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The President's FY 2011 Terminations, Reductions, and Savings February 15, 2010

Earlier this month, President Obama released his FY2011 budget. Following our overall analysis (<http://crfb.org/document/analysis-presidents-fy-2011-budget>) of the budget, CRFB has written a number of smaller pieces (<http://crfb.org/category/blog-issue-areas/-presidents-fy2011-budget>) focused on specific aspects of the budget. In this paper, we continue this work with a review of the President's proposed Terminations, Reductions, and Savings.

Each year in its budget, the White House puts forward a list of discretionary spending programs that it views as inefficient, ineffective, redundant, or otherwise unnecessary. This year, the White proposed 78 terminations or reductions, aimed at savings of \$10 billion in 2011 alone.

The largest proposed cuts include:

- **Termination of the Constellation Systems Program (\$3.46 Billion)** – Intended to send astronauts to the Moon and then Mars, OMB claims this program is behind schedule and would require billions of dollars more than expected to achieve its goals.
- **Termination of C-17 Transport Aircraft Production (\$2.5 Billion)** – Designed to carry large and heavy military cargoes over long distances, the Department of Defense decided it should cease C-17 production in 2007, arguing that existing C-5s would be sufficient to do the job. Despite this, Congress has continued to provide funding for this program.
- **Reduced Spending on "Section 202" Housing for the Elderly (\$551 million)** – The Administration has proposed reducing grants and subsidies for nonprofits sponsoring the construction of low-income housing. According to the OMB, this Section 202 housing is built more slowly, and at a higher cost, than other federally-assisted housing.
- **Termination of the Joint Strike Fighter (JSF) Alternate Engine Program (\$465 million)** – Started to insure against the risk that the main JSF program would fail, the OMB argues that this program is no longer necessary, given the progress of the main program. The Department of Defense has proposed canceling funding since 2007, yet Congress continues to fund the program.
- **Termination of Health Care Facilities and Construction (\$338 million)** – Meant to support local health programs, OMB argues these funds are neither issued competitively nor used efficiently, and often go to unnecessarily subsidize private health care facilities.

Leading up to its proposals, the Obama Administration has touted its high success rate in achieving its proposed cuts last year. We worry, however, that it will not be as easy to get these cuts through Congress this year.

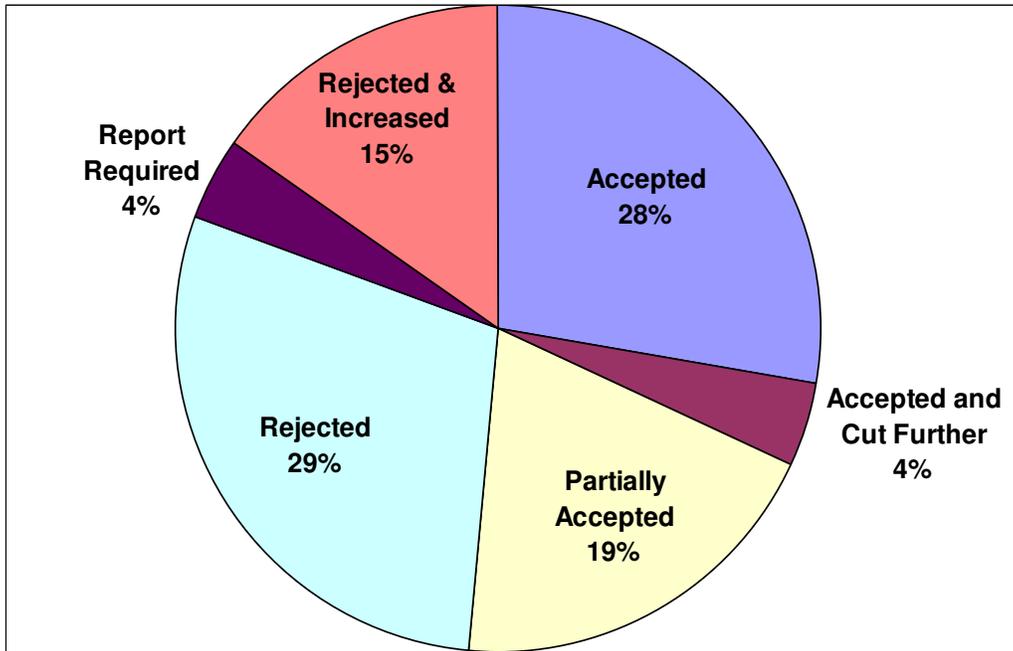
Last Year's Spending Cuts

In his FY2010 budget, President Obama sought to end or reduce 75 discretionary programs for a total of \$11.5 billion in single year savings. Compared to the prior year (under the Bush Administration's budget), this budget proposed fewer cuts but was more successful in achieving them.

In total, according to our calculations, Congress accepted nearly two-thirds of the President's proposed terminations, in dollar terms, saving over \$7 billion. The vast majority of the savings were from Defense cuts, including \$2.9 billion just from terminating the F-22 Raptor Fighter Aircraft, and another \$3.8 billion from cutting the Transformational Satellite, Aircraft Carrier Build Schedule, Multiple Kill Vehicle Program, Combat Search and Rescue (CSAR-X) Helicopter, Future Combat Systems, and the Presidential Helicopter program. These cuts, together, already sum to about 58 percent of the Administration's proposed cuts.

Based on the number of cuts, as opposed to dollars of cuts, the President's success rate is somewhat lower. Of the 72 programs we were able to measure, 23 were reduced at or beyond the requested level, 17 were partially cut or cut contingent on a report, 21 received no cut, and 11 programs were provided with *increased* funding levels.

Fig. 1: Outcomes of Proposed Cuts from FY2010 (by number)

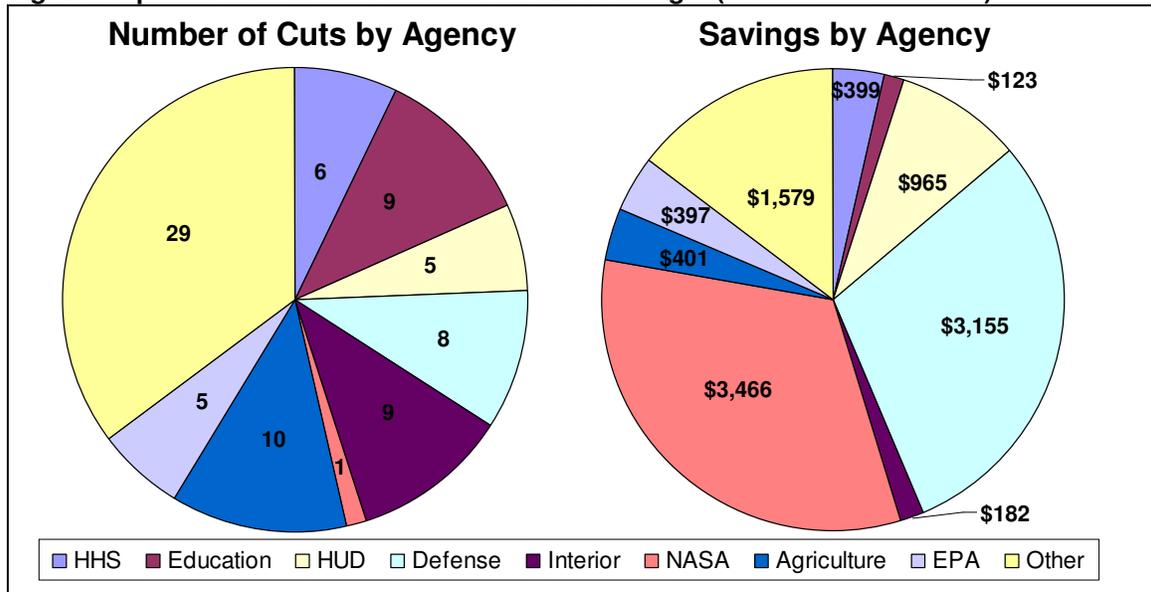


This Year's Spending Cuts

This year's requested cuts are similar, but somewhat smaller, than last year's. In total, the budget proposes 50 terminations and 28 reductions for an estimated \$10.27 billion.

Of these savings, ten items come from the Department of Agriculture, for a savings of \$401 million. Outside of the \$3.5 billion from eliminating the Constellation Systems Program, the largest cuts in dollar terms come from the Department of Defense. In total, this budget has proposed eight Defense cuts meant to save \$3.2 billion. This is down from the 17 cuts worth \$9.5 billion last year, but is still quite significant.

Fig. 2: Proposed Cuts in the President's FY2011 Budget (number and millions)



Ironically, the Administration's high success rate last year might make success more difficult this time around. Much of the low-hanging fruit, including a number of big ticket items, have already been terminated. About one third of the proposed cuts are repeats from last year, and over one sixth were proposed by President Bush the year before (there is some overlap). Unfortunately, many of these are political non-starters.

If the Administration wants to enforce its non-security discretionary spending freeze, it will need to press Congress on some of these cuts. Reducing wasteful and ineffective spending is certainly preferable to reducing more desirable spending – although given the severity of our fiscal situation, both will be necessary.

It is time for Congress to make some hard choices. Even if they accept the President's entire \$10 billion of proposed spending cuts, it will make only a tiny dent in the overall fiscal situation; the FY2011 budget deficit, alone, is projected to be \$1.1 trillion. But still, enacting policies to cut *any* excesses from government spending would be a start.