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President Obama's 2012 Budget Builds on Failures of the Past

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“Rather than fight the same tired battles that have dominated Washington for decades, it's time to try something new. Let's invest in our people without leaving them a mountain of debt.”

These words, a quote from President Obama, were displayed prominently on the Office of Management and Budget Web site the morning his fiscal year (FY) 2012 budget was released. Fine words. Unfortunately, his budget is almost a line-by-line repudiation of this policy. Under the President's budget, the deficit in 2011 will hit a new record of \$1.645 trillion, and the national debt held by the public over the next 10 years would nearly double, rising by \$7.2 trillion.¹

The Tale of the Tape. The President's budget is couched in terms of restraint and fiscal discipline. The numbers tell a different story, a story where past is truly prologue. A few of the vital statistics:

From 2009 to 2011:

- Total discretionary spending soared from \$1.2 trillion to \$1.4 trillion, an increase of over 16 percent.
- Total mandatory spending jumped from \$2.1 trillion to \$2.2 trillion, an increase of almost 4 percent.
- The national debt jumped from \$6.6 trillion to \$9.5 trillion, a whopping increase of 43 percent.

Over the same period, the nation shed 3.3 million jobs despite a series of unprecedented attempts to stimulate the economy with deficit spending, which contributed significantly to this unfortunate

fiscal record. The President cannot be blamed for the financial crisis and Great Recession that ensued, but he certainly shares in the blame for the failure of his debt-exploding policies in response.

Building on this dismal record, the President's budget features these vital statistics:

FY 2012 Discretionary Spending. Having pushed discretionary spending up rapidly in the prior two years, the President proposes to reduce 2012 discretionary spending by 5 percent, though he does so only by virtue of three simple and obvious budget gimmicks:

1. Redefining Pell grants as mandatory spending. Stripped of this gimmick, discretionary spending jumps by \$14 billion in 2012.²
2. Reclassifying \$54 billion of surface transportation spending from discretionary spending to mandatory spending.³
3. Spending the peace dividend. The budget proposal includes spending for military operations in Iraq and Afghanistan, referred to as “overseas contingency operations,” as discretionary spending and reduces funding for these operations by \$38.2 billion in 2012.⁴

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Reversing these budget tricks lifts 2012 discretionary spending by \$106.2 billion for an overall \$31 billion increase in discretionary spending.

Earmarks. Once again, the President has promised to oppose earmarked spending. He also claimed that the 2009 stimulus bill was free of earmarks. One can only hope he is more vigorous in keeping his promise going forward than he was in the past.

Total Spending. Under the President's budget, total spending would rise 49 percent over the next 10 years of the budget window. Even after inflation, this represents a 30 percent increase in spending.

Taxes. The President continues to play games with the scoring of tax policy. For example:

- He proposes to raise the top tax rate on capital gains and dividends to 20 percent from 15 percent and lists this as a tax cut that reduces revenues by \$124 billion over 10 years.
- He proposes to extend the Bush tax cuts for low- and middle-income families and correctly includes this extension in the revenue baseline. But then, breaking with past practice, he leaves the tax relief for upper-income individuals and small businesses out of the baseline and thus conveniently has no reporting of the resulting tax hike.
- He proposes to prevent the Alternative Minimum Tax from rising in 2013, and then in classic Washington style proposes \$321 billion in new tax hikes to offset the cost of not raising taxes.

Debt. Under the President's budget, despite the proposed tax hikes, publicly held debt (net of financial assets) rises from \$9.5 trillion in the current year to \$16.7 trillion by 2021.

A Most Forgettable Budget. Despite the passage of another year, a prodigious increase in the national debt, and a momentous election, the most substantial policy change in the budget from last

year was the shift from a deep blue to a two-tone paler blue. The budget deficit is larger, blowing past 2010's post-war record of 8.9 percent of our economy to hit a new high of 10.9 percent in 2011. The President continues to speak of painful spending cuts even as spending continues to soar. He continues his call for future tax hikes driven by ideology. He continues to express concern over budget deficits while offering only gimmicks in the short term and silence for the long-term problems for which he appointed a now-ignored deficit reduction commission.

A President's budget is a comprehensive statement of the policies he favors, either by exercising the authorities he already has under current law or by working with Congress to provide new authorities for new policies. It is also a comprehensive statement of how he believes federal spending and revenues ought to evolve over the coming years in the aggregate, and by broad category, contingent on the enactment of his policies and the expected trajectory of the economy.

While a flood of details will be announced, discovered, and analyzed over the coming days and weeks, the initial impression of the budget must be based on broad strokes. The broadest stroke of all is that, under the President's announced policies, the federal government would be expected to push total debt to \$16.7 trillion over the coming decade.

It is readily apparent from this budget that the President simply did not get the message of the last election and intends to press forward unbowed and unchecked with his big government, big debt, high-tax agenda. The last election was largely and loudly a repudiation of the President's approach to governing, and yet despite some atmospheric to the contrary, his budget makes clear that he intends no course correction, no mediation, and ultimately no compromise.

Congress should study the President's budget carefully to understand in the main the path the

1. This measure of debt refers to debt held by the public net of financial assets. All references to the national debt in this document refer to this measure.
2. See Tables S-7 and S-8 of the budget.
3. See Table S-7 of the budget.
4. See Table S-10 of the budget.

country should not take. Then—beginning with the upcoming debate on a continuing resolution for appropriations, then the budget resolution, then the debate on the debt limit, and on through the year—Congress should chart a very different course, one of strong, immediate spending restraint and strong economic growth to restore the nation's fiscal house to order.

The Deficit Reduction Commission. President Obama created the National Commission on Fiscal Responsibility and Reform by executive order on February 18, 2010, headed by former Senator Alan Simpson (R-WY) and Erskine Bowles, former chief of staff to President Bill Clinton. The Simpson-Bowles Commission's mission, according to the executive order, was "to identify policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run." The history of such commissions in the modern era is long, distinguished, and discouraging. Despite the seriousness of the issue and the earnestness of the participants, the commission's one fatal flaw at the outset was that it would not report until after the mid-term elections.

The delay worked—temporarily. The President's 2012 budget ignores every essential observation and proposal advanced by the Simpson-Bowles Commission. The budget lacks any serious, substantive proposals to address runaway Medicare spending. It lacks any serious, substantive proposals to slow benefit growth and thereby strengthen Social Security. Ditto for Medicaid.

Despite his assertion in the Budget Message of the President that "growing the economy and spurring job creation by America's businesses, large and small, is my top priority," the President's budget includes (yet disguises) a massive tax hike on small businesses and investors and is otherwise bereft of ideas for reforming the income tax to strengthen the economy in the future. Even the tax hikes included in the budget, unwise as they are, fail to reflect the vision and boldness of Simpson-Bowles.

Leadership Delayed Is Leadership Denied. In short, despite tax hikes and budget gimmicks, the President proposes a budget that keeps the federal government on a thoroughly irresponsible and unsustainable course. While acknowledging the looming red ink menace, it embraces rather than tackles it. His language says, "Go long, be bold"; his play call says punt on third down.

The American system of government is intended to compel opposing forces to struggle, for in the struggle is refinement, improvement, and a crude but effective system of checks and balances. However, this system generally cannot function to solve difficult problems when the President thoroughly abdicates his leadership role. With this budget, the President has done just that, and now Congress must find its own way to regain control of the nation's finances.

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