RSC Republican Study Committee

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Budget and Spending Task Force Weekly Report

Congressman Scott Garrett (R-NJ), Chairman **October 12, 2011**

CBO: FY 2011 Deficit Came in at $1.298 Trillion

According to CBO's monthly report for September, the final U.S. deficit was **$1.298 trillion** in FY 2011, which is $4 billion higher than the previous year's deficit. The FY 2011 deficit is equal to **8.6% of GDP**, which is slightly down from last year's 8.9% of GDP figure, as well as FY 2009's 10.0% of GDP.

Compared to the previous year:

- Revenues ***increased*** by $141 billion or 6.5%;
- Spending ***increased*** by $144 billion or 4.2%; and
- The deficit ***increased*** by $4 billion or 0.4%.

The increase in federal tax collections was driven by income tax revenues, which increased from $899 billion in FY 2010 to $1.093 trillion in FY 2011, a **$194 billion** or **21.6%** increase. On the spending side of the ledger, interest on the debt increased from $228 billion to $266 billion—a **$38 billion** or **16.7%** increase. CBO states that this increase can be explained "primarily because of the large increase in the government's debt during the past year."

The deficit has exceeded $1 trillion in each of the last three years (FY 2009-FY 2011).

Quote of the Week:

"We have tried spending money. We are spending more than we have ever spent before and it does not work… I say after eight years of this Administration we have just as much unemployment as when we started. … And an enormous debt to boot."

-Treasury Secretary Henry Morgenthau, on deficit spending and the New Deal, 1939.

Recent History of U.S. Deficit Spending

(in billions of dollars)

Fiscal Year	Federal Spending	Federal Revenues	Deficit
2007	2729	2568	**161**
2008	2983	2524	**459**
2009	3518	2105	**1413**
2010	3456	2162	**1294**
2011	3600	2303	**1298**

Other notes about the FY 2011 deficit:

- **36 cents** out of every dollar the federal government spent came from borrowed money.
- The U.S. deficit in FY 2011 is greater than the total amount of borrowing from 1789 to 1982—a period covering **194 years**.
- The FY 2011 deficit is **greater** than the GDP of more than 90% of the world's countries including Mexico, Australia, and South Korea.
- The FY 2011 deficit is **larger** than 48 of our 50 state economies (all except California and Texas).

Senate Rejects President's Economic Plan

Yesterday, by a vote of 50 to 49, the Senate rejected the President's $447 billion stimulus plan (60 votes were needed to enact cloture). In addition to $447 billion worth of new spending and tax reductions, the legislation included a 5.6 percentage point increase to the top income tax rate. On net, over ten years, the defeated plan would have increased taxes by **$180.8 billion** and have increased spending by **$175.1 billion**.

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THE WALL STREET JOURNAL.

Stimulus Lite

The Senate jobs bill is a parody of a growth plan.

The Senate is expected to vote as early as today on President Obama's $447 billion jobs plan, and with any luck enough Democrats will join nearly all Republicans to defeat it. They'd be doing the economy a favor, and their own re-election bids too.

As economic "stimulus," the proposal is a junior achievement version of the 2009 plan that cost $820 billion but did so little for growth. The biggest feature of the new plan is a $265 billion payroll tax cut that would lower the employee share of the tax to 3.1% from 6.2%; employers with payrolls of less than $5 million a year would also see their share of the payroll tax cut in half to 3.1%. This would expire in January 2013, or less than 15 months from now.

A slightly smaller (to 4.2%) payroll tax cut already took effect in January of this year, and yet the unemployment rate has remained at or above 9% all year. Payrolls failed to expand because employers don't generally hire workers for a year.

Meanwhile, as amended last week by Senate Majority Leader Harry Reid, the bill is financed by a new 5.6% surtax on millionaires. So a bill that the White House has sold as a temporary $265 billion tax cut for employers is financed with a permanent almost half-trillion-dollar tax hike on businesses and investors. What a deal.

And a bill advertised in the name of job creation is now primarily about the new Democratic campaign theme of redistributing income. If history is any guide, that ploy will send employers and investors into a further hiatus, destroying far more jobs in the private economy than the government-financed jobs it hopes to create.

The overall result would be a net permanent tax increase on businesses starting in 2013. Few economists believe that unemployment will be less than 8% in 2013, and Mr. Obama's own budget doesn't predict it. It's doubtful Lord Keynes would buy a $447 billion tax hike when 14 million Americans are out of work. If the Bush-era tax rates for those who earn more than $250,000 ($200,000 for singles) also expire in 2013, as they are now scheduled to do, the highest tax rate will exceed 50%, including state taxes.

As for the budget impact of all this, higher tax rates have generally not led to big revenue bonanzas. In the 1970s, when the highest tax rate was 70%, the richest 1% of earners paid a little under 20% of all income taxes. Today with a 35% top tax rate, the richest 1% pay 38%, as they have less incentive to shelter their income or seek tax-free investments.

The bigger problem is who will pay these higher taxes. It isn't mostly Warren Buffetts. Treasury Department data for 2007 show that of the 392,000 taxpayers with incomes exceeding $1 million, more than 300,000 have business income and most of those met Treasury's definition of "business owner." Good luck taking money out of business earnings and expecting those firms to hire more workers.

The plan also includes $175 billion in new spending, according to the Congressional Budget Office, with $44 billion for extending unemployment insurance. This program, which now offers workers up to 99 weeks of unemployment benefits, has already been extended five times since the recession began and always with Democrats selling it as a jobs stimulus. What it has stimulated so far are longer spells of unemployment, with 44.6% of those who are now jobless out of work for at least six months

There is also more than $100 billion for new schools, public works, and aid to states and cities. At least Democrats aren't calling any of this "shovel-ready." States that received the stimulus cash in 2009 and 2010 fell off a funding cliff in 2011, and they had bigger fiscal holes and more layoffs this year than they would have had without the federal aid. Uncle Sam's transportation spending has almost doubled over the past decade, and Congress is already slated to pass a transportation bill of $150 billion or more next year. These provisions are giveaways to public unions to preserve as many state and local government (and dues-paying) jobs as possible before Election Day.

The Obama-Reid plan is a parody of a jobs bill, full of political talking points but very little to create jobs or lift growth. If Republicans want to campaign as the pro-growth party, they ought to be unified in opposing it. As for Senate Democrats, it will be instructive to see how many running for re-election in 2012 are willing to put growth and prosperity over redistribution and union politics.