



A Mid-Year Update on the President's Plan to Spend, and Then Tax, in Epic Proportions

James C. Capretta | July 26, 2010

Peter Orszag, the president's outgoing Director of the Office of Management and Budget, released the annual mid-year update to the administration's budget projections at 3 pm last Friday afternoon in a conference call with reporters. That was a dead giveaway that the administration was hoping not to make much news with its latest budget projections, or at least not make news in a way that anyone would notice.

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They weren't entirely successful in burying the report, but it's understandable why they tried. The numbers are eye-popping. The budget deficit in 2010 is expected to set a record at \$1.471 trillion – or 10% of GDP. In 2011, the administration projects the deficit will again top \$1.4 trillion. From 2010 to 2020, the Obama budget plan would run up a cumulative deficit of nearly \$10 trillion, and the nation's debt would reach \$18.5 trillion in 2020, up from \$5.8 trillion at the end of 2008.

Even more ominous for the president is the economic forecast. It shows unemployment remaining at over 8% through the 2012 presidential re-election campaign, despite the assumption that relatively normal economic growth would have been underway for more than two years by then.

The primary problem is quite plainly out of control

federal spending. In 2008, total federal outlays were about \$2.9 trillion. President Obama wants to add \$1 trillion to that total in 2011, or about a 33% expansion of governmental activity in just three years. And that's just the beginning of it. By the end of the decade, federal outlays would reach \$5.6 trillion, nearly double what they were a little more than a decade earlier, and that's assuming a massive and speculative peace dividend after 2011 and cuts in domestic discretionary programs that the president has yet to identify. Of course, the baby boomers are also now entering their retirement years, and will begin flooding into the Social Security and Medicare program in the next few years, pushing spending on those programs up even more rapidly than they have grown in the past. By 2030, there will be 71 million Americans age 65 and older, up from 41 million this year.

All of this building budgetary pressure is now a clear drag on growth and a hindrance to hiring. Firms are worried that the "solution" politicians will ultimately pursue to close the widening gap between federal revenues and spending is more debilitating tax increases. The latest long-run budget forecast from the Congressional Budget Office won't allay those fears.

In that report, CBO found that a massive tax hike is already in the offing. Historically, federal taxes have hovered at around 18 to 19% of GDP. CBO expects that number to rise to 23% of GDP by 2035, even if nothing is done to change current law. Income taxes will begin to rise automatically next year if



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Congress lets tax rates revert to their pre-Bush levels. In addition, the cuts to rates on dividends and other investment earnings from 2003 – cuts that were which instrumental to igniting growth during the post-9/11 slump – would also vanish.

President Obama has already pushed through Congress one of the largest tax increases on record as part of his health care plan. The Medicare payroll tax is set to rise by 0.9% of payroll for individuals with incomes above \$200,000 per year and couples with incomes exceeding \$250,000. In addition, these same households will now pay an additional 3.8% tax on “unearned” income, such as dividends, rent, and other investment income. The income thresholds for assessing these taxes are not indexed at all. Further, the new 40% excise tax on the premiums of so-called “high cost” insurance plans kicks in 2018, and then begins to hit more and more people as the threshold for determining what constitutes a “high cost” plan grows with general consumer inflation and not health costs. Carter-era bracket creep has now been restored in a big way in the age of Obama.

All told, CBO expects these and other tax hikes in the health bill to raise ever-increasing amounts of revenue, reaching 0.5% of GDP in 2020 and 1.2% in 2035.

The president's governing and budget strategy should now be evident to one and all. He has spent his first two years in office working to secure expansions in the scope and power of the federal government. Working with very sizeable Democratic majorities in both the House and the Senate, he passed an \$800 billion-plus “stimulus” program, a massive health care entitlement covering tens of millions of new beneficiaries, a full federal takeover of the student loan industry, and sweeping new regulations for the financial sector. All of these initiatives have

increased federal power and spending and have been financed with new tax and regulatory burdens on the private sector of the American economy. And all were passed entirely on partisan lines, or with just token Republican support.

Now that a vastly expanded federal enterprise has been “locked in,” or so the Democrats now hope, the president and his team are looking to “pivot” and spend the coming period in the run-up to 2012 as would-be defenders of the U.S. treasury. The president is now pledging to attack runaway budget deficits starting with consideration of the recommendations of a presidentially-appointed debt commission, set to report – conveniently – just after the mid-term election. And he wants Republicans on the commission and in Congress to give him cover for the tax increases he is sure to seek to pay for the bloated government he has erected.

Republicans would be fools to go along with this game plan. If the president wants bipartisan cooperation in governing, then that cooperation should extend to the scope and expanse of the federal government, not just how to pay for it. That means health care policy, and financial services, and student loans, and everything else in between. But that's not what the president has in mind. He has spent his first two years in office building a government of the Democrats' dreams. He and his fellow Democrats in Congress should now explain how they plan to pay for it.