Committee for a Responsible Federal Budget

CRFB Reacts to the President's FY2011 Budget
February 1, 2010

In his FY 2011 budget, released today, President Obama proposes spending $3.8 trillion (25.1 percent of GDP) in 2011, and collecting $2.6 trillion (16.8 percent of GDP) in revenue. These numbers are 3% and 19% higher than their FY 2010 projections, respectively. The resulting budget deficit would be $1.267 trillion, or 8.3 percent of GDP, somewhat lower than the 9.9 percent in 2009, and the 10.6 percent projected for 2010.

The President's budget proposes a fiscal goal of balancing the primary (non-interest) budget by 2015 and stabilizing the debt-to-GDP ratio once the economy fully recovers; this would mean a deficit of 2.8 percent of GDP in 2015. However, under the policies put forward by the President, the deficit would be 3.9 percent of GDP in 2015, and drop to only as low as 3.6 percent of GDP, in 2018, before rebounding to 4.2 percent by 2020. The Administration plans to make up the difference through recommendations from a fiscal commission.

CRFB applauds the Administration for proposing a specific budgetary goal, and encourages the White House to work with policymakers to develop a plan to reach it—and in fact go further—in order to bring the debt under control.

The Administration must take the lead on preparing the country for the types of tough choices that will be needed. Promises of tax cuts for the bulk of the population or new spending programs before a debt reduction plan is adopted, other than for well-targeted stimulus, are counter-productive.

"Clearly the Administration understands the importance of reducing the deficit, and is elevating the issue through this budget. A small spending freeze, some minor tax reforms to raise revenues, and a budget commission are all excellent ideas," said Maya MacGuineas, President of the Committee for a Responsible Federal Budget. "But this budget doesn't go nearly far enough, and it will require presidential leadership to develop a responsible fiscal plan. This has to be the start—not the extent of—the President's push to implement a strategy to dig us out of this fiscal hole. "

"And yes, we know it is an election year, but we cannot continue to delay—foreign credit markets are really not interested in our partisan in-fighting—they are interested in whether the U.S will remain a safe place to invest," added MacGuineas.

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Among the larger deficit-reducing proposals in the budget are a three-year non-security discretionary spending freeze (about $250 billion over ten years), a fee on large financial institutions designed to pay back the TARP money ($90 billion), a limit on itemized deductions to a 28 percent rate (about $290 billion), and the elimination of a large number of tax preferences (about $350 billion). These and the President's other proposals, along with expected economic improvements, would reduce the deficit to 3.9 percent of GDP by 2015. The deficit commission's recommendations are then expected to bring the deficit down an additional 1.1 percent of GDP in 2015.

"We understand how hard it is to propose specifics on entitlements and tax policy in such a politically charged environment," MacGuineas explained. "We are hopeful there will be bipartisan support for this proposed commission and that policymakers will truly work together to develop a deficit reduction plan. But if you are going to hope for this level of savings from unspecified policy proposals, you need to have a back-up plan. We recommend the administration develop its own "Plan B" in case the commission does not come up with the necessary savings."

"I also worry that, for all the hard work that would be required, the President's budget proposal might fall short of stabilizing the debt at a low enough level," MacGuineas continued. "Part of the reason we need a fiscal goal is to credibly reassure financial markets that we will not continue to borrow excessively. Even under the best-case scenario laid out in this budget, there is an awful lot of borrowing."

"Furthermore, debt reduction requires some really hard choices. The Administration wants to bring down the deficit while extending a number of expiring policies—from the Bush tax cuts to Medicare physician payment updates, create a number of new government programs, and protect all families making less than $250,000 from tax increases. Every dollar we borrow now makes stabilizing the debt down the road all the harder."

The Committee for a Responsible Federal Budget urges the President to support, forcefully, the deficit-reducing proposals in his FY 2011 budget, and work with members of both parties to enact a set of aggressive policies to stabilize the debt over the medium- and long-term.

CRFB will be releasing a complete analysis of the President's budget later in the week.

Budget Totals in the FY 2011 Budget

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2020
Outlays	**Billions of $'s**	$3,721	$3,834	$3,755	$3,915	$4,161	$4,386	$4,665	$4,872	$5,084	$5,415	$5,713	$45,800
	% of GDP	25.4%	25.1%	23.2%	22.8%	22.9%	22.9%	23.1%	23.1%	23.0%	23.5%	23.7%	23.3%
Revenue	**Billions of $'s**	$2,165	$2,567	$2,926	$3,188	$3,455	$3,634	$3,887	$4,094	$4,299	$4,507	$4,710	$37,268
	% of GDP	14.8%	16.8%	18.1%	18.6%	19.0%	18.9%	19.3%	19.4%	19.5%	19.5%	19.6%	18.9%
Deficits	**Billions of $'s**	$1,556	$1,267	$828	$727	$706	$752	$778	$778	$785	$908	$1,003	$8,532
	% of GDP	10.6%	8.3%	5.1%	4.2%	3.9%	3.9%	3.9%	3.7%	3.6%	3.9%	4.2%	4.5%
Debt	**Billions of $'s**	$9,298	$10,498	$11,472	$12,326	$13,139	$13,988	$14,833	$15,686	$16,535	$17,502	$18,573	n/a
	% of GDP	63.6%	68.6%	70.8%	71.7%	72.2%	72.9%	73.6%	74.2%	74.9%	75.9%	77.2%	n/a