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Obama's Budget Seeks \$2 Trillion More in Spending and Deficits Than Last Year

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Last year, President Obama swept into office on a promise to confront tough choices—and then released a budget proposing the largest debt-and-spending spree in American history. With Washington having committed itself to more government than its taxpayers could realistically afford, basic fiscal responsibility suggests that the President scale back his expensive proposals. Instead, this year's budget is even more fiscally irresponsible.

Over the 10 years in which both budgets overlap (FY 2010–2019), this year's budget would spend an additional \$1.7 trillion and run up an additional \$2 trillion in budget deficits (see Table 1).¹ In fact, this year's proposal shows annual budget deficits as much as 49 percent larger than last year's proposal—raising the debt by an additional 6 percent of GDP over the same period. It is a spending spree that will drive up both taxes and deficits.

Growing Debt. In addition, the President's budget would:

- Permanently expand the federal government by nearly 3 percent of gross domestic product (GDP) over 2007 pre-recession levels;
- Raise taxes on all Americans by more than \$2 trillion over the next decade (counting health care reform and cap and trade);
- Raise taxes for 3.2 million small businesses and upper-income taxpayers by an average of \$300,000 over the next decade;
- Borrow 42 cents for each dollar spent in 2010;
- Run a \$1.6 trillion deficit in 2010—\$143 billion higher than the recession-driven 2009 deficit;

President Proposes \$2 Trillion More in 2010–2019 Deficits Than Last Year

Proposed Budget Deficits, in Billions, by Fiscal Year

	Last Year's Budget Proposal	This Year's Budget Proposal
2010	-\$1,258	-\$1,556
2011	-\$929	-\$1,267
2012	-\$557	-\$829
2013	-\$512	-\$727
2014	-\$536	-\$706
2015	-\$528	-\$752
2016	-\$645	-\$778
2017	-\$675	-\$778
2018	-\$688	-\$785
2019	-\$779	-\$908
Total	-\$7,107	-\$9,086

Source: Table S-1 of President Obama's FY 2010 and FY 2011 budgets.

Table 1 • WM 2787 heritage.org

- Leave permanent deficits that top \$1 trillion in as late as 2020; and
- Double the publicly held national debt to over \$18 trillion.²

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www.heritage.org/Research/Budget/wm2787.cfm

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Before the recession, federal spending totaled \$24,000 per U.S. household. President Obama would hike it to \$36,000 per household by 2020—an inflation-adjusted \$12,000-per-household expansion of government. Even the steep tax increases planned for all taxpayers would not finance all of this spending: The President's budget would add trillions of dollars in new debt.

After harshly criticizing President Bush for running \$3.3 trillion in deficits over eight years, President Obama's budget would run \$7.6 trillion in deficits over what would be his eight years in the Oval Office.³ Moreover, President Obama would run up more debt over his eight years than all other Presidents in American history—from George Washington through George W. Bush—combined. As a result of these deficits, net interest spending would reach \$840 billion in 2020.

Misdiagnosing the Problem. President Obama's misplaced budget priorities may be the result of his misdiagnosing the cause of the deficits. During his State of the Union speech, the President asserted that “by the time I took office, we had a one-year deficit of over \$1 trillion and projected deficits of \$8 trillion over the next decade. Most of this was the result of not paying for two wars, two tax cuts, and an expensive prescription drug program.” This is simply not true.

The policies mentioned by President Obama were implemented in the early 2000s. Yet even with all those policies in place, the 2007 budget deficit stood at only \$162 billion. The trillion-dollar deficits did not begin until 2009 (driven by financial bailouts, stimulus, and declining revenues) as the recession hit its trough.

And the policies mentioned by the President certainly could not be responsible for most of the trillion-deficits over the next decade, given that most war spending will phased out by then and the tax cuts and Medicare drug benefit are expected to cost a combined 2 percent of GDP over the next decade—even as the baseline budget deficit rises past 8 percent of GDP.⁴

By contrast, the rising costs of Social Security, Medicare (beyond just the drug benefit), Medicaid, and net interest are responsible for nearly 5 percent in additional deficits as a share of GDP by 2020. Yet the President failed to mention this spending as driving long-term budget deficits.

Addressing Runaway Spending by Raising Taxes. Over the last 40 years, budget deficits have averaged a sustainable 2.4 percent of GDP. Under a budget baseline that assumes current policies continue, nearly 90 percent of the expanded budget deficits by 2020 would be caused by higher spending, while just over 10 percent would be caused by lower revenues—and even that assumes the extension of the 2001 and 2003 tax cuts.⁵

Yet President Obama bases nearly all of his (modest) deficit reduction on tax increases. Although no economic theory justifies raising taxes during a recession, he would impose nearly \$1 trillion in tax hikes for 3.2 million upper-income families and small businesses. He would eliminate tax breaks for charitable giving and the mortgage interest deduction for millions of Americans.

President Obama has endorsed a cap-and-trade bill that would cost more than \$800 billion over the next decade. He has also endorsed substantial tax hikes to finance health care reform. All told, tax

1. This is not merely the result of health care reform being added to this year's budget totals, since health care reform is not supposed to significantly affect the deficit figures anyway.
2. Unless otherwise noted, the President's budget numbers come from Heritage Foundation calculations based on U.S. Office of Management and Budget, *Budget of the United States Government* (Washington, D.C.: U.S. Government Printing Office, 2010), pp. 146–179, Tables S-1 and S-14, at <http://www.whitehouse.gov/omb/budget/fy2011/assets/budget.pdf> (February 1, 2010).
3. For Fiscal Year (FY) 2009, President Bush is responsible for \$1.186 trillion in deficit spending (the CBO estimate for FY 2009 when he left office), while the remaining \$228 billion in 2009 deficit spending is attributed to President Obama.
4. Brian Riedl, “Realistic Budget Baseline Shows \$13 Trillion in Debt over the Next Decade,” Heritage Foundation *WebMemo* No. 2780, January 26, 2010, at <http://www.heritage.org/Research/Budget/wm2780.cfm>.
5. These figures are in comparison to the 40-year average of spending at 20.7 percent of GDP, revenues at 18.3 percent, and budget deficits at 2.4 percent. See Riedl, “Realistic Budget Baseline.”

increases would exceed \$2 trillion, yet they are still not enough to prevent a \$1 trillion annual deficit by 2020.

On the plus side, President Obama would freeze discretionary spending (outside of defense, homeland security, veterans, and international affairs spending) for three years. This is somewhat helpful. The savings would not be large—perhaps \$20 billion per year—but this is the low-hanging fruit. Of course, these programs comprise only one-eighth of the budget (\$420 billion), and they can still feast on their 19 percent hike over the past two years, plus nearly \$300 billion in mostly unspent stimulus funds.

Gimmicks over Substance. A common game in Washington is to couple specific spending increases today with vague, generic promises of future spending cuts. This budget is no exception. The President proposes expensive new spending initiatives in health care, energy, education, and more “stimulus.” Yet most of the budget savings are pure gimmicks.

Pay-as-You-Go (PAYGO). While the PAYGO concept—that Congress should offset the cost of new initiatives—sounds promising, it is riddled with loopholes and would not reduce the deficit at all. It would exempt all discretionary spending (which comprises 40 percent of the budget). It would exempt the automatic annual growth of Social Security, Medicare, and Medicaid that threatens Washington’s long-run solvency. It would exempt the endless stream of emergency “stimulus” bills. And when PAYGO is violated, the current legislation would exempt nearly all spending from being cut to offset the new expansions.

Simply put, PAYGO is practically designed to fail. In fact, Congress has already had a version of PAYGO since 2007 and has waived it repeatedly, causing the budget deficit to soar.

Deficit Reduction Commission. Instead of proposing policies to bring long-term fiscal sustainability, the President has endorsed a commission to make recommendations for reform. Although defi-

cit commissions can be useful, one appointed by the President would suffer from three weaknesses:

1. The commission’s recommendations would not be guaranteed legislative “fast track” protections—or even a congressional vote at all;
2. If Congress does vote on these recommendations, such a vote will likely be held after the November election with a lame duck Congress; and
3. There is no indication that this commission would include any public hearings and thus be more likely to create its recommendations in a back room without public input.

Putting it all together, this commission would likely become a partisan exercise that fails to bring down deficits and instead kicks the can down the road.

Fictional \$20 Billion in “Savings.” The White House is advertising \$20 billion in proposed spending cuts and terminations. If last year is any indication, these proposals will not save taxpayers a dime.

Last year, Congress and President Obama agreed on \$6.9 billion worth of terminations and spending cuts (mostly in defense)—and then plowed 100 percent of the savings into new spending (mostly non-defense). Not a dollar went toward deficit reduction.⁶ There is no reason to expect this year will be any different.

The Most Irresponsible Budget Ever? President Obama has offered a budget that does nothing to address the nation’s serious short-term and long-term fiscal problems—and indeed makes them worse. By doubling the national debt over pre-recession levels, America could head toward the tipping point when rising debt levels will become too large for global capital markets to absorb, potentially triggering a financial crisis, an interest rate spike, and gigantic tax increases.

Foreign nations financing American debt will note that President Obama’s budget includes no plan for long-term fiscal sustainability. While he talks about controlling entitlement spending, his

6. By the time President Obama released his proposed cuts last year, Congress and the White House already agreed on a topline figure of \$1,091 billion in discretionary spending. The only remaining issue was how to divvy up the funds. So Congress merely took \$6.9 billion from the targeted programs and shifted that money to other programs. At the end of the year, total discretionary spending remained at exactly \$1,091 billion.

budget would do the opposite. By supporting a trillion-dollar health care expansion that is partially offset with tax increase and Medicare cuts, he is essentially taking those policies off the table for any future deficit reduction. That means higher taxes and deeper spending cuts down the road.

The President who said, “I didn’t come here to pass our problems on to the next president or the next generation—I’m here to solve them”⁷ would, over the next decade, pass \$75,000 per household in additional debt into the laps of our children and grandchildren.

A Better Way. If President Obama is serious about reining in spending and budget deficits, he

needs to propose real and specific spending cuts. This means repealing the economic stimulus and TARP, bringing Social Security and Medicare into long-term sustainability, and bringing discretionary spending back to pre-recession levels.

It also means putting the brakes on an unaffordable new health entitlement and other new spending initiatives. If the President will not legitimately restrain spending, taxpayers should prepare for historic levels of debt and devastating tax increases.

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7. Press release, “Excerpts from Obama Remarks on Business Roundtable,” The White House, March 12, 2009, at <http://thepage.time.com/excerpts-from-obama-remarks-on-business-roundtable> (February 1, 2010).