
Jeffrey Sachs: Grim Realities in the Obama Budget Plan

President Obama is defending a basic principle of budget fairness against the wretched selfishness of the Republican candidates. The Republican anti-tax position is so stark and greedy that Obama will win the political debate and probably the polls next year. He deserves our support for facing down the extreme right.

Yet we should not kid ourselves about the real direction of this country. Obama may be leaning against the right-wing juggernaut, but he is not changing its direction, only slightly blunting its force. Obama has already given in where it counts by agreeing with the Republicans in August to slash the core of the discretionary civilian budget (non-military spending other than the entitlements programs).

Readers can check this out for themselves by downloading two recent documents from the White House website. I must give advanced warning: they are turgid documents and hard to decipher, even for an expert in budget analysis. Their real meaning is hidden in the fine print, which is why I write about the documents here.

[«The Mid-Session Review for Fiscal-Year 2012.»](#) released on September 1, describes the state of the budget after the August debt deal, and on the eve of the new super-committee. Monday's plan, [«Living Within our Means and Investing in Our Future.»](#) takes the story forward by making specific recommendations to the super-committee. Taken together they form the President's fiscal blueprint, and most likely his re-election platform. If for some reason you're not worried yet about America's future, start worrying.

The essence of Obama's plan comes to this. Obama would protect most but not all entitlements spending against the Republican axe, and would modestly trim military spending. On the tax side, he would raise tax collections as a share of GDP slightly, around 1 percent of GDP. Roughly half of that would come from repealing the Bush tax cuts on incomes above \$250,000, and the other half from eliminating various tax breaks, such as for the oil industry.

Both tax changes are good but modest. It is a testimony to Republican extremism that they virulently oppose even these modest measures. And sadly, even with these modest revenue-raising actions, Obama holds out the prospect of cuts in tax rates to offset these revenues.

Now here comes some basic arithmetic, taken from Table S-5 of the Mid-Session Review. (To his credit, Obama called on the Republicans to face some basic arithmetic, so my observations follow in the same vein). Obama's tax policy would raise a projected 19.8% of GDP a decade from now (2021). He would spend around 3.5% of GDP on the military (compared with 5.6% this year). He would spend 14.4% of GDP on mandatory entitlements programs, mainly Social Security (5.3%) plus Medicare (3.5%) plus Medicaid (2.4%). Interest payments will eat up another 3.4% of GDP.

Note that the military plus entitlements plus interest account for more than the total tax payments! We would still have a budget deficit even before getting to the parts of the budget that help America to be productive, educated, energy secure, and environmentally safe. To be specific, once we account for the revenues needed to pay for mandatory programs, the military, and interest, there are no revenues

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left over to pay for the rest: highways, long-distance transmission lines, dams, levees, inland waterways, water and waste treatment facilities, national parks, climate safety, renewable energy, clean air and water, conservation, pre-school, student loans, federal courts, prisons, homeland security, international diplomacy, hazard preparedness, disaster response, biomedical research, energy research, agricultural research, public administration, job training, job matching, data collection, space science, computer science, and dozens more areas of federal responsibility.

It's not that Obama plans to close these down entirely. Rather, his plan would bleed them dry gradually. Without adequate budget revenues, the plan proposes to pay for these programs through deficit financing. To shrink the budget deficit, Obama must therefore shrink the «discretionary» spending. Specifically, the deficit is set at 2.2% of GDP in 2021, with domestic discretionary spending set at 1.8 percent of GDP. This compares with non-security discretionary spending equal to 3.4% of GDP today.

Here's how I look at this. America today is suffering today from a shortfall of federal efforts on renewable energy, job training, pre-school, higher education, climate change mitigation and adaptation, epidemic disease control nationally and globally, highways, fast rail, water and sewerage systems, and much more. We feel the burden of under-investments in countless ways: poorly trained youth; an epic scale of highway congestion in many places; unprecedented flooding and droughts; and declining global competitiveness.

Instead of addressing these challenges, the Obama plan would cut these public investment programs roughly in half from today's level! Obama's plan calls for 20% of GDP in revenues in 2021. This is simply too low for a decent, productive, and fair America. Taking into account our real needs, revenues as of

2021 should be around 24% of GDP, opening the space for real investments in America's future.

That level of revenues would still leave the U.S. with one of the lowest tax-to-GDP ratios in the high-income world. The higher taxes could be collected heavily from the rich and the corporate sector, still leaving them with ample incomes and profits. Obama's plan, in short, does not solve problems. It outflanks the Republicans.

Don't get me wrong. Outflanking the Republicans is vital work, and merits our full backing. George Bush almost brought us to catastrophe, and there should be little doubt that Rick Perry would finish the job.

Still, we need to do better than merely to survive. Those of us who believe that the federal government has a vital role to play in ensuring a productive, fair, and sustainable society need to press ahead beyond Obama's plan. Let's find our voice to press for much more. To the cynics today who say that can't be done, I urge you to revisit the history of Progressivism, when social activists a century ago changed the course of America in the face of similarly grievous ills and corrupted politics. Our shared contribution today should be a new progressivism, to put core values of decency and responsibility back into the American political system.

Jeffrey Sachs is author of «The Price of Civilization» due out October 4.

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