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# WORKING PAPER

## PRESIDENT OBAMA'S FIRST BUDGET

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## President Obama's First Budget

President Obama just released an outline of his first budget—the fiscal year 2010 budget—in a document titled *A New Era of Responsibility: Renewing America's Promise*. A summary version of a more detailed proposal that Obama will release in April, this 134-page summary budget also reveals the amount of spending and level of deficit for fiscal year 2009 because, at the time of the document's release, Congress had to yet complete 9 of the 12 appropriations bills for the current fiscal year. Moreover, President Bush and Congress added a significant amount of spending to FY2009 through the various bailouts at the end of 2008, which were not accounted for in the FY2009 request figure. President Obama added spending too through the stimulus bill that he signed in February of this year—25 percent of that \$789 billion bill will be spent in FY2009. (Note: All years are fiscal years, and FY2009 and FY2010 numbers are estimates.)

### Section 1: President Obama's First Budget

President Obama promises to save money by reforming procurement and cutting various types of waste. But the budget's main thrust is to boost spending on health care, energy subsidies, college aid, refundable tax credits, and other items.

- In 2009, the federal government might raise \$2,186 trillion, but it plans to spend \$3,937 trillion.
- Spending will increase at least by 32 percent in 2009, up by 111.4 percent since 2001. Revenue will go down by 13 percent, but it is up by 10 percent since 2001.
- In 2009, the federal government plans to spend \$32,942.90 per household. It will tax \$18,286.74 per household and run a budget deficit of \$14,656.16 per household.

**Table 1: Federal Budget 2008-2010 (Nominal Billions of Dollars)**

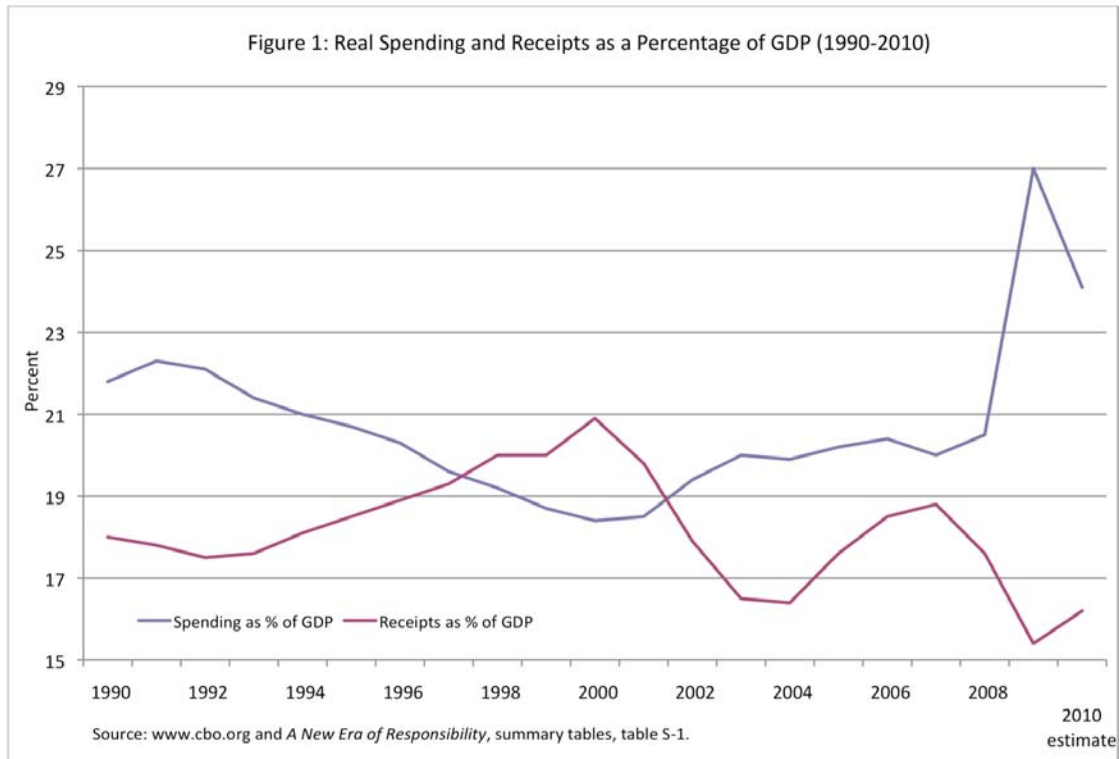
Fiscal Year	Net Interest	Entitlement spending	Discretionary Spending	Total Spending	Total Revenue	Deficit
2008	\$253	\$1,610	\$1,120	\$2,983	\$2,524	-\$459
2009	\$148	\$2,516	\$1,279	\$3,938	\$2,186	-\$1,752
2010	\$178	\$2,009	\$1,368	\$3,552	\$2,381	-\$1,171

Source: *Budget of the United States FY2009*, historical tables and Office of Management and Budget, *A New Era of Responsibility*, summary tables (Washington, DC: GPO, 2009) [www.budget.gov](http://www.budget.gov)

- According to table 1, the deficit is projected to be \$1.752 trillion in 2009. To put this amount in perspective, the deficit in FY2009 is the equivalent of the entire budget of the United States in FY2000.

- In 2009, this deficit represents 12.3 percent of GDP. More importantly, the public debt-to-GDP ratio stands at 58.7 percent.

- Out of the last twenty years, FY2009 and FY2010 are by far the worst years of federal spending, both as a percentage of GDP and as a dollar amount (see figure 1).



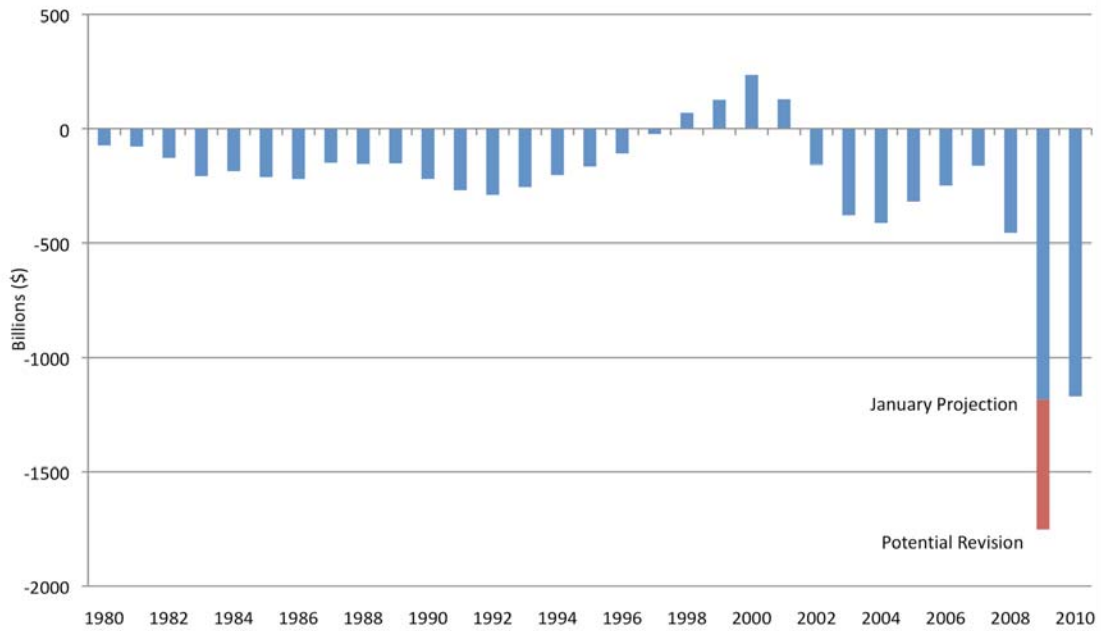
- An optimistic FY2010 GDP forecast by the president (see table 2) projects a reduction of the deficit that year to \$1.2 trillion (see figure 2) and 8 percent of GDP (see figure 3).

**Table 2: Projections for the Economy (Change in Annual Real Gross Domestic Product)**

Forecast From	FY2009	FY2010
White House FY2010 Budget	-1.20%	3.20%
Congressional Budget Office January 2009	-2.2	1.5
Average Private Forecast	-2%	2.00%
Stress Test Worse Case	-3.30%	0.50%

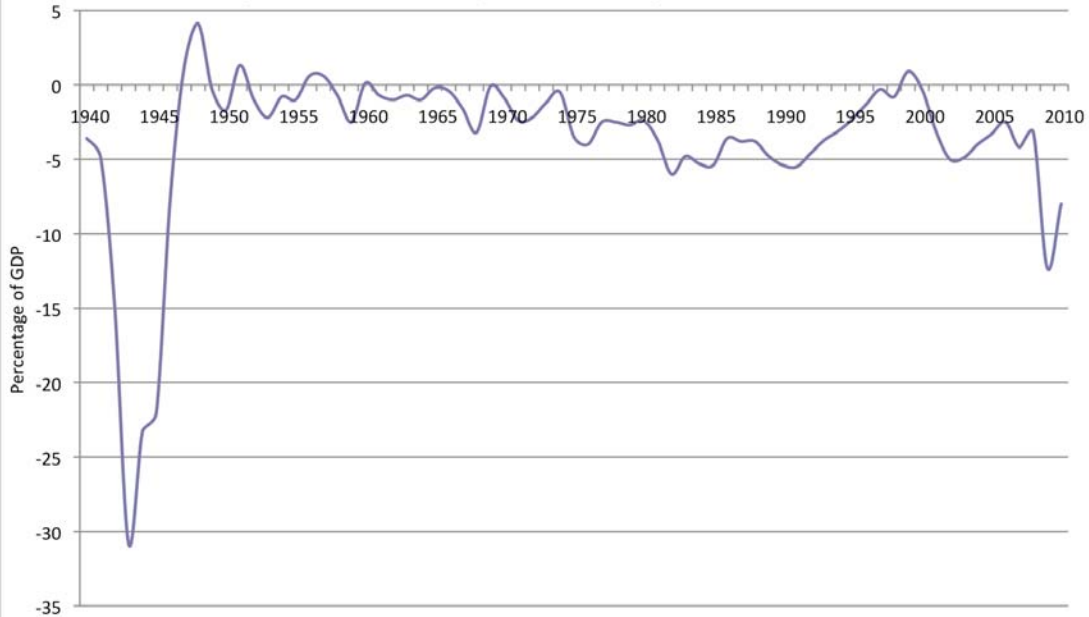
Sources: OMB, *A New Era of Responsibility* (Washington, DC: GPO, 2009), summary tables, table S-8, and *New York Times*, <http://www.nytimes.com/2009/02/28/business/economy/28recession.html>.

Figure 2: Federal Deficit/Surplus 1980-2009



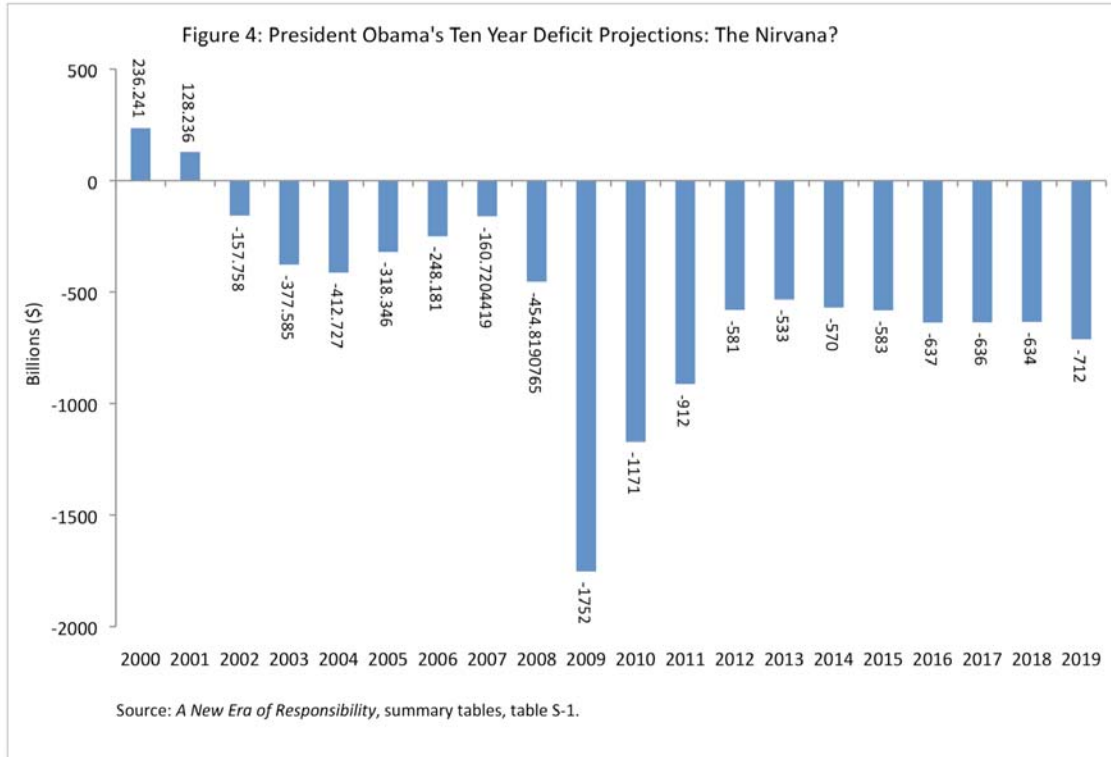
Source: Author's calculations based on CBO data, <http://www.cbo.gov/ftpdocs/99xx/doc9957/Historicaltables09-web.XLS> and *A New Era of Responsibility*, summary tables, table S-1.

Figure 3: Federal Deficit/Surplus as a Percentage of GDP 1940-2010



Source : <http://www.cbo.gov/ftpdocs/99xx/doc9957/Historicaltables09-web.XLS> and *A New Era of Responsibility*, summary tables, table S-1.

So will our financial outlook improve? Not really. According to Obama’s own ten-year deficit projections (figure 4), this so-called New Era of Responsibility will have deficits every single year that will be bigger than the deficits of the Bush years.



President Obama’s first budget is indeed the beginning of a new era: The Era of Bigger Government.

### Increased Spending

While overall numbers show spending decreasing between 2009 and 2010 (see table 3), President Obama will actually increase many categories of spending, which are already far above the 2008 levels. The decrease is basically the result of 2009 bailout payments not being extended into 2010.

Moreover, if the spending reductions planned for 2010 look at all promising, that’s only because the increase between outlays in 2009 and 2008 was immense, rising by at least 32 percent (see table 4). Outlays in 2010 will increase by 19 percent over outlays in 2008.

**Table 3: Proposed FY2010 Budget By Category**

	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>
<b>Total Outlays</b>	2,983	3,938	3,552
<b>Mandatory</b>	1,610	2,516	2,009
<b>Discretionary</b>	1,120	1,279	1,368
<b>Defense</b>	593	666	673
<b>Nondefense</b>	528	613	695
<b>Deficit</b>	-459	-1,752	-1,171

Source: Office of Management and Budget, *A New Era of Responsibility* (Washington, DC: GPO, 2009), [www.budget.gov](http://www.budget.gov).

**Table 4: Spending Increase by Category**

	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>
<b>Total Outlays</b>	9%	32%	-10%
<b>Mandatory</b>	11%	56%	-20%
<b>Discretionary</b>	8%	14%	7%
<b>Defense</b>	8%	12%	1%
<b>Nondefense</b>	7%	16%	13%
<b>Deficit</b>	183%	282%	-33%

Source: OMB, *A New Era of Responsibility* (Washington, DC: GPO, 2009), [www.budget.gov](http://www.budget.gov).

### **Fiscal Responsibility?**

To the president's credit, this budget contains some good things. For instance, it includes a number of items in the baseline budget that the previous administration did not include, such as the cost of the Iraq War and the AMT (alternative minimum tax) fix.

But those changes do not get us very far along the path of fiscal responsibility. First, the president is not adopting discretionary spending caps or automatic reconsideration triggers for mandatory spending items. As a result, in spite of projections of the contrary, discretionary and mandatory spending will continue to grow quickly.

More worrisome are the numerous budget tricks the administration used in this budget. Here are a few.

- Obama is proposing to move some items from the discretionary to the mandatory spending category (mainly agriculture and education spending).
- He advocates expanding health-care coverage before demonstrating the ability to control health-care costs and before making a significant down payment on the federal government’s tens of trillions of dollars in currently unfunded health-care promises.
- Obama told Congress that his budget team has “already identified \$2 trillion in savings” to help tame record budget deficits, but it is hard to find programs cuts in this budget:
  1. It appears that about half of the “savings” come from proposed tax increases. Obama plans on reducing the deficit by \$639.7 billion over 10 years with just income tax increases and counts on a \$311 billion reduction in the debt service.
  2. More importantly, the administration “saves” hundreds of billions of dollars by not continuing to spend \$170 billion a year in Iraq until 2019. Obama includes war spending in his baseline projections to be able to show a \$1,490.4 billion savings over 10 years for not spending money in Iraq. Yet, even the Bush Administration proposed getting out of Iraq by 2012. Cutting spending that was not going to occur isn’t saving. It’s dissembling.

And it leads to more debt (see table 5).

**Table 5: Outlays and Revenue as Percentage of GDP**

	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>
<b>Total Outlays</b>	21.0%	27.7%	24.1%
<b>Receipts</b>	17.7%	15.4%	16.2%
<b>Deficit</b>	3.2%	12.3%	8.0%
<b>Debt Held by the Public</b>	40.8%	58.7%	64.6%
<b>Total Gross Public Debt</b>	70.2%	89.2%	95.6%

Source: OMB, *A New Era of Responsibility* (Washington, DC: GPO, 2009), [www.budget.gov](http://www.budget.gov).

## **Section 2: Where is the money going?**

The president’s budget does not reduce federal spending. In fact, many agencies are getting a budget increase in FY2009 and FY2010 on top of the already hefty increase the Stimulus Bill may have given them (see table 6). For instance, the Environmental Protection Agency (EPA) is getting a 34 percent budget increase between FY2009 and FY2010 (from \$7.8 billion to \$10.5 billion) on top of receiving \$7.2 billion—almost the equivalent of its entire FY2009 budget—in stimulus money. This represents a 134

percent increase between 2009 and 2010. The Department of Energy effectively doubles its budget during this period.

**Table 6: Discretionary Spending by Agencies (FY2008–FY2010), Budget Authority in Billions**

	FY2008	FY2009	Stimulus	FY2010
<b>Departments</b>				
Agriculture	17.9	23.9	6.9	26
Commerce	7.6	9.3	7.9	13.8
Defense (excluding the costs of the wars)	459.3	513.3	7.4	533.7
Education	66.6	41.4	81.1	46.7
Energy	21.2	26.4	38.7	26.3
Health and Human Services	717.1	80.1	22.4	78.7
Homeland Security	41.1	42.2	2.8	42.7
Housing and Urban Development	40.4	40.1	13.6	47.5
Interior	10.5	11.3	3	12
Justice	24.4	25.5	4	23.9
Labor	14.7	12.7	4.8	13.3
State	22.9	36.7	0.6	51.7
Transportation	63.4	70.5	48.1	72.5
Treasury	12.5	12.7	0.3	13.3
Veterans Affairs	44.6	47.6	1.4	52.5
<b>Major Agencies:</b>				
Corps of Engineers	5.6	5.3	4.6	5.1
Environmental Protection Agency	7.4	7.8	7.2	10.5
General Services Administration	0.2	0.7	5.9	0.6
National Aeronautics and Space Administration	17.1	17.8	1	18.7
National Science Foundation	6.2	6.9	3	7
Small Business Administration	0.3	0.7	0.7	0.7
Corporation for National and Community Service	**	0.9	0.2	1.1
National Infrastructure Bank	**	**	**	5.0

Source: *Budget of the United States*, FY2009, historical tables and OMB, *A New Era of Responsibility*, table S-7.

### Section 3: Paying for the Spending

How is President Obama planning to pay for the spending? Mainly, he says, by increasing the government receipts from 16.6 percent of GDP to 19 percent. His budget proposes a nearly \$1.4 trillion tax increase. But not everyone will pay. About \$1 trillion of this tax increase will come from 3.2 million tax filers—couples making over \$250,000 or individuals making over \$200,000.<sup>1</sup>

Starting in 2011, these taxpayers will see their taxes increase in the following ways:



1. An increase in the income tax rates of top two income tax brackets to 36 percent and 39.6 percent;
2. An increase in capital gains and dividends tax rates to 20 percent;
3. A phase out of personal exemptions and limiting itemized deductions (\$180 billion); and
4. A reduction of the value of their tax deductions by approximately one-fourth.

Table 7 summarizes the president’s proposed tax changes.

**Table 7: The \$1.4 Trillion Tax Increase (Billions of Dollars)**

<b>Proposed Tax Increase</b>	<b>Ten-Year Revenue Impact</b>
Raise income tax rates for upper-income taxpayers	\$339
Raise capital gains and dividends rates for upper-income taxpayers	\$118
Reinstate the personal exemption phaseout and limitation on itemized deductions for upper-income taxpayers	\$180
Limit itemized tax deductions to 28 percent value for upper-income taxpayers	\$318
Cap-and-trade energy tax	\$646
International enforcement, reform deferral, and tax reforms	\$210
Other business, financial, and energy tax increases	\$143
Make research and experimentation tax credit permanent	-\$74
Modify FAA financing	-\$77
New low income <i>tax cuts</i>	-\$444
Other proposals	-\$4
<b>Total Tax Increase</b>	<b>\$1,354</b>

Source: Brian Riedl “Spending, Taxes, and Doubling the National Debt,” *Backgrounder No.* (Washington, DC: The Heritage Foundation, 2009), <http://www.heritage.org/Research/Budget/bg2249.cfm>

President Obama claims that he offsets the tax increases by making permanent two of the temporary tax credits he created through the stimulus bill (the Make Work Pay and the American Opportunity Tax Credits). However, tax credits are far from being tax cuts. They do not reduce the marginal rates of taxpayers no matter what their income is. Tax credits are just spending disguised into tax cuts.

Table 8 shows that the administration expects receipts collected from the income tax to grow as a share of total receipts from 43.8 percent in 2009 to 48.4 percent in 2019. It also expects the share of corporate income tax to increase too from 7.5 percent to 12.2 percent. The share of all other taxes will decrease.

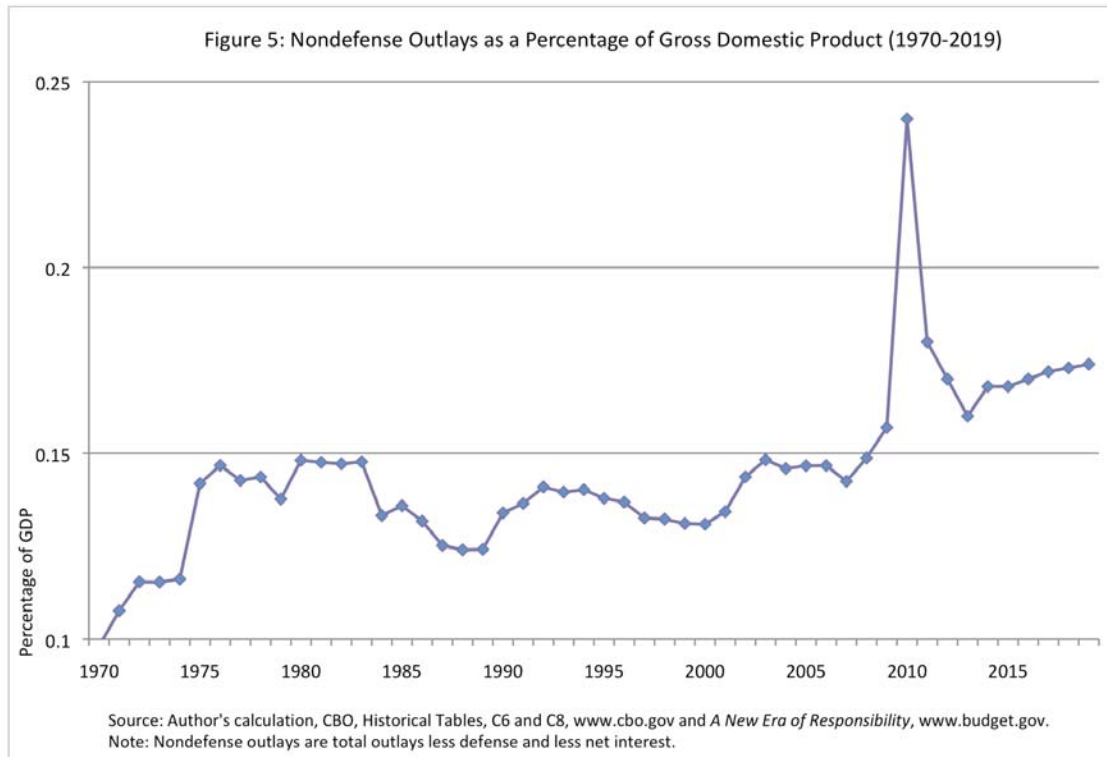
**Table 8. Percentage of Total Receipts by Type of Tax**

	2009	2010	2019
Individual income taxes	43.8%	44.6%	48.4%
Corporate income taxes	7.5%	9.3%	12.2%
Social insurance and retirement receipts	41.1%	39.5%	32.1%
Excise taxes	3.2%	3.2%	1.9%
Estate and gift taxes	1.2%	0.8%	0.9%
Customs duties	1.1%	1.0%	1.1%
Deposits of earnings, Federal Reserve System	1.3%	0.9%	1.1%
Climate revenues	*	*	1.9%
Other miscellaneous receipts	0.7%	0.7%	0.4%

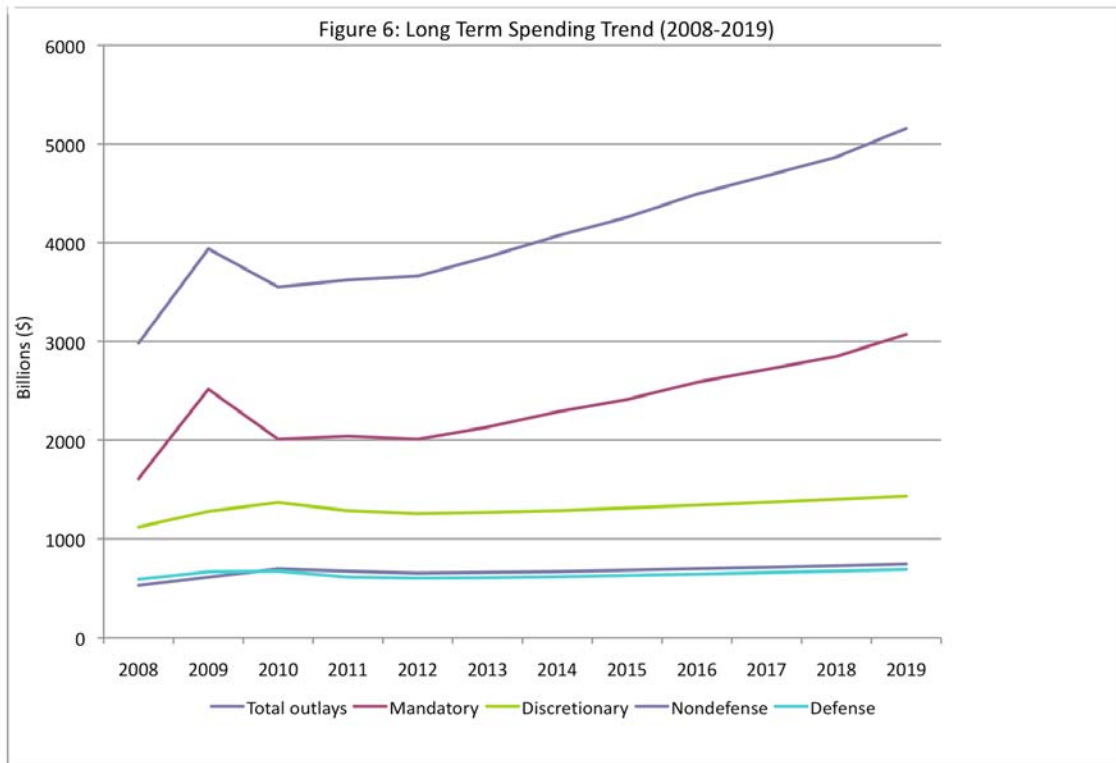
Source: OMB, *A New Era of Responsibility*, summary tables, table S-4.

#### **Section 4: How much is Obama about to spend?**

Figure 6 shows nondefense spending (defined here as total spending minus defense and minus net interest on the debt) as a percentage of gross domestic product. Even after the current spike in spending caused by the stimulus bill and the financial bailouts, Obama will keep spending at a high level.



This is a permanent expansion of the federal government as a percent of GDP over the pre-recession levels.



Source: Author's calculation, CBO, Historical Tables, C6 and C8, [www.cbo.gov](http://www.cbo.gov) and *A New Era of Responsibility*, [www.budget.gov](http://www.budget.gov).  
 Note: Nondefense outlays are total outlays less defense and less net interest.

## Conclusion

Now the Democrats are in control of both sides of Pennsylvania Avenue. While President Obama promises an era of new responsibility, his first budget indicates a return to the dramatic fiscal policy of the 1970s. Based on his budget, the only promises the President can credibly make are high marginal rates, higher tax burdens for all, dramatic spending increases, and unprecedented and sustained levels of debt for the American people, their children, and grandchildren. Unfortunately, we know the consequences of such policies: slower growth rates, higher unemployment rates, lower standards of living, and higher levels of poverty.

<sup>1</sup> The Heritage Foundation Center for Data Analysis Individual Income Tax Model shows that taxpayers targeted by the Obama plan represent 3.2 million tax filers. See Brian Riedl, "Spending, Taxes, and Doubling the National Debt," <http://www.heritage.org/Research/Budget/bg2249.cfm>.