

New Budget Estimates Show Unsustainable Spending and Debt

by Brian M. Riedl

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The Office of Management and Budget has released its annual mid-session review that updates the budget projections from this past May.^[1] They show that this year, Washington will spend \$30,958 per household, tax \$17,576 per household, and borrow \$13,392 per household. The federal government will increase spending 22 percent this year to a peacetime-record 26 percent of the gross domestic product (GDP). This spending is not just temporary: President Obama would permanently keep annual spending between \$5,000 and \$8,000 per household higher than it had been under President George W. Bush.^[2]

Driven by this spending, America will run its first ever trillion-dollar budget deficit this year. Even worse, the President's budget would borrow an additional \$9 trillion over the next decade, more than doubling the national debt. By 2019, America will be spending nearly \$800 billion on net interest to service this large debt.^[3]

Bigger Government and Higher Taxes

- Since World War II, federal spending has generally remained between 18 and 22 percent of GDP. During the Bush Administration, spending increased from 18 to 21 percent of GDP. This year, President Obama will spend a peacetime-record 26 percent of GDP. Even by 2019, spending would still be 23 percent of GDP--not even counting the President's proposed health plan.
- The 22 percent spending increase projected for 2009 represents the largest government expansion since the 1952 height of the Korean War (adjusted for inflation). Federal spending is up 57 percent since 2001.
- While the costs of the financial bailouts and economic stimulus bills are staggering, they are only a fraction of the coming costs from Social Security, Medicare, and Medicaid. Over the next decade, the Congressional Budget Office (CBO) projects that each year Medicaid will expand by 7 percent, Medicare by 6 percent, and Social Security by 5 percent. These programs face a 75-year shortfall of \$43 trillion--60 times greater than the gross cost of the \$700 billion TARP financial bailout.^[4]
- President Obama claims that "we have already identified \$2 trillion in savings over the next decade." This is not true. The President first creates a fantasy baseline that assumes the Iraq surge continues forever (which was never U.S. policy) and then "saves" \$1.5 trillion against that baseline by ending the surge as scheduled. It is like a family "saving" \$10,000 by first assuming an expensive vacation and then not taking it. Another \$1 trillion in "savings" is actually tax increases (in other words, savings for government, not taxpayers).
- The President's budget figures exclude his health care plan, which could add another trillion dollars in taxes and spending.
- Tax revenues have historically remained between 17 and 19 percent of GDP. This year, the recession has reduced them to 14.7 percent of GDP. The CBO has estimated that once the recession ends, maintaining current tax policies would keep revenues at around 17.6 percent of GDP (slightly below the 18.3 historical average). President Obama's proposed tax increases would push revenues up to 19.2 percent of GDP by 2019 (not counting his proposed tax increases to finance health care reform).
- Federal spending per household (adjusted for inflation) remained constant at \$21,000 throughout the 1980s and 1990s, before President Bush hiked it to \$25,000. In 2009, Washington will spend \$30,958 per household--the highest level in American history--and under President Obama's budget, the figure will rise above \$33,000 by 2019.
- As the budget deficit increases over the next decade, so will net interest spending, from \$173 billion (1.2 percent of GDP) in 2009 to a record-level of \$774 billion (3.4 percent of GDP) by 2019. In fact, net interest costs will account for 84 percent of the 2019 budget deficit.
- President Obama's budget includes \$1.4 trillion in tax increases, all of which would go toward new spending rather than deficit reduction.

The 2009 Budget Deficit^[5]

- Since World War II, the largest budget deficit recorded was 6.0 percent of GDP in 1983. The Bush Administration oversaw budget deficits averaging 2.0 percent of GDP. The projected 2009 budget deficit of 11.2 percent of GDP would nearly double the post-war record. The White House budget proposal would keep the budget deficit above 3.7 percent of GDP indefinitely. It has not reached that level since 1993.
- The mid-session review projects a \$1,580 billion budget deficit in fiscal year 2009. While this is \$261 billion less than the White House projected in May, the entire reduction stems from Congress not following the President's call for another round of TARP (which would have cost \$250 billion in outlays), and \$101 billion in savings from lower-than-expected deposit insurance costs. Excluding those two variables, the projected budget deficit actually increased.
- The 2009 budget deficit will be larger than all budget deficits from 2002 through 2007 combined. More than 43 cents of every dollar Washington spends in 2009 will have been borrowed.
- While President Obama claims to have inherited the 2009 budget deficit, it is important to note that the estimated 2009 budget deficit has

increased by \$400 billion since his inauguration, and the whole point of the "stimulus" was to increase deficit spending to nearly \$2 trillion based on the unproven notion that would it alleviate the recession. This suggests that even if the President had not inherited a big deficit, he would have created one as a matter of anti-recessionary policy.

Future Budget Deficits

- One would expect the post-recession deficit to revert back to the \$150 billion to \$350 billion budget deficits that were typical before the recession. Instead, by 2019, the President forecasts a \$917 billion budget deficit, a public debt of 77 percent of GDP, and annual net interest spending of \$774 billion.
- The White House projects \$10.6 trillion in new deficits between 2009 and 2019--nearly \$80,000 per household in new borrowing.
- Since World War II, the public debt has ranged from 23 percent of GDP to 49 percent. Large deficits are estimated to drive the debt ratio to 41 percent in 2008 and 77 percent by 2019--a peacetime record.
- The public national debt--\$5.8 trillion as of 2008--is projected to double by 2012 and nearly triple by 2019. Thus, America would accumulate more government debt under President Obama than under every President in American history from George Washington to George W. Bush *combined*.
- The White House brags that it will cut the deficit in half by 2013. The President does not mention that the deficit has nearly *quadrupled* this year. Merely cutting it half from that bloated level would still leave budget deficits twice as high as under President Bush. Furthermore, three upcoming developments--the end of the recession, the troop pullout in Iraq, and the phase-out of the supposedly temporary "stimulus" spending--would, by themselves, cut the budget deficit in half.
- The coming tsunami of Social Security, Medicare, and Medicaid costs are projected to push the federal public debt to 320 percent of GDP by 2050 and over 750 percent by 2083.^[6]
- The White House underestimates future budget deficits by trillions of dollars by (1) assuming that discretionary spending will be frozen to inflation for the next decade, (2) assuming that cap-and-trade revenues will be available to finance a Make Work Pay credit (the House-passed bill allocates those revenues elsewhere), (3) assuming health care reform will be deficit-neutral, and (4) assuming certain tax increases that are unlikely to be enacted.
- The White House also likely overestimates long-term economic growth. Its forecast for real GDP growth in 2010 and 2011 is reasonable but exceedingly optimistic after the economic recovery. The Administration forecast exceeds that of the CBO every year by as much as 0.9 percentage points as late as 2015 and by a cumulative 3.9 percentage points over the 2012-2019 period. In effect, the Administration is assuming a full year's additional growth over those eight years. The effect is to boost revenues significantly in each year and by as much as \$160 billion in the 10th year and a cumulative amount of almost \$680 billion.

Time to Stop Digging

The new budget spending estimates are alarming and absolutely unsustainable--and are the true cause of these appalling levels of deficit and debt. President Obama has proposed massive tax increases that still cannot keep up with the historic spending increases he has proposed. The result will be highest level of spending--and debt--in American history. Within a decade, Washington would have to spend nearly \$800 billion annually just to pay the interest on the national debt.

In this budget context, the President's and Congress's brazen proposals to create a \$1 trillion health care entitlement are reckless and unaffordable. Lawmakers should focus on capping federal spending, restraining entitlements, and eliminating wasteful and lower-priority programs.

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<http://www.heritage.org/research/budget/wm2595.cfm>