THE REPUBLICAN STUDY COMMITTEE

BUDGET & SPENDING TASK FORCE

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## CBO: $905 Billion Deficit Through First Nine Months of FY 2012

According to CBO, the federal government has run up a $905 billion deficit in the first nine months of FY 2012. This is *twice* as much as any annual deficit prior to FY 2009. To date, the federal government has spent **$2.705 trillion** this fiscal year. Another way to put federal spending in perspective is, even with three months left in the fiscal year, the federal government has already spent more than any year prior to FY 2007. The federal government has collected **$1.824 trillion** in taxes, which is up 5.2% so far this year compared to last year.

### Federal Spending Through First 9 Months of Year

*In Billions of Dollars*

| | Through June of FY 2011 | Through June of FY 2012 | Difference |
|---|---|---|---|
| Spending | 2705 | 2729 | 24 |
| Revenues | 1734 | 1824 | 90 |
| Deficit | -971 | -905 | -66 |

If the final deficit for FY 2012 exceeds $1 trillion, as it is on track to do, this will be the *fourth* year in a row the deficit has exceeded this figure. Spending is also on track to exceed $3 trillion, and this will also mark the *fourth* year in a row that this barrier has been broken (it never happened prior to FY 2009 in all of American history). 33.1% of all spending so far this year has come from borrowed money.

## Senate Farm Bill Spends $970 Billion over Ten Years

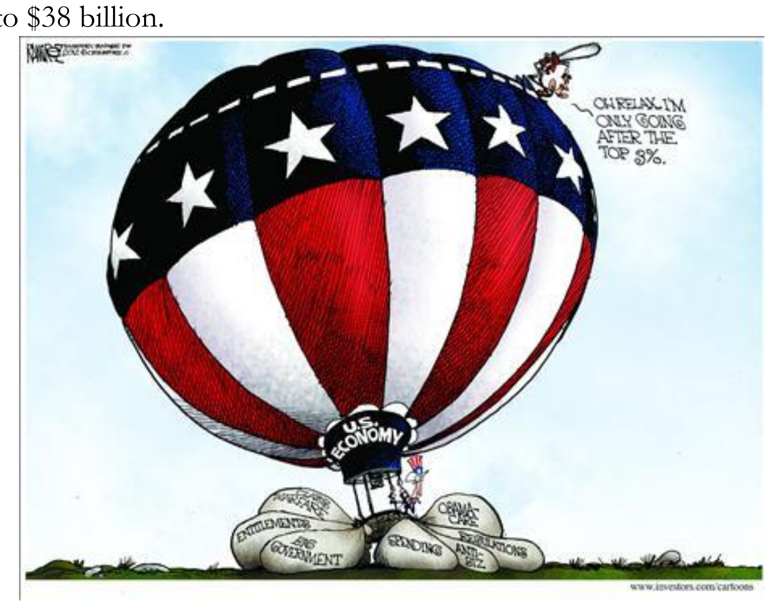
**Last month**, the Senate passed S. 3240, the Agriculture Reform, Food, and Jobs Act of 2012. The CBO baseline currently assumes $992 billion for programs under the bill over ten years. According to CBO, the Senate-passed bill proposes spending for farm and food programs at **$970 billion** over ten years. Most of this amount is for the SNAP program (formerly the Food Stamp program) and other related means-tested welfare programs. **Today**, the House Agriculture Committee marks up its version of the legislation. That bill, which is still being marked up, reportedly may spend **$957 billion** over ten years.

The SNAP program is an appropriated entitlement. What this means is that it is defined as direct spending by the Balanced Budget and Emergency Deficit Control Act. However, the amount of funding provided for the program is set by the appropriations bill. The custom is for the appropriations bill to set funding at the amount authorized by the Farm Bill (or related laws setting the program's policy). However, the Secretary of Agriculture has the authority to make adjustments to the program to comply with the amount appropriated.

**Quote of the Week:** *"The fragmentation of power produced by the structure of our Government is central to liberty, and when we destroy it, we place liberty at peril. Today's decision should have vindicated, should have taught, this truth; instead, our judgment today has disregarded it."*

**-Dissent by Justices Scalia, Kennedy, Thomas, and Alito in the Obamacare Supreme Court Ruling.**

With no Farm Bill in place after September 30, 2012, funding for FY 2013 is left to the appropriations process. Next week, the House may take up the FY 2013 Agriculture Appropriations bill. This legislation provides $80 billion for the SNAP program. This is $408 million less than last year and $2 billion less than the President's request. In 2008, spending for this program amounted to $38 billion.

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THE WALL STREET JOURNAL.

**Off the Tax Cliff He Goes**
**Wall Street Journal Editorial**

So the 2013 tax cliff is a big enough economic problem that President Obama now wants to postpone it for some taxpayers. But it isn't so big that he's willing to curb his desire to raise taxes on tens of thousands of job-creating businesses.

That's the essence of Mr. Obama's announcement Monday that he wants Congress to extend current tax rates for a year, but only for those making less than $200,000 a year. This is a political gambit designed to protect Democrats who are starting to feel queasy about opposing GOP plans to extend *all* of the Bush rates as the economy weakens again. The ploy could help Democrats if Republicans fall for it, but it won't reduce the economic damage to the country.

By Mr. Obama's economic logic, tax increases matter on middle-income earners but are irrelevant to everyone else. "By the way, these tax cuts for the wealthiest Americans are also the tax cuts that are least likely to promote growth," as he put it Monday.

Editorial page editor Paul Gigot on why President Obama is ignoring Senate Democrats who want to forge a tax compromise with Republicans. Photo: Getty Images

But Mr. Obama is demanding tax *increases*, not tax cuts, and large increases at that. If the Bush tax rates expire as scheduled on December 31, rates on the top two income brackets will jump to 39.6% from 35%, and 36% from 33%. Add the scheduled return of income phaseouts for exemptions and deductions, and the rates go up another two-percentage points—to at least 41% and 35%.

Mr. Obama claims this will merely return rates to what "we were paying under Bill Clinton," but that's not true either. It ignores his ObamaCare tax increase of 0.9% on top of the current 2.9% Medicare tax, plus a new 2.9% surcharge on investment income, including interest income.

That's an additional 3.8% surcharge on investment income, and added to the Bush expirations would take the capital gains rate to 23.8% from 15% today, and the dividend tax rate to about 45% from 15%. In Mr. Obama's economic world, tax cuts for middle-class "consumption" are good, but low rates to spur saving and investment are bad. This makes no sense because consumption is ultimately the product of saving and investment.

The President dismissed all of this as merely affecting 3% of small business owners. But that includes tens of thousands of the most productive, fastest-growing small businesses—those most likely to hire workers amid a national jobless rate of 8.2%.

Congress's Joint Tax Committee—not a conservative outfit—estimates that in 2013 about 940,000 taxpayers will have enough business income to meet Mr. Obama's tax increase threshold. And of the roughly $1.3 trillion in net business income, about 53% will get hit with the higher tax rates.

This is because millions of businesses report their income as sole proprietors and subchapter S corporations that file under the individual tax code. So Mr. Obama wants these businesses to pay higher tax rates than the giant likes of General Electric or J.P. Morgan. Does that qualify as "tax fairness"?

As for the impact on growth, even Keynesian theory holds that raising taxes should be avoided in a weak economy. That's the argument that Mr. Obama used in late 2010 when he agreed with Republicans to extend the Bush rates through the end of 2012.

His assumption then was that the economy would be stronger now, but today we are in the third slow-growth patch in three years. Businesses are sitting on their wallets as they wait out the tax, regulatory and election uncertainty. Mr. Obama's tax gambit will only increase that uncertainty and further retard investment and job creation.

We also know from experience that high earners are most able to move their money to avoid high tax rates. If they don't have tax shelters at home, they can find opportunities abroad. Mr. Obama is running ads accusing Mitt Romney of sending jobs offshore, but the best way to send capital and jobs overseas is to raise U.S. tax rates to levels that aren't competitive with the rest of the world.

Mr. Obama tacitly admits this when he talks about corporate tax reform, but raising tax rates merely increases the incentive for Congress to create more tax shelters. Mr. Obama promised Monday that if Republicans accept his proposal now, they can all come together on tax reform next year. But he knows that if tax rates rise, the Beltway's revenue "scoring" conventions will make it that much harder to cut rates again as part of tax reform. In any event, he showed the value of his promises during his 2011 backroom budget charade with Speaker John Boehner.

The good news Monday is that Republicans in Congress and Mr. Romney seemed disinclined to take this class-war bait. Perhaps they realize that if they agree to raise some taxes but not others, they'll dispirit their own base and hurt the economy. They can also put Senate Democrats on the spot by forcing them to choose between extending rates for everyone and accepting Mr. Obama's tax increase. Republicans can win this debate by stressing growth over fairness and jobs over income redistribution.