

President Biden's Budget Reduces Living Standards

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President Joe Biden's proposed 2023 budget includes new spending, new debt, and higher taxes. The plan comes with the same old promises of how these policies will "help the economy."

They won't help. If passed, the current runaway inflation will be only the first step toward reducing U.S. [living standards](#) and sending the economy on a painful downward path.

Putting the current budget proposal in perspective, Biden's plan calls for spending \$5.8 trillion in fiscal year 2023. With revenues estimated to reach \$4.6 trillion, the federal deficit will add \$1.2 trillion in borrowing. This would follow deficits of \$7.3 trillion over the previous three years. The compounding effect of these deficits along with interest on that debt is driving the nation even deeper into debt.

Year	Federal Spending	Tax Receipts	Deficit	Outstanding Debt
2019	\$4.4	\$3.5	\$1.0	\$22.7
2020	\$6.6	\$3.4	\$3.1	\$26.9
2021	\$6.8	\$4.0	\$2.8	\$28.4
2022	\$5.9	\$4.4	\$1.4	\$31.4*
2023*	\$5.8	\$4.6	\$1.2	\$32.6*

In trillions of dollars. *Data from President Biden's budget proposal.

One of the great secrets to obtaining wealth and prosperity is understanding the power of compounding. Anyone who consistently saves by postponing current spending while investing in high-quality stocks can reach a point where income from their investments provides them with more than their wages.

The reason? Over time, the power of compounding interest and dividends from investments produces incredible wealth.

The same power of compounding also works in the opposite direction. Those who habitually max out their credit cards soon discover the difficulty of failing to live within their means.

While financial principles for individuals and governments aren't exactly the same, they're close enough. The overwhelming power of compound interest on debt can ruin a government and the economy as readily as it can an individual or family.

Warnings about runaway federal spending and deficits that can destroy our country are often dismissed. In the short term, the economy may seem to prosper despite such concerns. One reason is that occasional policy changes to slow government spending and debt have often deferred the worst consequences. Without such policy changes, the implications of a profligate government would emerge sooner rather than later.

Biden's budget proposes federal 2023 spending of almost \$6 trillion. This would be an average annualized growth of close to 7 percent since 2019 and be the fastest growth in federal spending in 40 years. The last time the United States embarked on such a spending spree was in the late 1970s. As with similar earlier experiments, the period ended in recession, with people losing faith in the future of the economy.

In addition to boosting federal spending, Biden's plan increases both corporate and capital gains tax rates. An analysis by the Tax Foundation indicates that proposed tax hikes would raise U.S. tax rates substantially above the average in developed countries.

The idea that governments can spend and tax their way to prosperity defies common logic. A policy involving rapid increases in federal spending, more debt, and higher tax rates has been a failure throughout history. My book, "Rich Nation, Poor Nation," documents a total of 52 years from 1913 to 2015 when such policies were enacted. The historical result consistently produced a serious deterioration in the economy and quality of life.

We're already experiencing the negative effects of the explosive rise in federal spending. Unfortunately, the worst inflation in 40 years and declining real wages are only the first of the predictable problems we must now face.

The Federal Reserve has kept interest rates artificially low for the past 13 years. Despite the recent surge in interest rates, they remain well below market levels.

As interest rates increase, the interest expense on the nation's debt will soar, and the risks of a serious recession increase.

The [president](#)'s budget predicts that by the end of the decade, interest payments on our national debt will amount to more than we currently pay for defense. However, the interest rate and inflation estimates are unrealistically low. They're just as unrealistic as the administration's inflation and interest rate forecasts made a year ago. Under more realistic assumptions, interest payments on the debt will be substantially higher. This will either squeeze out other government programs or increase the federal share of total gross domestic product.

When federal spending increases as a share of the economy, it reduces spending in the private, productive sector. Since the private sector is the source for all spending, including government spending, reducing income to the private sector reduces productivity and real incomes. Current policy trends lead to a very disturbing outlook. It will become even more disturbing if the president's proposal for additional federal spending and tax hikes is approved.

The only alternative for a brighter economic future is to adopt policies that have restored growth and prosperity throughout our nation's history—reduce regulatory burdens, place serious limits on growth in federal spending, and avoid increasing taxes.

Views expressed in this article are the opinions of the author and do not necessarily reflect the views of The Epoch Times.

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