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*Your guide to understanding
today's economy and
financial markets*

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Limits

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

Take a peek at the two charts below. The first illustrates annual budget deficits during most of the past 40 years in actual dollars. The second chart identifies annual budget deficits as they compared to the size of the enormous American economy, arguably the more important measure.

Both charts make it painfully clear that the new course of American government is indeed scary.

It wasn't all that long ago that investors and the media complained of deficits run by the previous Administration, following four years of actual budget surpluses late in the Clinton era (kind of hard to believe now). Concerns at that time centered around the irresponsibility of running \$150 billion - \$400 billion deficits...and the impact that such deficits would have upon our children and grandchildren...

...As the saying goes, you ain't seen nothin' yet

A New Flavor

President Obama and the Democratic leadership in the Congress are aggressively putting their stamp on Washington D.C. and the nation. The long-desired Democratic wish list of more and more government; more control and greater spending for health care; more money for education; greater power for labor unions; more funding for alternative energy; costly penalties for carbon emission; and "punishing" those successful Americans

who happen to make more than \$200,000 annually (\$250,000 for joint incomes) with higher taxes on income, capital gains, and dividends is on the drawing board.

Much of the above plan is largely based upon the desirability of income redistribution, rather than incentives to create new income. The wish list, combined with the enormous costs of bailouts and financial market stabilization, has pushed projected budget deficits to dizzying levels. They are simply too much.

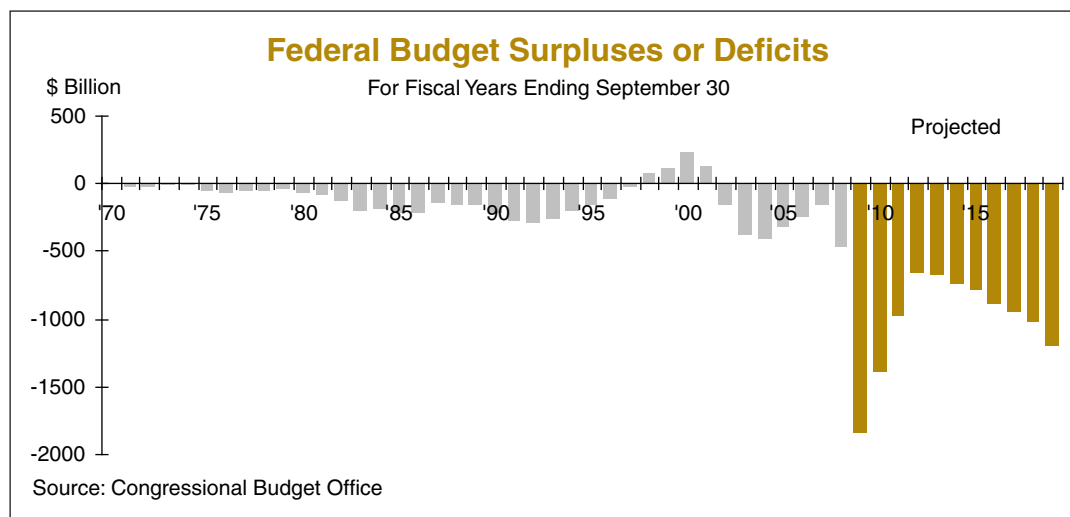
Even Greater Deficits

The nonpartisan Congressional Budget Office, actually under control of the Democratic Congress, released its estimates of impending budget deficits on March 20. The CBO estimates suggest that deficits during the next 10 years will be 33% higher (\$2.3 trillion, or \$2,300,000,000,000 MORE) than what the new Administration's deficit projections indicate.

Based on current CBO estimates, the cumulative deficit would be \$9.3 trillion from 2010 to 2019, or nearly \$1,000,000,000,000 annually. The total would more than double the national debt in the hands of the public, taking it from the current \$6.7 trillion to \$17 trillion. The Obama deficits would exceed the total accumulation of debt during ALL prior presidents, again an unacceptable development.

Lousy Inheritance

To be fair, this Administration inherited



an economic and financial mess from its predecessor. The budget deficit this fiscal year would still have been at least \$1.2 trillion - \$1.5 trillion, roughly triple the prior record deficit set last year.

Given one more year in power, for example, the Bush Administration and a Democratic Congress would have passed a stimulus program, although its composition would have been structured more to tax and economic incentives and less toward social engineering. The deficit next year would have been enormous.

However, projected deficits in coming years are more than twice what they would have been if the new President had merely stuck with the current spending and taxation proposals left by the Bush Administration (*CNSNews.com*).

Guns vs. Butter

There is an old adage used by economists and the media about "guns vs. butter." The adage suggested that in the old days of the 1940s, 1950s, and early 1960s, an Administration had a choice between spending a limited number of dollars on either the military or on social programs.

The Johnson Administration of the mid-1960s broke this relationship by seeking funding for BOTH an expansion of American military involvement in Vietnam AND money for a massive expansion of social programs for the nation's less fortunate, known as "guns and butter." Perhaps we should now talk of "guns AND butter AND everything else."

It's no secret that the Republicans have made themselves largely irrelevant in

Washington, mostly by shooting themselves in the foot when they had Congressional control for 12 years until the 2006 elections. They allowed government spending and earmarks to move to much higher levels.

The interesting development in Washington is that more conservative members of the Democratic majority are being heard. They are suggesting that the Administration slow down, focus on economic and financial stabilization, and keep spending and deficits from exploding to unfathomable levels. The President and the liberal Democratic leadership will have to show some fiscal restraint in order to get those politicians onboard.

Financial market players and economists are not all that concerned about a nearly \$2 trillion budget deficit this fiscal year. They largely recognize that the alternative to massive government spending and financial stabilization would be an even more painful downward spiral for the domestic and global economy.

Anxiety is focused much more on 2010, 2011, and beyond. We simply cannot run such massive annual budget deficits and expect anything but weak and impaired U.S. economic performance in coming years, while handing an unwieldy and unpayable bill to younger generations.

The government will spend roughly two dollars this year for each it takes in. Next year the relationship will be to spend three dollars and bring in two (*USA TODAY*).

Budget deficits during the past 40 years were manageable. Proposed budget deficits are not.

"TEA"ser

Fatherhood is pretending the present you love most is soap-on-a-rope.

—Bill Cosby



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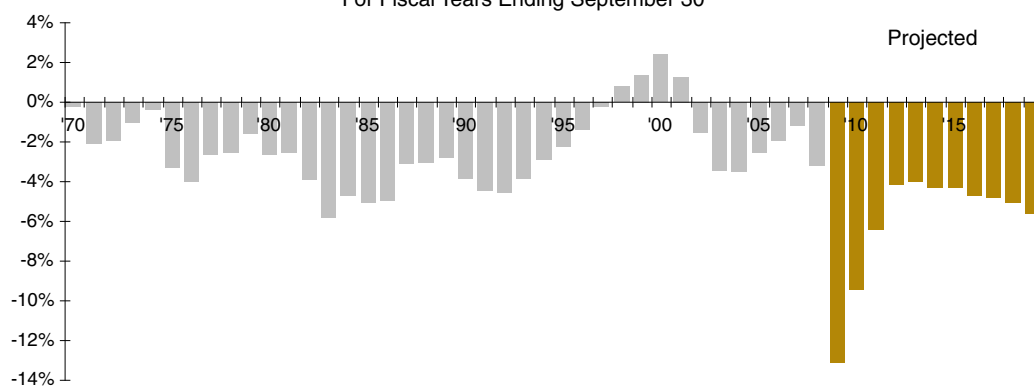
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Federal Budget Surpluses or Deficits as a Percentage of GDP

For Fiscal Years Ending September 30

Projected



Source: Congressional Budget Office