Obama’s Permanent Spending Binge

By John B. Taylor

Americans are clamoring for a fact-based debate about the budget, but the numbers they’re hearing from Washington are terribly confusing. Here’s an example.

Speaking at a Facebook town hall meeting here on Wednesday, President Obama sometimes talked about saving $4 trillion, at other times $2 trillion, and he varied whether it was over 10 years or 12 years, never mentioning any one year.

A simple chart, like the one nearby, would greatly clarify the debate. It shows total federal government spending year-by-year for the two decades starting in the year 2000. Spending is shown as a percentage of GDP, which is a sensible and quite common way to assess trends: When the percentage rises, government spending rises relative to total income or total goods and services produced in our economy.

For the past decade, the chart shows the recent history of government spending. For the next decade—the window for the current budget—it shows three different spending visions for the future.

The uppermost line shows outlays under the official budget submitted by Mr. Obama to Congress on Feb. 14. The lowest line shows the House Budget Resolution submitted by House Budget Committee Chairman Paul Ryan on April 5, while the third line shows year-by-year outlays I estimated from the 12-year totals in the new budget proposed by the president on April 13.

The chart clearly reveals a number of important facts that are not coming up in town hall meetings. Most obvious is the huge bulge in spending in the past few years. In 2000 spending was 18.2% of GDP. In 2007 it was 19.6%. But in the three years since 2009 it’s jumped to an average of 24.4%.

Second, and perhaps even more striking, the chart shows that Mr. Obama, in his budget submitted in February, proposed to make that spending binge permanent. Spending would still be more than 24% of GDP at the end of the budget window in 2021. The administration revealed its preference in the February budget for a much higher level of government spending than the 18.2% of GDP in 2000 or the 19.6% in 2007.

Third, the House budget plan proposed by Rep. Paul Ryan (R., Wis.) simply removes that spending binge—it gradually returns spending as a share of GDP back to a level seen only three years ago.

When I show people this chart they ask why Washington is even having the debate. They say: If government agencies and programs functioned with 19% to 20% of GDP in 2007, why is it so hard for them to function with that percentage in 2021, when GDP will be substantially higher and with many opportunities for reforms and increased efficiencies? And if GDP and employment grow more quickly, as they would if private investment increased as a result of lower government spending and debt, then that 19% to 20% share of GDP could provide much more in the way of public goods.

Fourth, the chart shows that the second Obama administration budget, submitted a week after the Ryan House budget, is substantially different from the first administration budget. It is highly unusual for an administration to decide to submit a second budget, and the effect of this revision is to move the administration’s spending vision closer to that of the House. But it still leaves a big chunk of the spending binge in place.

Fifth, and perhaps most important for economic growth, the chart shows that the House budget effectively deals with the deficit and brings the debt down as a share of GDP without a tax increase. Under the current tax system, revenues as a share of GDP were 18.5% in 2007, so that the budget deficit was only 1.1% of GDP that year. With higher real incomes moving people into higher tax brackets, it is quite likely that under the current tax system revenues will be higher as a share of GDP when the economy fully recovers, perhaps in the 19% to 20% range.

This means that the House budget plan, with spending in the same range, approximately balances the budget with no increase in taxes. This is good news for economic growth. In contrast, balancing the first or even the second Obama budget requires substantial tax increases—more than the administration has yet to propose.

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