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Obama's Budget Builds on Bush Precedents

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President Barack Obama has introduced his federal budget plan for the coming years, and it includes large increases in spending, taxes, and debt.¹ The Obama plan includes the costs of recent financial bailouts and the stimulus package, but it also foresees a long-term increase in regular domestic spending. The plan builds on spending precedents set by President Bush, and would boost nondefense outlays to a record share of the economy.

Obama's Spending Plan

Obama's budget 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. Figure 1 shows nondefense spending as a share of gross domestic product, and includes Obama's proposed outlays through 2019.² Nondefense spending is total federal outlays less defense and net interest.

The figure shows that even after the current spike in spending caused by the stimulus bill and financial bailouts,

Obama is planning to spend at permanently higher levels. By 2019, nondefense spending would hit 17 percent of GDP, a 30-percent higher share of the economy than under President Clinton in the late 1990s. And that large expansion understates Obama's plans because it includes only a fraction of the spending for his forthcoming health care proposal.³

Bush Precedents

The boldness of Obama's spending plans is partly attributable to the spendthrift example set by President George W. Bush, who ramped up both defense and nondefense spending. Even excluding recent financial bailouts and the takeover of Fannie Mae and Freddie Mac, Table 1 shows that real nondefense spending increased an average of 4.2 percent annually under eight years of Bush.⁴

Table 1. Changes in Outlays under Recent Presidents
Annual Average Real Percent Change

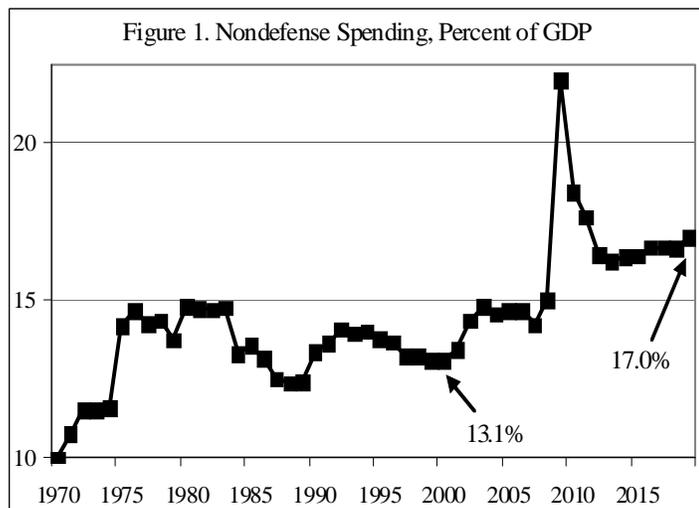
Spending Category	Johnson 5 years	Nixon 5 years	Carter 4 years	Reagan 8 years	Bush I 4 years	Clinton 8 years	Bush II 8 years
Defense	4.9%	-7.7%	3.0%	4.4%	-3.9%	-1.7%	7.0%
Nondefense	6.6%	7.9%	3.3%	1.0%	4.4%	2.9%	4.2%

Source: Author's calculations.

In crucial ways, Bush's domestic policy paved the way for Obama's expansionist plans. Here are some of the ways that Obama is building on the Bush legacy:

- **Deficit Spending.** Bush favored large spending increases, even in years with big deficits. Obama titled his budget *A New Era of Responsibility*, but his huge deficit spending will push up public debt as a share of GDP to levels not seen since the 1940s.
- **Keynesianism.** While some of the Bush tax cuts were pro-growth, many of his policies were marketed on the faulty idea of fueling short-term aggregate demand. Bush's temporary tax cuts and financial bailouts laid the groundwork for similar Obama policies.

Figure 1. Nondefense Spending, Percent of GDP



Source: Office of Management and Budget. Fiscal years.

- **Undermining Federalism.** Bush increased federal intervention into state and local affairs, such as with his education subsidies and mandates. The stimulus bill and Obama's first budget further intervene in education and other state activities, which undermine the Constitution and nullify the advantages of our federal system of government.⁵
- **Health Care Expansion.** Bush pushed through the Medicare prescription drug benefit, which currently costs taxpayers \$60 billion annually and is rising. Similarly, Obama's health care proposals are expected to cost more than \$100 billion annually.⁶
- **New Subsidies.** Bush added hundreds of new federal subsidy programs, and Obama's budget has new subsidies for energy research, energy efficiency, broadband, education, high-speed rail, refundable tax credits, and other items.⁷
- **Government Efficiency.** Bush focused on making federal programs more efficient, rather than trying to eliminate them. Obama's budget also promises to make programs work better and includes few program terminations.
- **Tiny Spending Cuts.** Obama's budget has tiny spending cuts that are marketed as if they were big reforms, which is a political strategy that was used by Bush. For example, Obama follows Bush in proposing to trim subsidies for wealthy farmers. The idea is to signal that one is reformer without actually having to do the heavy lifting of serious budget cuts.

The point here is not to condemn President Bush, but to illustrate that party labels have meant very little in recent federal expansions. Each recent president has added new subsidy programs, expanded existing ones, and imposed new mandates on the states. Those changes have been usually retained by later presidents, resulting in outlays growing ever larger. Recently, Republicans have opposed some "pork" spending, but unless they challenge programs in a more fundamental way, spending will be a runaway freight train under President Obama.

Damage Caused by Fiscal Expansion

What harm might President Obama's expansionary fiscal plans cause? If taxes and spending rise, capital and labor will be shifted from more productive private activities to less productive government activities. Since productivity is the source of our high standard of living, such a shift would reduce American incomes over time.

The private sector isn't more efficient than the government because it doesn't make mistakes, but because

it has mechanisms to purge mistakes and move resources to higher-valued uses. Federal policymakers do the opposite—they retain failed programs year after year because they find it difficult to cut off their supporters from the gravy train. Resources get stuck in low-value uses, and the economy becomes less and less efficient.

Even if politicians were willing to make tough spending trade-offs, government activities do not generate the price and profit signals needed to allocate capital and labor efficiently. The more that the government expands into industries such as health care, the more that market signals get destroyed, which makes it even more difficult for policymakers to pursue rational plans.

A further problem with government expansion is that federal programs are often horribly managed.⁸ President Obama wants to expand subsidies for energy research, for example, but he should know that past federal energy subsidies have led to boondoggle after boondoggle.⁹

President Obama thinks that he can improve federal efficiency, and perhaps he can make some improvements. But he cannot change the fundamental factors that make the government such a poor allocator of resources. If Obama succeeds in expanding the government, it will probably function worse than under President Bush because it will be even harder for administrators to keep track of all the spending. Sadly, Obama's first budget sets a course for more government bloat, more economic distortions, and ultimately lower standards of living for everyone who is not living off of federal hand-outs.

¹ Office of Management and Budget, *A New Era of Responsibility* (Washington: Government Printing Office, 2009).

² For Figure 1, I added in the amount of new health spending that would be financed by higher taxes, per the Obama budget. His full health plan promises to be even more expensive.

³ Ibid.

⁴ These are the annual average changes in real (constant-dollar) outlays during each president's tenure. "Nondefense" includes discretionary and entitlement programs, but excludes net interest. For Bush, I removed the effects of the bailouts passed in 2008, as they were temporary events. I also excluded spending on the 2009 stimulus package and other legislated increases since President Obama has been in office.

⁵ Chris Edwards, "Federal Aid to the States," Cato Institute Policy Analysis no. 593, May 22, 2007.

⁶ Committee for a Responsible Federal Budget, "More on the President's FY2010 Budget Blueprint," March 9, 2009.

⁷ The number of subsidy programs in the Catalog of Federal Domestic Assistance increased by almost 400 under Bush.

⁸ Chris Edwards, *Downsizing the Federal Government* (Washington: Cato Institute, 2005), Chapter 5.

⁹ See www.downsizinggovernment.com/energy.