

Background

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President Obama's Agenda Would Bring \$13 Trillion in Budget Deficits, Not \$9 Trillion

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Abstract: President Obama's budget will likely produce \$13 trillion in deficit spending over the next 10 years—nearly \$4 trillion more than forecast. The White House figures are based on unrealistic estimates of discretionary spending, interest payments, and interest rates. The White House also used budget gimmicks to hide the full cost of certain entitlements and failed to account for the full costs of cap-and-trade energy legislation and health care reform.

The White House's mid-session budget review recently forecast that President Barack Obama's budget would create \$9 trillion in budget deficits over the next decade—more debt than America accumulated from 1789 through 2008 combined.¹ Yet even that figure likely understates the 10-year budget deficit by nearly \$4 trillion. It completely excludes the proposed new health care entitlement, underestimates other costs, and fails to include the full price of major legislation that the President has endorsed. A more realistic budget estimate incorporating all these costs shows:

- An additional \$5 trillion in spending, \$1 trillion in revenues, and \$4 trillion in deficits over the next decade;
- Budget deficits adding \$13 trillion to the national debt over the next decade;
- The national debt held by the public surpassing \$20 trillion by 2019, reaching nearly 100 percent of gross domestic product (GDP) (See Chart 1);

Talking Points

- The White House's mid-session budget review recently forecast that President Obama's budget would create \$9 trillion in budget deficits over the next decade. This figure likely understates those deficits by nearly \$4 trillion.
- A more realistic estimate of the President's agenda reveals \$13 trillion in budget deficits over 10 years. By 2019, the national debt would near 100 percent of GDP, and annual budget deficits would approach \$2 trillion.
- The President's budget excludes his health care plan and underestimates the cost of discretionary spending, cap-and-trade legislation, extension of "expiring" entitlements, and net interest spending.
- Under the President's budget agenda, 2019 spending would surpass 28 percent of GDP and \$37,000 per household.
- These budget trends are unsustainable. At some point, Washington will no longer be able to borrow trillions of dollars annually, and Congress will be forced to impose devastating taxes on taxpayers, businesses, and the economy.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Budget/bg2319.cfm

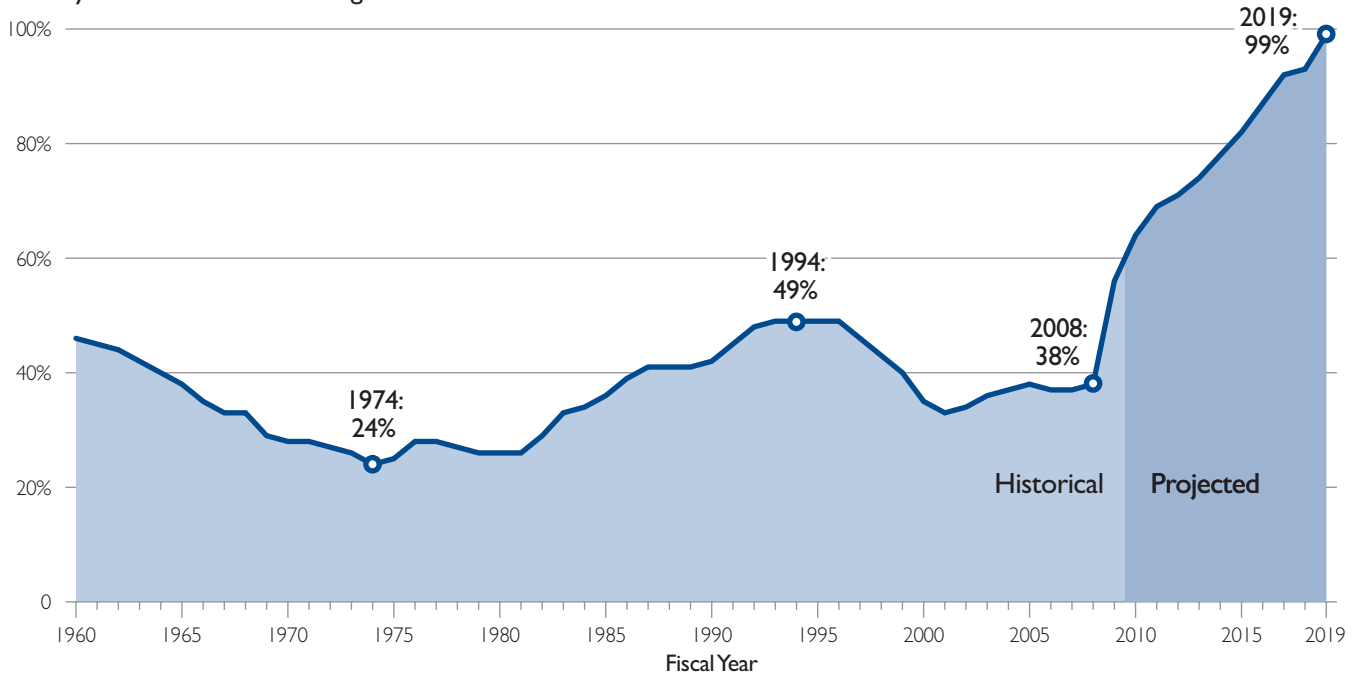
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Obama Budget Agenda Would Drive the Publicly Held Debt to Nearly 100 Percent of GDP

Publicly Held Debt as a Percentage of GDP



Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget.

Chart 1 • B 2319 heritage.org

- Annual budget deficits rising to nearly \$2 trillion by 2019 (See Chart 2);
- Spending surpassing 28 percent of GDP by 2019, shattering the peacetime record set this year (See Chart 3); and
- Washington spending more than \$37,000 per household in 2019, compared with \$25,000 per household in 2008. (See Chart 4.)

The Extra \$4 Trillion in Deficits

The President's budget forecasts \$9.1 trillion in total deficits over the next decade. In June, the Congressional Budget Office (CBO) also scored the President's 10-year deficits at \$9.1 trillion. Plugging the CBO's estimates of the Obama budget into the

CBO's more recent August baseline yields a 10-year budget deficit of nearly \$9.7 trillion.²

The CBO's figures are relatively close to the President's because they are required to accept his dubious budgetary assumptions. A more realistic budget estimate would include \$4,756 billion in new spending and \$862 billion in new revenues, for a net \$3,894 billion in new deficit spending during 2010–2019. It would incorporate the following expected policies:

- **Additional discretionary spending (\$1,545 billion in spending).**

Since 2000, non-emergency discretionary spending has expanded by approximately 7 percent annually regardless of party control of the

1. U.S. Office of Management and Budget, "Mid-Session Review: Budget of the U.S. Government, Fiscal Year 2010," August 25, 2009, at http://www.whitehouse.gov/omb/assets/fy2010_msr/10msr.pdf (September 15, 2009).

White House and Congress. After proposing an 8 percent increase for fiscal year 2010, President Obama's budget shows discretionary spending growth frozen at the inflation rate (approximately 2.5 percent annually) from 2011 through 2019.³ This would reduce discretionary spending below 7 percent of GDP—a level rarely seen since the 1940s.

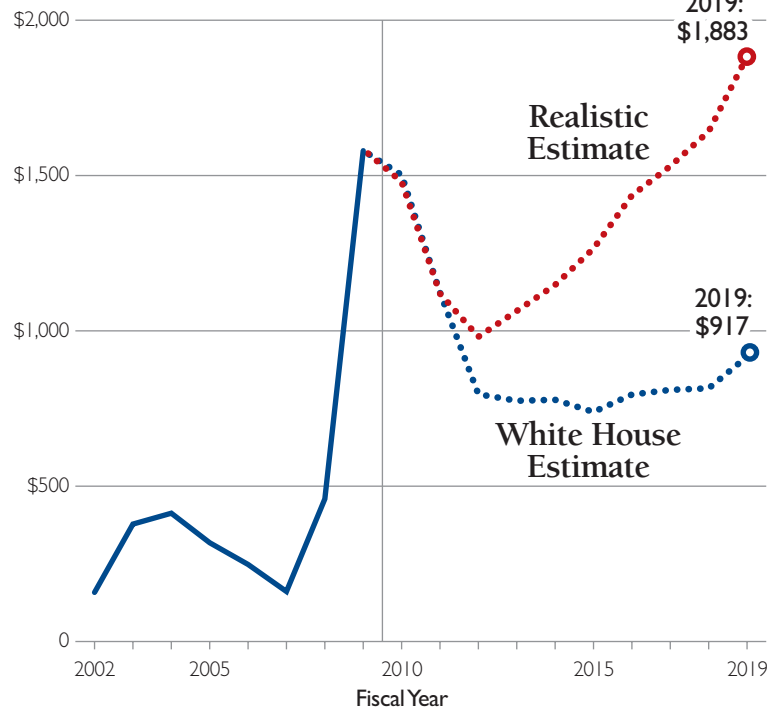
These restrained discretionary spending figures are incompatible with the President's pledges of historic increases in discretionary spending for education, highways, energy, health, veterans, and science. They also leave no room for the predictable extensions of expiring discretionary "stimulus" spending. In Washington, promising unspecified discretionary spending restraint sometime in the future, but never the present, is a common presidential budget assumption used to mask the size of future budget deficits.⁴

Replacing the President's figures with discretionary spending growing at the pace of nominal economic growth—typically 4 percent to 5 percent annually—would add \$1,545 billion to the White House's discretionary spending estimates over the decade (\$314 billion annually by 2019). These estimates also assume that President Obama can successfully hold spending on the

global war on terrorism to \$50 billion annually, despite the surge in Afghanistan and the possibility of a continued American military presence in Iraq. Thus, even these figures likely underestimate future growth in discretionary spending.

Obama Budget Agenda Would Bring Annual Budget Deficits to Nearly \$2 Trillion

Budget Deficit, in Billions of Dollars



Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget.

Chart 2 • B 2319 heritage.org

- The CBO estimates the President's budget by adding the cost of his proposals to the CBO budget baseline. In June, the CBO estimated that the President's budget would result in a 10-year budget deficit of \$9,139 billion. By August, the CBO's revenue and mandatory spending baselines showed \$639 billion in additional deficits, which are thus added to the overall estimate of the President's budget. However, the President recently dropped his proposed placeholder for additional financial stabilization, saving \$125 billion between 2010 and 2019. The result is \$9,653 billion in budget deficits, a net increase of \$514 billion. See Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2010," June 2009, p. 3, Table 1-2, at http://www.cbo.gov/ftpdocs/102xx/doc10296/06-16-AnalysisPresBudget_forWeb.pdf (September 15, 2009), and "The Budget and Economic Outlook: An Update," August 2009, p. 4, Table 1-2, at <http://www.cbo.gov/ftpdocs/105xx/doc10521/08-25-BudgetUpdate.pdf> (September 15, 2009).
- Congressional Budget Office, "An Analysis of the President's Budgetary Proposals," p. 4, Table 1-3.
- President George W. Bush routinely employed the same assumption in his budget proposals.

- **Health care reform (\$595 billion in spending and \$583 billion in revenues).**

The President's aggregate budget tables do not include his health care reserve fund.⁵ The House health care bill (H.R. 3200) has the most complete budget score and generally fits within the President's parameters for health reform.⁶ Therefore, its figures are included in these budget estimates.⁷

- **Additional cap-and-trade outlays and revenues (\$821 billion in spending and \$214 billion in revenues).**

President Obama's budget assumes that cap-and-trade energy legislation will raise \$632 billion by selling emissions credits to businesses. These revenues would then be allocated toward new energy research spending and making the Making Work Pay tax credit permanent.⁸ However, the House-passed bill would raise \$846 billion in revenues (an additional \$214 billion) and then spend \$821 billion giving away the emissions credits for free.⁹

Because the White House budget has already proposed spending all cap-and-trade revenues on the Making Work Pay tax credit and new energy research—initiatives that the President

has shown no intention of dropping, regardless of whether they make it into this bill—the House bill's \$821 billion in spending on free emissions credits becomes additional spending that would add to the deficit (net of the additional \$214 billion in revenues).¹⁰

- **Extending “expiring” entitlements (\$216 billion in spending).**

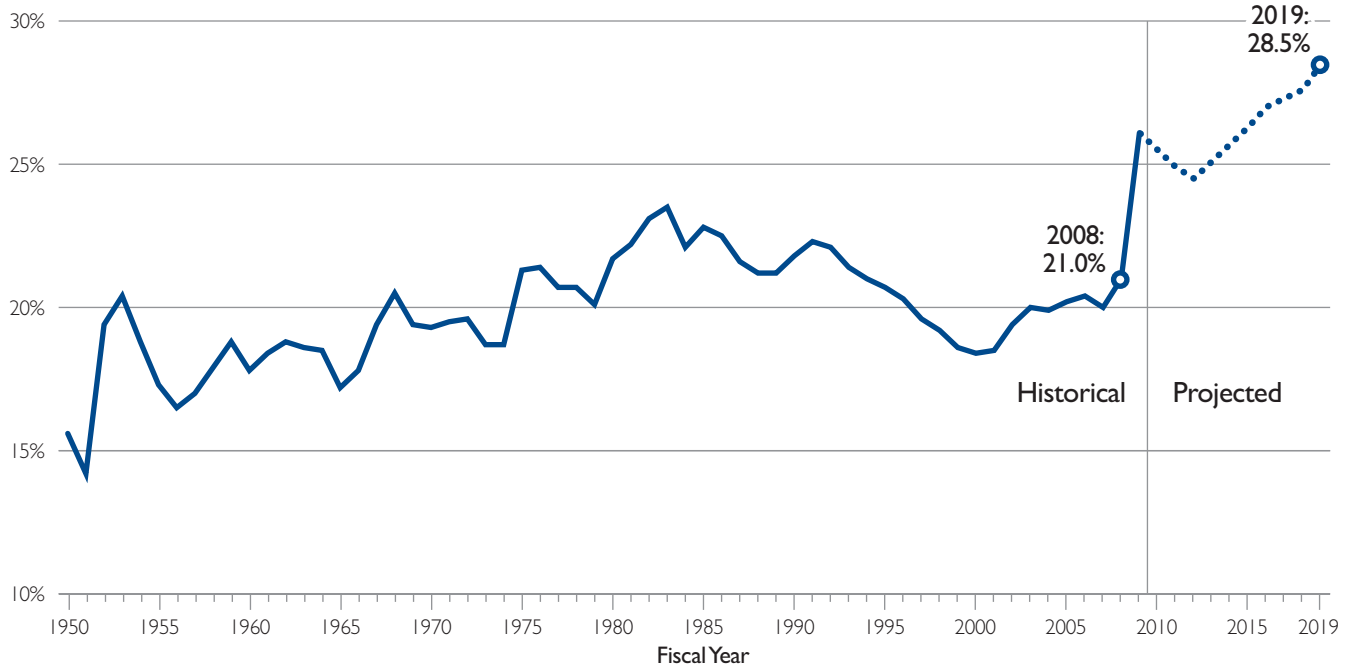
Earlier this year, lawmakers matched a tobacco tax hike of \$74 billion over 10 years with a \$140 billion expansion of the State Children's Health Insurance Program (SCHIP) over 10 years. However, to cover up the \$66 billion increase in the budget deficit, they moved the final five years of increased spending “off the books,” while still counting all 10 years of increased tax revenues. Specifically, the bill gradually increased annual SCHIP allotments by \$12.4 billion through 2013 and then repealed these increases for the subsequent years.¹¹ This was clearly a budget gimmick because President Obama and Congress are unlikely to kick most SCHIP participants out of the program in 2014. Patching the program would cost \$66 billion between 2014 and 2019.

Similarly, the “stimulus” law increased food stamp and Supplemental Security Income payments by

5. Table S-11 of the President's mid-session budget review details a \$954 billion health reform reserve fund. However, these figures were excluded from the aggregate budget tables, such as S-1 and S-4. U.S. Office of Management and Budget, “Mid-Session Review.”
6. The President has called for a deficit-neutral health bill providing near-universal health coverage. Nearly all of the House bill's \$239 billion 10-year deficit results from the cost of adjusting Medicare physician payment rates. However, President Obama's own budget proposal already includes increased spending to cover these costs. Thus, it is removed from the cost of the House bill to prevent double-counting. Without it, the House bill comes close to meeting the President's standard for deficit neutrality in its first decade. However, the bill is projected to run a \$1 trillion deficit in the second decade. Lewin Group, “Long-Term Cost of the American Affordable Health Choices Act of 2009; As Amended by the Energy and Commerce Committee in August 2009,” September 9, 2009, at <http://www.lewin.com/content/publications/The%20Peterson%20Foundation%20Report.pdf> (September 15, 2009).
7. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to Representative Charles B. Rangel (D-NY), July 17, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf> (September 15, 2009).
8. U.S. Office of Management and Budget, “Mid-Session Review,” p. 46.
9. Congressional Budget Office, “H.R. 2454: American Clean Energy and Security Act of 2009,” June 5, 2009, p. 10, at <http://www.cbo.gov/ftpdocs/102xx/doc10262/hr2454.pdf> (September 15, 2009).
10. President Obama has strongly endorsed the House bill without raising any objections over the additional spending above his own budget proposal. See U.S. Office of Management and Budget, “H.R. 2454—American Clean Energy and Security Act of 2009,” June 26, 2009, at http://www.whitehouse.gov/omb/assets/sap_111/saphr2454h_20090626.pdf (September 15, 2009).
11. Congressional Budget Office, “H.R. 2: Children's Health Insurance Program Reauthorization Act of 2009,” February 11, 2009, at <http://www.cbo.gov/ftpdocs/99xx/doc9985/hr2paygo.pdf> (September 15, 2009).

Federal Spending Is Projected to Reach a Peacetime Record of 28.5 Percent of GDP

Federal Spending as a Percentage of GDP



Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget.

Chart 3 • B 2319 heritage.org

more than \$30 billion over four years. History suggests that Congress and the President will not allow the entitlement expansions to expire. The CBO estimates that extending these two policies through 2019 would cost \$150 billion.¹²

- **Net interest expenses resulting from the increased deficit spending (\$251 billion in spending).**

These policies will produce \$2.4 trillion in additional debt over 10 years, which will increase interest costs by \$251 billion.

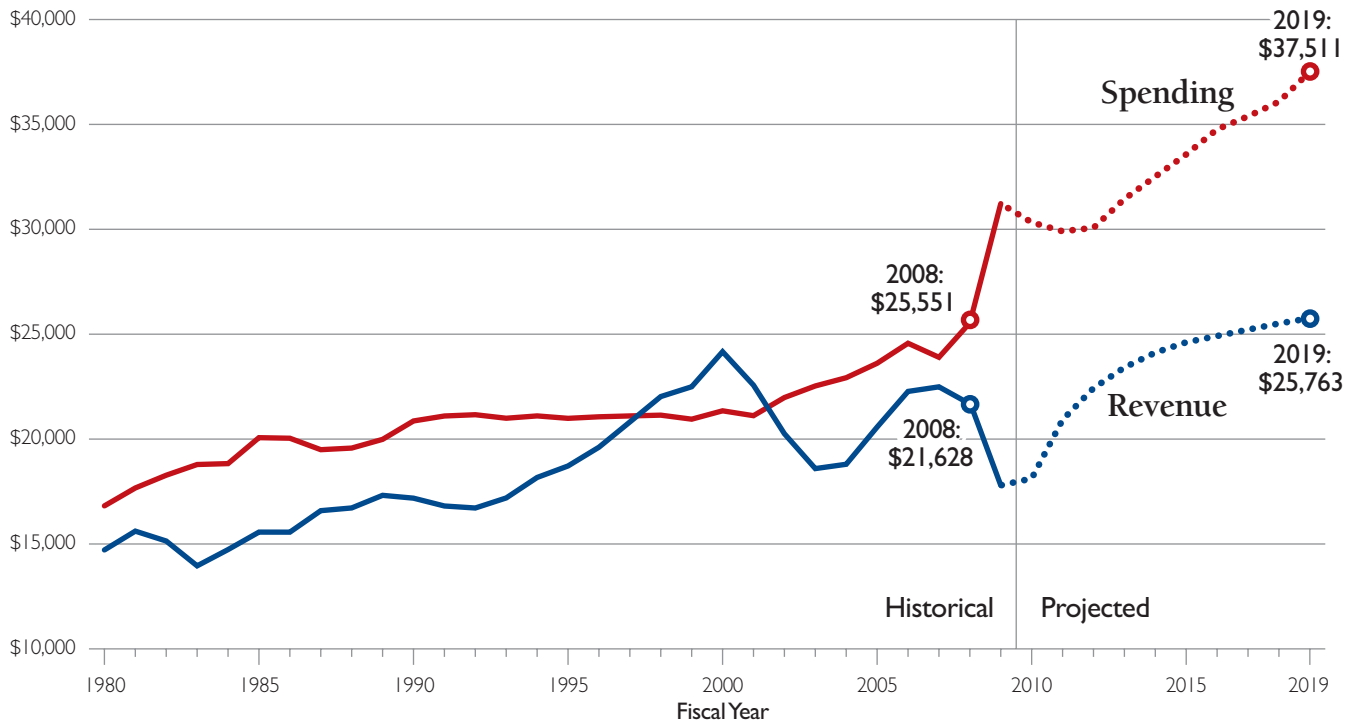
- **More realistic interest rates (\$1,328 billion in spending and \$65 billion in revenues).**

The CBO's score of the President's budget assumes that interest rates will remain much lower than in the 1980s and 1990s. For example, the CBO assumes that the interest rate on 10-year Treasury notes will converge toward 5.6 percent, below the 6.6 percent rate of the 1990s and the 10.5 percent rate of the 1980s. This assumption of historically low interest rates is dubious given the inflationary threat from the Federal Reserve's recent increases of the money supply and the real interest rate threat from the President's proposal to nearly double the national debt as a percentage of the economy.¹³ Even conservatively incorporating the interest

12. Of the "temporary" entitlement expansions in the stimulus bill, food stamps and Supplemental Security Income are the most likely to be extended. Extensions of expiring discretionary spending provisions, such as Pell Grants, would be part of the discretionary spending expansion described above. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to Representative Paul Ryan (R-WI), February 11, 2009, at <http://www.cbo.gov/ftpdocs/99xx/doc9988/hr1extendProvisionsRyanLtr.pdf> (September 15, 2009).

President’s Budget Agenda Would Push Federal Spending Past \$37,000 per Household

Federal Revenue and Spending per Household, in Inflation-Adjusted Dollars



Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget.

Chart 4 • ArticleName heritage.org

rates of the 1990s (a period of comparatively modest debt levels and inflation rates) would add \$1,328 billion to net interest costs and \$65 billion to revenues.¹⁴

Implications

The President’s agenda would increase the budget deficit by nearly \$4 trillion more than has been reported. Federal spending, which has generally remained between 18 percent and 22 percent of

GDP since the 1950s, would surpass 28 percent of GDP by 2019. (See Chart 3.) Federal spending per household would rise from \$25,000 per household in 2008 to more than \$37,000 per household by 2019.¹⁵ (See Chart 4.) This represents an enormous, permanent increase in the size of government.

This spending would drive a permanent, unprecedented increase in the national debt. After borrowing just under \$6 trillion from 1789 through 2008 (plus nearly \$2 trillion in 2009), Washington would

13. To the extent that higher inflation causes higher nominal interest rates, revenues and entitlement spending would also automatically increase. These effects are not incorporated into this analysis since they are difficult to estimate precisely and would have minimal impact on the budget deficit.

14. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to Representative Paul Ryan (R-WI), June 30, 2009 at <http://www.cbo.gov/ftpdocs/104xx/doc10416/RyanLetterInterestRates.pdf> (September 15, 2009). If the 1980s interest rates returned, the additional cost from higher interest rates would rise from \$1.328 trillion to \$5.5 trillion.

15. Adjusted for inflation.

Under the President's budget, federal spending per household would rise from \$25,000 per household in 2008 to more than \$37,000 per household by 2019.

borrow \$13 trillion over the next decade—nearly \$100,000 for every household. By 2019, annual budget deficits would approach \$2 trillion and push the public debt to nearly 100 percent of GDP. Merely paying the interest on this debt would soon cost taxpayers \$1 trillion annually, and spending and deficits would continue rise.

America already faces a \$43 trillion unfunded obligation in Social Security and Medicare benefits due to 77 million retiring baby boomers and rising health care costs.¹⁶ According to the CBO, paying for the promised benefits would eventually force Congress to impose a 63 percent income tax on the middle class and an 88 percent tax on the wealthy,¹⁷ assuming that the growth in health care costs slows. Yet the President wants to create an additional health care entitlement and further increase spending elsewhere in the budget.

These budget trends are unsustainable. At some point, Washington will no longer be able to borrow trillions of dollars annually at acceptable interest rates, and lawmakers will be forced to confront these budget trends. Unless lawmakers restrain spending, they will eventually need to raise taxes by \$12,000 per household (on top of the tax hikes already proposed by the President) to finance the

additional spending.¹⁸ A recent Brookings Institution report suggests that a new value-added tax between 15 percent and 20 percent would pay for all of the spending under the White House's budget.¹⁹ These new taxes would devastate taxpayers, businesses, and the economy.²⁰

A Time for Choosing

The United States is at a crossroads. The cost of providing Social Security and Medicare benefits to 77 million retiring baby boomers already threatens America's long-term fiscal solvency. A realistic estimate of President Obama's spending agenda shows that it would add \$13 trillion in additional government debt over the next decade—not the \$9 trillion that has been reported—and that federal spending would surge past 28 percent of GDP.

A realistic estimate of President Obama's spending agenda shows that it would add \$13 trillion in additional government debt over the next decade—not the \$9 trillion that has been reported.

History suggests that, once enacted, this massive new spending would be exceedingly difficult to reverse. The only remaining choice would be whether to finance it with an unprecedented avalanche of government debt or massive tax increases. To avoid this fate, lawmakers must first stop digging the U.S. deeper into debt. They need to begin by rejecting costly new entitlements and repealing unspent stimulus spending. Then, Congress should

16. U.S. Department of the Treasury, *2008 Financial Report of the United States Government*, pp. 29 and 39–41, at <http://www.gao.gov/financial/fy2008/08frusg.pdf> (September 15, 2009).

17. Peter R. Orszag, Director, Congressional Budget Office, letter to Representative Paul Ryan (R-WI), May 19, 2008, at http://www.cbo.gov/ftpdocs/92xx/doc9216/05-19-LongtermBudget_Letter-to-Ryan.pdf (September 15, 2009).

18. This figure was calculated by adjusting the projected 2019 budget deficit of \$1,883 billion for inflation. The resulting figure of \$1,531 billion was then divided by 130.3 million projected households in 2019.

19. "It will prove difficult to close the gap entirely via modifications to existing taxes and spending programs. A new revenue source, such as a value added tax (VAT), may be needed. A VAT imposed at a rate between 15 and 20 percent would essentially close the fiscal gap under the Administration's budget." Alan J. Auerbach and William G. Gale, "The Economic Crisis and the Fiscal Crisis: 2009 and Beyond: An Update," Brookings Institution, June 2009, p. 3, at http://www.brookings.edu/~media/Files/rc/papers/2009/06_fiscal_crisis_gale/06_fiscal_crisis_gale.pdf (September 15, 2009).

20. See Curtis S. Dubay, "Value-Added Tax: No Solution for Health Care or Fiscal Woes," Heritage Foundation *WebMemo* No. 2532, July 9, 2009, at <http://www.heritage.org/Research/Taxes/wm2532.cfm>.

streamline unaffordable entitlement spending; eliminate wasteful, outdated, and unnecessary spending; and enact strong spending caps limiting the annual growth of government. Congress also needs to fix the budget process, which allows such runaway spending, by requiring the annual budget to disclose long-term entitlement costs and by putting entitlement programs on a long-term budget.

Although such belt-tightening would require difficult choices, remaining on the current path to bankruptcy would be far more disastrous to both current and future generations.

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The Realistic Estimate of President Obama's Budget Agenda

Figures Are in Billions of Dollars

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010-2019
Revenues													
Base estimate of Obama budget	2,524	2,100	2,192	2,526	2,856	3,050	3,215	3,372	3,517	3,672	3,827	3,987	32,214
Additional climate revenues above Obama proposal (H.R. 2454)	0	0	1	39	-18	-14	12	25	33	38	46	52	214
Tax increases to finance health reform (H.R. 3200)	0	0	1	35	33	59	65	70	74	78	82	86	583
More realistic interest rates	0	0	2	7	8	8	8	8	7	6	6	5	65
Total revenues	2,524	2,100	2,196	2,607	2,879	3,103	3,300	3,476	3,631	3,794	3,961	4,130	33,077
Outlays													
Discretionary spending													
Base estimate of Obama budget	1,135	1,246	1,377	1,326	1,264	1,269	1,290	1,317	1,351	1,378	1,404	1,441	13,417
Assumes growth at nominal GDP	-8	-8	-1	8	92	129	151	175	198	224	255	314	1,545
Total discretionary spending	1,135	1,238	1,376	1,334	1,356	1,398	1,441	1,492	1,549	1,602	1,659	1,755	14,962
Mandatory spending													
Base estimate of Obama budget	1,595	2,276	2,087	2,064	2,059	2,136	2,235	2,332	2,486	2,602	2,719	2,921	23,641
Health care (H.R. 3200)	0	0	5	-3	-18	40	50	87	105	106	111	114	595
Additional Cap and Trade outlays (H.R. 2454)	0	0	0	33	52	68	89	102	110	116	123	129	821
SCHIP food stamps, and SSI extension	0	0	9	13	14	15	23	26	27	28	30	31	216
Total mandatory spending	1,595	2,276	2,101	2,106	2,106	2,259	2,396	2,546	2,728	2,852	2,982	3,194	25,272
Net interest spending													
Base estimate of Obama budget	253	170	173	216	283	367	459	533	597	656	728	799	4,812
Additional net interest from policies above	-5	-5	-10	-11	-6	2	12	24	37	51	67	85	251
More realistic interest rates	5	5	36	81	121	140	140	145	156	162	167	180	1,328
Total net interest spending	253	170	199	287	398	510	611	702	790	870	962	1,063	6,391
Total outlays	2,982	3,684	3,676	3,727	3,861	4,167	4,448	4,740	5,067	5,324	5,603	6,013	46,625
Surplus/deficit	-458	-1,584	-1,480	-1,120	-981	-1,064	-1,148	-1,265	-1,436	-1,530	-1,642	-1,883	-13,548
Debt held by the public	5,803	7,972	9,267	10,284	11,254	12,284	13,499	14,813	16,292	17,866	18,951	20,899	
Debt held by the public as percentage of GDP	41%	56%	64%	69%	71%	74%	78%	82%	87%	92%	93%	99%	
Key calculations													
President's deficits scored by CBO in June	-1,825	-1,432	-974	-633	-647	-647	-726	-763	-873	-927	-999	-1,163	-9,139
Base estimate of Obama budget using August CBO data	-1,593	-1,445	-1,079	-1,079	-750	-723	-768	-810	-918	-965	-1,024	-1,173	-9,654
Additional deficits from policies detailed above	9	-35	-40	-231	-342	-380	-455	-518	-565	-618	-710	-894	-3,894
Real revenues per household	21,628	17,797	18,120	20,922	22,427	23,414	24,123	24,615	24,914	25,217	25,510	25,763	235,025
Real spending per household	25,551	31,224	30,331	29,906	30,070	31,443	32,514	33,571	34,766	35,386	36,082	37,511	331,581
Real deficits per household	-3,923	-13,427	-12,211	-8,984	-7,643	-8,030	-8,391	-8,956	-9,852	-10,169	-10,573	-11,747	-96,556
Revenues as a percentage of GDP	17.7%	14.9%	15.2%	17.4%	18.3%	18.7%	19.1%	19.3%	19.4%	19.4%	19.5%	19.6%	
Spending as a percentage of GDP	21.0%	26.1%	25.5%	24.9%	24.5%	25.1%	25.7%	26.3%	27.0%	27.3%	27.6%	28.5%	
Deficits as a percentage of GDP	-3.2%	-11.2%	-10.3%	-7.5%	-6.2%	-6.4%	-6.6%	-7.0%	-7.7%	-7.8%	-8.1%	-8.9%	

Notes: Base estimate calculated by taking the June 2009 Congressional Budget Office estimate of the Obama budget and then incorporating (1) subsequent mandatory spending and revenue changes reflected in the CBO's August baseline and (2) the President's decision to drop his proposed \$125 billion financial stabilization fund for each of 2009 and 2010. H.R. 3200 health spending is net of the medicare physician payment fix, which is already included in the base estimate of the 's budget.

Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget.