because the current fiscal year, which began Oct. 1, would be nearly half over before spending cuts could become law.

But in February, they said they would accede to demands from conservatives and dig deeper into the [federal budget](#), showing the power of the [Tea Party movement](#). In February, the House passed a budget calling for \$60 billion in cuts from the 2010 budget.

Showdown and Shutdown Averted

In April 2011, President Obama and House Republicans moved toward a showdown over the last few months of the current budget, with talks focused around a temporary budget resolution set to expire on April 8.

As that date approached, the odds of a standoff appeared to increase. Democrats said in early April that Mr. Boehner had agreed to a deal involving cuts that would total \$33 billion over the remaining six months of the budget. That figure was close to what Mr. Boehner had proposed in January.

At a meeting at the White House on April 5, Mr. Boehner insisted that at least \$40 billion in cuts were needed to win passage in the House. Republican leaders have also insisted they would also push on with the policy riders they included in the budget, which would repeal the health care reform bill passed in 2009 and strip the Environmental Protection Agency of some powers.

At that meeting, [President Obama flatly dismissed a short-term Republican plan](#) to keep the federal government operating past April 8 with a one-week continuing resolution. The resolution would require cutting another \$12 billion and includes at least one of the controversial policy amendments that are as much a sticking point between Republican and Democrats as the number; it featured language to bar federal and local financing for abortion services in Washington.

The deal that came together in the hours before a shutdown began represented a victory for the Republican push for spending cuts, but left many in their party — as well as many Democrats — unhappy.

The Deficit Impact

Many conservative members of the House were angered when they saw the fine print of the spending deal. Their opposition was fueled by a [Congressional Budget Office](#) comparison that found that the bill would produce only \$350 million in tangible savings this year, in part because cuts in domestic programs were offset by an increase of about \$5 billion for Pentagon programs. When projected emergency contingency spending overseas is figured in by the budget office, estimated outlays for this year will actually increase by more than \$3 billion.

The agreement does put the brakes on what had been a steady growth in spending by federal agencies. Future savings would be greater as the cuts took hold — a point Republican aides emphasized by noting that the plan is estimated to cut spending by \$312 billion over the next decade.