

BUSINESS INSIDER

# The Money Game

WHAT'S HEARD ON THE STREET DOESN'T MATTER. WHAT THEY REALLY WANT IS



## Federal Spending Is About To Jump Higher, And The Coming Tax Hikes Will Simply Immortalize The Bureaucracy

Gary Haubold | Mar. 21, 2010, 9:22 PM | 895 | 9

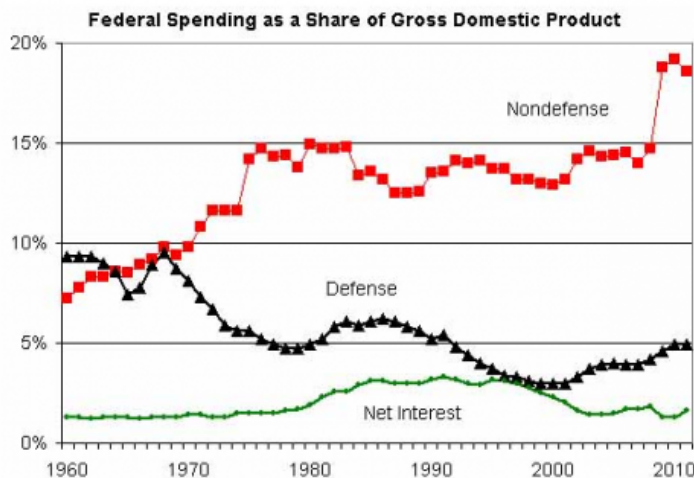
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In complete honesty, the hardest part of figuring out "optimal" economic policy for the moment is deciding how to gradually begin diminishing the budget deficit without losing so much government supplied economic stimulus that GDP starts rolling over.

Exactly how to do that and how fast really is an important question.

The reason that raising taxes from here going forward is the wrong strategy is that we're close to a tipping point, IMHO. Look at this graph (it's from the CATO institute, but there's no reasonable adults who disagree with the statistics - there's disagreement over my conclusion, but not the data):

**Nondefense:** This category includes all other federal spending. After a steady decline during the Clinton years to 12.9 percent of GDP, President Bush pushed up nondefense spending to a higher plateau of around 14.5 percent. Then came the recession and financial crisis, and the Bush-Obama tag team hiked spending to an even higher level of around 19 percent of GDP. That level of nondefense spending is almost double the level in 1970 measured as a share of the economy.



Since 1976, the discretionary part of Federal spending hasn't gone over 15% of GDP. Between the cost of the massive financial/housing bailout and the already rising costs of Medicare & Social Security & retiring baby boomer demographics, that number is headed to 20% of GDP and destined to be pegged there for decades before the healthcare bill passes. IMHO, that's why the tea party has been out in the streets protesting and why the healthcare bill is such a bad idea.

Without the healthcare bill, Federal spending is heading to 20% plus of GDP and raising taxes to close the deficit will just immortalize that ugly level in bureaucratic cement. And Obama is right about rising Medicare [he leaves out

Social Security] costs clobbering the budget going forward. It's almost impossible to intelligently control Medicare and Social Security costs anyway in the face of the demographic bubble of baby boomer retirement, if that's what the politicians in charge are trying to do, and in the case of Obama and Pelosi and Reid, that's just NOT what they're trying to do, in truth.

Now, put higher taxes today into the mix PLUS much higher Federal spending on healthcare overall in 2015-onward into the mixture and the chart above probably goes to 25% or more Federal Government control of GDP for the rest of our lifetimes (and that's if we're lucky and don't have to fight a major war with anybody anywhere in the next 40 years . . . . .).

*The author is a former healthcare analyst and is a mutual fund industry veteran...*

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Tags: Budget

9 Comments

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**YAWN** on Mar 21, 10:05 PM said:

0 21

Spending will come back down as a percentage of GDP because the TWO unfunded wars will end, the economy will rebound, the banks will repay the TARP and General Motors, FANNIE, FREDDIE and AIG will come off the books.

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With conclusions like this its no wonder your a former analyst. WalMart is hiring.

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**txchick57** on Mar 21, 10:09 PM said:

14 0

@YAWN: what a jerk.

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and the tooth fairy will fly in tonight and leave a dime under your pillow.

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**TrailerParkRedneck** on Mar 21, 11:39 PM said:

12 0

@txchick57: My guess is that YAWN knows that "WalMart is hiring" because they just fired him.

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**jpk** on Mar 22, 12:53 AM said:

6 0

@YAWN: You're an idiot if you see Fannie, Freddie, or AIG coming off the books anytime soon. They just extended their line

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of government backing indefinitely.

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**Marshall** on Mar 22, 6:48 AM said:

1 0

@YAWN: "Good intentions will always be pleaded for every assumption of authority. It is hardly too strong to say that the Constitution was made to guard the people against the dangers of good intentions. There are men in all ages who mean to govern well, but they mean to govern. They promise to be good masters, but they mean to be masters."

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Senator Daniel Webster

[Reply](#)

**Bob the Horse** on Mar 22, 8:10 AM said:

0 0

@YAWN: It's you're a former analyst, not your a former analyst. Go back to school.

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[Reply](#)

**Nick** on Mar 21, 10:25 PM said:

7 0

Once people gain power and influence, then they don't want to give it up. And it's like that with politicians and government bureaucrats.

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That's why the US government and other governments seldom if ever become smaller than before. Even Ronald Reagan who advocated small government ended up increasing the total size of the US government. He did shrink some parts of the government. But another part, the military, he increased so much that its growth more than offset any cut backs in other parts of the US government.

But there is a limit to how big the government can get before the people will rebel and make it shrink.

The US government keeps growing like this because its growth is paid for with borrowed money and not through taxes. But when the US debts accumulate so much that taxes need to be raised substantially. Then this is when the people will rebel and won't tolerate any more government growth.

Everybody likes to have free lunch. But when the lunch stops being free and the people have to pay the full price. Then a lot of people will say that they'd rather go without that expensive lunch.

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**Barack Obama** on Mar 21, 11:44 PM said:

7 2

@Nick: "...a lot of people will say that they'd rather go without that expensive lunch. "

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That's you, brother, not me. Nancy's over here at the White House tonight to celebrate with vodka tonics and \$122 a pound waggu steak I love (for you to pay for).

Don't worry though because after the next bill I ram through - amnesty and full citizen benefits for illegal aliens - I'll send you a tube of Vaseline so the hope and change I ram through after that won't hurt quite so much.

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**kryptic** on Mar 21, 10:36 PM said:

1 6

**BOGUS GRAPH ALERT**

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The peak in 2009 is a combination of drop in GDP because of the recession and the extraordinary measures taken by the government to counter the effects of the recession and to pull the economy back into recovery.

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