

THE COMMITTEE ON THE BUDGET**PRESIDENT OBAMA'S 2010 BUDGET:
AN ANALYSIS**

Fails to Promote Economy and Jobs Despite his inspiring rhetoric, President Obama's budget includes proposals that will weaken America's prospects for sustained economic growth and job creation, while burdening future generations with debt.

Attempts to Spend, Tax & Borrow our Way into Prosperity The budget proposes a bigger government, with higher spending, higher taxes, and higher debt as the means to produce prosperity in America.

Key Points:

- Raises taxes by \$1.4 trillion over 10 years (\$646 billion of which is "cap and trade" revenue).
- Expands net entitlement spending by \$1 trillion over 10 years.
- Increases non-defense appropriations by 9.3 percent in 2009.
- Deficit = \$1.8 trillion in FY 2009 (12.3 percent of GDP).
- Doubles the national debt in 8 years.

Tax Increases During a Recession

- Total Tax Increases = \$1.4 trillion over 10 years.
- Taxes on Small Businesses While the budget claims these taxes are on the "rich," they are really tax increases on small businesses, investors, and American families. The majority of small businesses file taxes under the individual tax code – and small businesses produce 60 to 80 percent of the new jobs in this country.
- "Cap and Trade" (tax on energy) The President's cap and trade proposal is a \$646 billion tax on families' natural gas, electricity, home heating, and gasoline bills. This tax increase will further erode job growth in the U.S. manufacturing sector, and put U.S. companies at a further competitive disadvantage with China and other countries.
- Resurrection of the Death Tax Under current law, the death tax is repealed for 2010. The Obama budget would bring it back to life.

An Even Bigger, More Expensive Federal Government

- The President's budget will increase total spending to \$3.9 trillion in 2009 -- or 27.7 percent of GDP -- the highest Federal spending has been as a share of GDP since World War II. After 10 years, spending as a percentage of GDP is still 22.6 percent,

nearly a full 2 percentage points higher than any year during the Bush Administration, despite the full costs of 9/11, the war, and Katrina.

- Base discretionary spending (excluding supplementals) will rise by \$71.7 billion or 6.7 percent in 2010. After a \$1 trillion stimulus bill and an omnibus spending bill that will drive this year's appropriations to over a \$1 trillion, the President's budget proposes a slew of new spending programs across government.
- The budget extends a physician payment increase that adds \$330 billion to Medicare outlays over the 10 years and increases Medicare's existing \$36 trillion in unfunded obligations by \$2 trillion.
- The budget increases net entitlement spending over 10 years by \$1 trillion (refundable credits = \$326 billion; physician payment increase = \$330 billion; and the \$318 billion in tax increases in the health care reserve fund that will fund entitlement spending increases).
- The budget includes a \$634 billion "health reserve fund" for health care reform that is offset with savings in Medicare Advantage, means testing the Medicare prescription drug premiums, and tax increases.
- The budget takes the peak year of Iraq war funding, inflates this level, and adds it to the baseline. Next, it provides \$83 billion in FY 2009 and \$130 billion in 2010, and then plugs war funding at \$50 billion thereafter. It then takes credit for the difference between the baseline and the request, for \$1.6 *trillion* in "savings."

Record Deficit to Halve

- The Obama budget would produce a \$1.8 trillion deficit, or 12.3 percent of GDP, in FY 2009. This deficit level is more than three times the previous record (\$455 billion) and more than double the previous post-World War II record as a share of GDP (6 percent in 1983).
- President Obama will spend the next four years trying to reduce the deficit impact of the spending he did in his first month of office.
- While he claims he "inherited" this deficit, he is increasing it with the stimulus bill, expanded TARP funding, doubling the bailout of Fannie and Freddie, and signing an omnibus appropriations bill this year that will take total discretionary spending over the \$1 trillion mark. By OMB's estimates, the President will increase the FY 2009 deficit by \$540 billion, an amount greater than the deficit in any year in the country's history and nearly triple the amount of the entire deficit produced in the last year when Republicans controlled Congress (\$162 billion in FY 2007).

- Next, the Administration's claim of halving the deficit is a hollow achievement for two reasons:
 1. According to the Congressional Budget Office's [CBO] January projections, the deficit will decline by more than three-fourths over the next four years -- from \$1.2 trillion in FY 2009 to \$257 billion in 2013. The deficit declines because most of the increase in the deficit in 2009 and 2010 is due to temporary spending (TARP, Fannie and Freddie bailout, and the stimulus bill) and the economy pulling out of the recession, which results in a slowdown in Federal spending and an increase in revenue. Even with the Administration's adjusted baseline the deficit is cut in half from \$1.5 trillion in 2009 to \$734 billion in 2013.
 2. Obama's 5-year deficit goal of a \$533 billion exceeds any previous deficit level (the highest deficit level was \$455 billion in FY 2008). President Bush was mocked by Congressional Democrats in 2004 when he proposed to cut a projected \$521 billion deficit in half.
- What happened to pay-go? The House pay-as-you-go rule prohibits an increase in the deficit relative to the CBO baseline.

Record Deficits and Debt

- The budget would increase the national debt by \$2.7 trillion this year to \$12.7 trillion, requiring another increase in the debt limit, just increased to \$12.1 trillion in the stimulus bill. It doubles the national debt in eight years. Democrats frequently criticize President Bush's record on the debt, which rose from the first day he took office to the day he left office by \$4.9 trillion. Under President Obama's budget, the debt is projected to increase by \$5.6 trillion in three years.
- The debt held by the public is effectively the amount Treasury needs to borrow in private markets. It will increase by \$2.6 trillion this year. According to Treasury, foreigners currently hold over 50 percent of our debt. We cannot take for granted they will continue to buy our debt as we roll it over, much less the enormous increases the Obama Administration will need to borrow. Debt held by the public will reach 58.7 percent of GDP this year and eventually rises to 67 percent of GDP. The last time debt exceeded 50 percent of GDP was in 1956, the middle of the birth of the baby boom generation, and the debt was on a steep decline. Today, the debt is on a steep upward path, and 80 million baby boomers are beginning to leave the tax-paying workforce to collect Medicare and Social Security benefits.

No Gimmicks?

- Despite statements by the President and his Administration about the banishment of gimmicks and a return to honest budgeting, the Obama budget has a few notable items:
- Taking the highest funding level for the war, inflating it, and then cutting funding to create nearly \$1.6 trillion in "spending savings."

- The recently-enacted SCHIP bill has a funding cliff in 2014, assuming this program grows by an average of 23.7 percent and through 2014 and then abruptly stops. The Obama budget does not assume extension of funding for this program.
- The President's budget notes that the \$634 billion health reserve fund that "is not sufficient to fully fund comprehensive reform" and then identifies additional spending and savings as "TBD." In critiques of previous budgets, this has been known as a "magic asterisk."
- The College Access and Completion program is funded through 2015 and then sunsets.

Credit Where Credit is Due

- The President's budget highlights the dire problem with the unsustainable growth in entitlement spending.
- The President proposes to fix the alternative minimum tax [AMT] and builds the impact of his proposal into his budget's out-year projections, which the previous Administration did not do. His reform of the AMT falls short of full reform, since his AMT proposal only adjusts for inflation and bracket creep will push more and more taxpayers onto the AMT.
- The President proposes to means-test Medicare Part D premiums.
- While the President should also be commended for proposing to budget for emergencies, this move is fraught with potential risk. President Bush set aside \$5.6 billion in a reserve for emergencies in his first budget – but Congress quickly spent the reserve on base programs, and returned to funding disaster relief needs through "emergency supplementals."