National deficit outlook unchanged under Obama: UMD policy analysis

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From a public policy point of view, the national debt accumulation since President Obama took office is largely a result of policies put in place prior to his inauguration, says a new analysis by University of Maryland expert Philip Joyce. He adds that Obama's policies will make little impact in the debt over the next decade.

"The best that can be said about presidential fiscal policies thus far is that they would slow the bleeding, but they neither would stop it nor would they do much to heal the patient," Joyce says.

The size of the debt has been one of the biggest issues of the presidential campaign, with Republicans arguing that the President has allowed the debt to rise out of control and Obama saying that he inherited the policies that led to an increase in debt and deficits.

Joyce's analysis his the second Election Policy Fact Check, a new series by the School of Public Policy at the University of Maryland. The ongoing series examines the key policy issues of the presidential campaign. Joyce, a professor of management, finance and leadership, served in the Congressional Budget Office and the Illinois Bureau of the Budget and is the author of the book, The Congressional Budget Office: Honest Numbers, Power, and Policy Making

According to Joyce's analysis:

- It's true that deficits and debt are much higher now than they were in 2009 when Obama took office. In fact, the debt accumulated far faster than the Congressional Budget Office's initial calculations. Almost $6 trillion was added to the debt in four years - something the CBO estimated would take a decade.
- The growth of the debt is predominantly due to the continuation of many policies that predated the administration, which were, for the most part, out of Obama's control. But Obama's policies did contribute to the deficits and debt. And, while the president did appoint a deficit commission, and this commission came up with a bold reduction plan, Obama chose not to embrace its report, even though it would have given him political cover to come up with a major debt-reduction initiative.

Joyce says the main question in the context of the presidential election is whether a second Obama term would represent more of the same, or whether we could expect a bold, long-term proposal to finally put the country on a path to a more responsible fiscal policy.

"There seem to be few clues in the campaign so far that would point us to an answer to that question," Joyce says. "The public deserves to know how both candidates' plans to deal with the short-term, and also the long-term, budgetary problems faced by the country."

More information:

Ten Facts about Obama's Record on Deficits and Debt

1. Deficits and debt are much higher now than they were when President Obama took office. In 2009, when President Obama was inaugurated, the Congressional Budget Office reported that the debt held by the public in 2008 (the most recently completed fiscal year) was $5.8 trillion, or just over 40 percent of gross domestic product (GDP). The deficit for that year was $455 billion. The debt at the conclusion of fiscal year 2012 (September 2012), is projected by the CBO to be $11.3 trillion, or 73 percent of GDP, with an annual deficit for that year of $1.1 trillion.

2. The increase in deficits and debt were not

caused by President Obama, but his policies did contribute to it. In particular, decisions to enact the economic stimulus, however necessary, did increase deficits in the short term, to the tune of $833 billion over 10 years. Decisions to enact a payroll tax holiday, similarly, added to the debt. Most of the debt increase, however, resulted from factors outside of the president's immediate control, including the depressing of revenues and increases in spending built into the budget resulting from the stubborn recession, the continued need to finance the wars in Iraq and Afghanistan, and continued revenue reductions from the Bush-era tax cuts.

3. In 2009, deficits and debt were projected to more than double over 10 years, assuming the continuation of current policies. In January 2009, CBO projected, assuming the Bush tax cuts were extended and other policies were continued, that more than $6 trillion would have been added to the debt over 10 years. While CBO did not give a precise estimate under this scenario, analysis of CBO data indicate that, by fiscal year 2019, the debt would have stood at more than $12 trillion, or about 55 percent of GDP. The deficit in that year would have approached $900 billion (about 4 percent of GDP), given continuation of these policies.

4. The debt outlook is now also now worse than in 2009, but once again much of that has nothing to do with the Obama policies. While CBO had said that it would take 10 years to add $6 trillion to the debt, in fact that happened within about 4 years. Annual deficits approached or exceeded $1.3 trillion in each of the last four fiscal years, including 2012. A recent Center on Budget and Policy Priorities analysis, based on CBO data, estimated that the debt, which is projected to grow from the current 68 percent of GDP to almost 90 percent of GDP by 2019 under current policies, would be less than 30 percent of GDP in 2019 were it not for the effects of the economic recession, the Bush tax cuts, and the wars in Iraq and Afghanistan. In other words, almost none of this increase has to do with the economic stimulus or the TARP, which are sometimes held out as the main culprits.

5. Under CBO's most recent projections of the continuation of current policies, the debt continues to rise to unsustainable levels. CBO just issued a new set of projections, including what CBO calls its "alternative fiscal scenario," which assumes continuation of the Bush tax cuts, among other policies. Under this scenario, the national debt would grow to $22 trillion (90 percent of GDP) by 2022. Let's be clear what this means. Faced with a huge hole, the "current policy" approach would be to just continue digging until the hole is even deeper. Again, this increase is not mainly caused by additional fiscal actions supported by President Obama, but rather from the continuation of many policies that predated the administration.

6. This having been said, the president's policies have done little to stem the tide of red ink. Under the policies embraced by the president's fiscal year 2013 budget proposal, the debt would have increased, by fiscal year 2022, to $19 trillion, or 76 percent of GDP. As a percentage of GDP, this is slightly higher than the fiscal year 2012 level. While the debt would increase from the current level, the Obama budget would represent a reduction of $3 trillion from CBO's more realistic projection. Many of those debt reductions would come from tax increases imposed on wealthy Americans, but there are also some rather modest entitlement reforms and reductions in appropriated spending. Thus, while it is not fair to say that the president has not done anything, at the end of 10 years we would be no better off, in terms of the national debt, than we are now.

7. The president did appoint a deficit commission, and this commission came up with a bold plan to reduce the long-term debt and deficits. The National Commission on Fiscal Responsibility and Reform issued a report in late 2010 urging bold action. Among the proposals endorsed by the commission were tax reform that would result in a net revenue increase, reforms to Social Security that would put the program on a sound footing for 75 years, and cost containment for the medical care programs (Medicare and Medicaid). In addition, the report embraced substantial reductions in discretionary spending. In doing so the deficit commission echoed recommendations made by other bipartisan groups and urged action that would establish a path to stabilizing the debt at no more than 60 percent of GDP within 10 years,

and 40 percent of GDP by 2035. This report was approved by a majority of commission members (it passed 11-7) including six sitting members of Congress (three Democrats and three Republicans).

8. The president chose not to embrace the deficit commission report, even though it would have given him political cover to come up with a major debt reduction initiative. President Obama had an opportunity to go further in pursuit of deficit reduction, especially in his fiscal year 2012 budget (issued two months after the report of the deficit commission), but chose not to. The commission report would presumably have given the president an opportunity to embrace some of their proposals, especially given the bipartisan support that the report received. Instead, however, the president was relatively timid in his subsequent budget proposals, coming nowhere near the commission target of 60 percent of GDP. He did not, for example, embrace any broad-based tax reforms or major entitlement reforms, even though both of those will almost certainly have to be part of an eventual solution.

9. The failure by the president to take bolder action represents a significant missed opportunity. Deficit reduction is not easy. It ultimately will involve taking things away from people (benefits that they have become accustomed to, or taxes that they do not want to pay) in the short run in pursuit of benefits that are longer-term in nature. For this reason, history suggests that major deficit reduction actions are most likely to occur when presidents exercise leadership. This is what happened both in 1990, when President George H.W. Bush negotiated a deficit reduction agreement with Congress, and again with the Clinton deficit reduction package of 1993. Those two efforts made a significant contribution to the budget surpluses that resulted by fiscal year 1998. To date, President Obama has chosen the more politically expedient route, which may have been better for his immediate reelection but does not serve the longer-term interests of the country.

10. Thus a clear case can be made that the president's policies have thus far not made the deficit outlook either much worse or much better, but we do not know what a second Obama term would bring. Any charge that the explosion of the deficit can be laid at the feet of the president and his policies is clearly wrong, or at least incomplete. On the other hand, the president's policies, as reflected in his budget proposals, would have done little to put the country on a path to a more sustainable level of debt. The best that can be said about presidential fiscal policies thus far is that they would slow the bleeding, but they neither would stop it nor would they do much to heal the patient.

The main question, in the context of the presidential election, is whether a second Obama term would represent more of the same, or whether we could expect a bold, long-term proposal to finally put the country on a path to a more responsible fiscal policy. There seem to be few clues in the campaign so far that would point us to an answer to that question. This is in spite of the fact that the next president will face, almost immediately, substantial fiscal policy challenges. Collectively dubbed the "fiscal cliff," these changes in policies (the expiration of the Bush tax cuts, and automatic spending reductions resulting from the Budget Control Act) would take effect in the new calendar year, with immense fiscal and economic ramifications. The public deserves to know how both candidates plan to deal with both the short-term, and also the long-term, budgetary problems faced by the country.

Provided by University of Maryland