

Federal Budget Affects Apartment Owners – Part I

By Gary D. Halbert

Keep in mind that it's not just the President who spends all of your tax money plus all of the borrowing. It's all elected Republicans and Democrats. As I have mentioned in the past, there's not much difference – both parties are guilty when it comes to taxing and spending excesses. Because of this, please set aside more reserves than normal so you will be prepared for what the future holds.

All this excessive spending and “entitlements thinking” by our State and Federal politicians is going to have a huge effect on the apartment industry! You will be forced to pay much more than your “fair” share of this outlandish budget proposal!!

The following budget analysis was written by Gary D. Halbert of Forecaster and Trends.

With absolutely no regard for the public's growing alarm over out-of-control government spending and trillion dollar budget deficits, the president proposed a record-breaking **\$3.83 trillion** federal budget for fiscal year 2011 and increased its estimate of the 2010 budget deficit to a record **\$1.6 trillion**.

Plans are to raise taxes by over \$1 trillion over the next 10 years and all of this is happening just as the economy is crawling back from a credit crisis and the worst recession in a half century.

It remains to be seen if the American electorate will respond with a sweeping change in Washington this coming November, or if the current groundswell against skyrocketing government spending and record deficits will have faded away, as Mr. Obama is hoping. The latest Rasmussen poll found that 75% of Americans are “angry” about federal spending.

This month, we will take a close look at the president's monster budget and record budget deficits as we go along. As should not surprise you, I am going to criticize President Obama in the pages that follow. **Most importantly, you should know that I also beat up on both former presidents - Bush (43) and Bush (41) - for big spending and running large budget deficits.**

Obama's Record Large 2011 Federal Budget

When defending his massive spending and record budget deficits, President Obama frequently says that he inherited a “*trillion dollar deficit*” from former President Bush. That claim is not true. To put this in perspective, the non-partisan Congressional Budget Office concluded that Bush's federal budget deficit for FY2008 was \$454.8 billion.

[AOA: Which was also way too much spending!]

The problem is, the Treasury only spent approximately \$400 billion of the \$700 billion TARP in 2008, and over \$300 billion was left over when Obama took office in early 2009. So how President Obama can claim that he inherited a trillion dollar budget deficit from Bush is beyond me. Yet that is Obama's story to justify his out-of-control spending in 2009, including the massive \$787 billion “stimulus package.”

What we do know is that the federal budget deficit for FY2009 was a record \$1.42 trillion, largely on Obama's watch. During 2009, Obama presented his budget proposal for FY2010 which included another projected deficit of \$1.4 trillion for this year. But as we learned early last week, the Obama administration now predicts that the 2010 budget

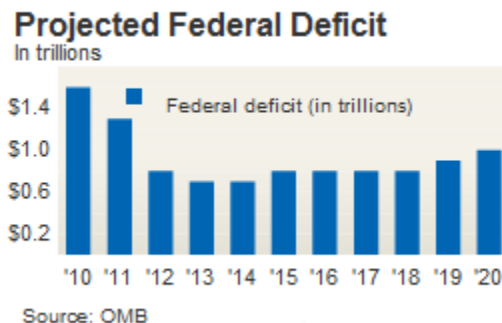
deficit will be even higher.

President Obama presented his latest federal budget for FY2011 early last week, and it is yet another whopper. You may recall that Obama's first federal budget submitted last year for FY2010 was an enormous \$3.6 trillion, as compared to Bush's last budget of \$3.1 trillion. When Obama submitted the 2010 budget last year, the projection was for a budget deficit of \$1.4 trillion this year, but his latest budget projections show the FY2010 deficit topping **\$1.6 trillion** which is almost double Bush's last deficit (even if you include the \$400 billion in TARP money).

President Obama's proposed federal budget for FY2011, which begins on October 1, would ratchet government spending up to a whopping \$3.83 trillion with a deficit of at least \$1.3 trillion. I say "at least" \$1.3 trillion because some of the economic assumptions made in the budget and deficit projections are too rosy in my opinion (more details below).

So much for Obama moving to the center! He will continue to run \$1+ trillion deficits, even though the latest Rasmussen poll found that **75% of Americans are "angry" about out-of-control federal spending**, and the likelihood that the Democrats will take a drubbing in the November mid-term elections.

Here are the latest budget deficit estimates from the White House Office of Management & Budget (OMB), based on Obama's latest federal budget request for FY2011. If these projections prove accurate, the US national debt would almost double by 2020.



There are several important reasons why these deficit projections are too optimistic, in my opinion. First, the White House OMB assumes that economic growth or GDP will increase by 4% in 2010, which could be quite optimistic.

Second, the OMB assumes that economic growth or GDP will increase by 5.2%-6.1% annually in the five years 2011-2015, with no recession. Most economists would agree that this scenario is way too optimistic. Even the Congressional Budget Office, which is also historically too optimistic, projects that annual real GDP growth will average only 3.8% a year in 2011-2015.

Annual GDP growth of 5.2%-6.1%, versus 3.8%, over five years is a huge difference and clearly suggests that the Obama deficit projections for at least 2012-2015 are far too optimistic. In fact, both sets of economic assumptions could be too optimistic.

Third, both the OMB and the CBO assume that inflation is going to remain subdued over

the 10 years shown above, with the Consumer Price Index hovering just over 2% annually. Likewise, both the OMB and the CBO believe that interest rates will remain relatively low over the next 10 years, with the 3-month Treasury bill rate remaining well below 5%.

As noted above, many economists agree that these economic assumptions are too optimistic. Here's the latest from the economists at banking giant Wells Fargo: ***"The federal budget proposed this week includes a set of economic forecasts for growth that is significantly above the general expectation for long-term growth for the U.S. economy. Yet, large federal deficits persist and these deficits assume significant foreign capital inflows at very low rates. We suspect this is a very low probability outcome."***

We are on course to double the national debt over the next decade, and there is no way that inflation and interest rates are going to remain at these low levels... unless we have another recession. As I have also suggested in recent weeks, this is entirely possible if not likely.

Winners & Losers in Obama's Budget

If you consider it a "win" to get more money from the federal government, then the following groups are winners in President Obama's \$3.83 trillion 2011 budget proposal.

Education: As a huge perk to the teachers unions, the Department of Education outlays would more than double from \$32.4 billion in 2009 to \$71.5 billion in 2011. Obama puts money into a laundry list of other education initiatives, from a \$1.6 billion increase in child care funding to making permanent the expansion of Pell Grant payouts. He also proposes \$3 billion more into K-12 education generally, with up to an extra \$1 billion if Congress reworks the education system in the way he wants this year.

Civilian Research & Development: Saying it's a key to the nation's long-term economic recovery, Obama would significantly increase spending for basic, non-defense science research in a range of departments for a total of \$61.6 billion in civilian research. Obama pledged to double R&D funding for the National Science Foundation, the Department of Energy's Office of Science and the National Institute of Standards and Technology. More money is going to develop clean energy alternatives, expand biomedical research, cure cancer and develop a more reliable electric grid.

Small Business: The president touted the importance of small businesses to the economy at length during his State of the Union, and his budget gives small companies some new advantages. Obama's budget would eliminate capital gains taxes for investments in the smallest tier of business and provides for a total of \$28 billion in loan guarantees aimed at businesses with few employees or little revenue.

Harry Reid & Nevada: In a veiled effort to help Senator Harry Reid, who may be defeated in November, Obama pledged that the government would guarantee \$36 billion more in loans for companies seeking to build new nuclear plants in Nevada. But at the same time, his budget would close Yucca Mountain in Nevada, which is our primary repository for nuclear waste. How do you build more plants with nowhere to store the spent fuel rods?

These are just some of the big winners in the president's new budget. If you consider it a "loss" to get less money from the federal government, then the following groups are losers in President Obama's \$3.83 trillion 2011 budget proposal.

NASA & the Moon: Obama's budget calls for NASA to cancel its Constellation Program

that has been designed to return people to the surface of the moon. Instead, the budget actually adds \$6 billion to NASA's budget over the next five years for projects such as robotic rocket systems.

Some Defense Contractors: The president's budget would increase the 2011 Defense Department budget by only 3.4%, well below the request. As a result, several DOD programs are on the chopping block. One of these would be the halting production of the Boeing C-17 aircraft, saying additional planes are "not needed."

Oil & Gas Producers: Obama's budget would increase the Department of Energy's 2011 budget by 7%, with most of the added spending going to research on alternative and green energy. At the same time, the new budget would terminate eight different arrangements, mainly tax benefits/incentives that boost oil and gas production and exploration. Removing subsidies for domestic oil and gas producers essentially amounts to a \$36.5 billion cost increase for the companies over 10 years, which of course will be passed on to consumers.

Other Losers: Department of the Interior (-1.6%); Department of Labor (-2.1%); HUD (-4.6%); Agriculture (-5.9%); Justice (-12.7%); and Commerce (-36.0%). [Source White House OMB]

Obama to Halve the Deficit by 2013 (Not!)

President Obama frequently promises that he will cut the federal budget deficits in half by 2013. Obviously, I don't believe that will happen because, as discussed just above, the economic assumptions are too optimistic, and government revenues will fall short of these projections. Yet it is these flawed projections that Obama uses to make his claim. Even if the projections were to prove accurate, I still find it more than a little disingenuous to boast that you will halve the deficit by 2013 when you more than doubled it in your first full year in office!

For Obama to deliver on his promise, either taxes have to go up or government spending has to go down, or some combination of the two. You know what that means!

That's all for now. For those of you who are thinking of firing off a nasty e-mail to me for criticizing President Obama – just be reminded that I similarly criticized presidents George W. Bush and his father before him for spending too much and running up the deficits and the national debt. *To be continued next month....*

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