

Obama budget is too heavy on taxes, spending

by *The Detroit News*

President Barack Obama's proposed budget outline assumes tax increases don't affect behaviour. They do. It also assumes Congress will end its spending spree. It won't. If all of the programs in the budget plan become law, tax increases will affect more Americans than the high-income earners targeted in this proposal, and the economy will suffer.

The president's outline for a 2010 budget, and a blueprint covering the next decade, was released Thursday. The plan sees \$3.9 trillion in spending in the current budget year, with a deficit of \$1.7 trillion, a shortfall equal to more than 12 percent of the nation's \$14.2 trillion gross domestic product. That kind of deficit as a share of the nation's total economic output hasn't occurred since World War II.

And while short-term deficit spending is necessary to jolt the nation out of recession, Obama's plan advances spending far beyond what's necessary for stimulus and for the long term.

For the 2010 budget year, total budget outlays are projected at more than \$3.5 trillion, with a deficit of nearly \$1.2 trillion or 8 percent of GDP. Spending in the current budget year will jump to nearly 28 percent of total economic output from 21 percent in the prior year, an increase of 32 percent.

In 2010, total spending would amount to more than 24 percent of GDP, still up nearly 14 percent from fiscal 2008, in which the deficit amounted to a bit more than 3 percent of GDP.

Clearly, the president sees a hugely expanded role for the government in the economy, specifically in developing new energy sources, providing health coverage for Americans and expanding access to education, as well as stimulating the economy and backing up banks and priming financial markets.

The president has promised that most Americans will receive a tax cut, while families earning more than \$250,000 will pay more in income taxes and capital gains taxes. During the next decade, according to the budget blueprint, higher income taxes, lower deductions and higher capital gains taxes would yield \$637 billion in new revenues.

But that's not the way human behaviour works. Raise the cost of extra effort and risky investments, the kind that make the economy grow, and the result will be less economic activity.

The budget optimistically assumes inflation-adjusted GDP growth rates of 3.2 percent in 2010, 4 percent in

2011 and 4.2 percent in 2012, but the private Blue Chip Consensus forecast for the same years is 2.1 percent, 2.9 percent and 2.9 percent. It's also worth noting that many of the proposed tax hikes for upper-income families go into effect in 2011, just when the Obama budget foresees a sharp increase in economic growth.

Those higher taxes could very well derail that anticipated rebound.

The Obama budget also expects reductions in spending to help reduce the deficit over the next several years. But is this realistic when the House of Representatives just adopted a \$410 billion spending plan for the remainder of this budget year that is generously larded with pork and includes an average increase for domestic agencies of 8 percent?

The high-income earners already bear 39 percent of the income tax burden. Perhaps more can be squeezed from them, but not enough to cover a spending agenda this ambitious.

That means either Congress will suddenly have to break its spending addiction, or middle class Americans will have to ante up.

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