

Federal Government Will Borrow 40 Percent of the Money It Spends Next Year, Says White House Report

President Barack Obama (AP Photo)

Monday, August 31, 2009

By Matt Cover

(CNSNews.com) – According to the Obama administration's mid-session budget update, the federal government will have to borrow nearly 40 percent of its total expenditures in 2010.

The report, "Mid-Session Review, Budget of the U.S. Government, Fiscal Year 2010" shows that 39.9 percent of all federal income will be borrowed, making borrowing the single largest share of revenue in 2010. The next largest component of federal revenue is the personal income tax, which accounts for only 27.3 percent of federal funds.

This is only slightly lower than in 2009, when the federal government borrowed 43.3 percent of the money it has spent so far. The 2009 fiscal year ends Aug. 31, 2009.

The 2010 figures are estimates, based on current policy proposals which have not all been enacted yet. However, all new spending proposals, including spending from initiatives such as health care reform and a proposed cap-and-trade program, would be added to the 2010 deficit.

The revised budget estimates mean that the government will be borrowing the second largest share of federal spending since World War II, when the federal government borrowed 62 percent of the budget in 1943, at the war's apex. Borrowing, however, dropped off quickly after the war, falling to 28 percent in 1946 – with the government running at a surplus by 1947.

That does not seem to be the case this time, because Obama administration projections show the borrowed share of the budget staying at Cold War levels until 2019, when government will borrow 17.3 percent of its budget.

Overall, the Obama administration forecasts spending to be higher than tax revenues, with spending projected to total \$43 trillion from 2010 to 2019, borrowing 20 percent of it – or \$9.05 trillion.

Office of Management and Budget logo

This level of borrowing is unprecedented even during recessions. During the long recession of the 1970's, federal borrowing never rose above 20 percent of total expenditures despite nearly a decade of sluggish economic growth, high inflation and an international oil crisis.

Debt as a share of the budget reached 15 percent during the 1987 recession. Borrowing was generally high during much of the early Reagan administration, reaching a peak of 25 percent in 1983.

However, Obama's borrowing is 10 times greater than Reagan's, which was fueled largely by defense spending as America battled the Soviet Union for dominance in the Cold War.

Obama's 2010 spending is almost entirely domestic, by contrast, with mandatory spending programs, such as the bank bailout and stimulus spending programs nearly equaling defense expenditures despite two ongoing wars.

In fact, defense spending, including the wars in Iraq and Afghanistan, account for 19 percent of federal spending while mandatory programs such as the bailout and the stimulus spending programs account for 18.9 percent.

Entitlement programs, by contrast, including Social Security, Medicare, and Medicaid account for 38.2 percent of total government spending.

Non-defense discretionary spending, which includes the rest of the federal government, accounts for 18.5 percent and interest payments on the current federal debt, valued at \$11.7 trillion, accounted for 5.2 percent of spending.

Brian Riedel, budget analyst at the conservative Heritage Foundation, said that the historic levels of borrowing proposed by Obama are not likely to abate, due to what he said were anti-growth policies pursued by the president.

"Two-thirds of the budget was eliminated after World War II ended," Riedel told CNSNews.com. "But that's not going to happen now. The White House thinks growth is going to rebound pretty quickly ... which I find unrealistic, given some of the anti-growth policies that are a part of the president's budget.

"Tax increases, cap-and-trade, health care, all of these are going to harm the economy, and they're going to reduce the growth rate long-term," he added.

"The lower economic growth is – the lower tax revenues come in, and that means higher borrowing is needed to compensate," said Riedel.

<http://cnsnews.com/news/article/53246>