Insight

Has the Deficit Outlook Improved or Worsened?

GORDON GRAY | OCTOBER 2, 2014

During a speech at Northwestern University, President Obama offered a stale laundry list of policy proposals enacted or sought during his administration. In one instance the president touted the gradual decline in deficits since the beginning of his term. To be sure, deficits have fallen from double digit figures measured as a share of GDP. But is that a policy accomplishment, or the mere passage of time?

To make this assessment, we can look at what the deficit projected by the Congressional Budget Office (CBO) when President Obama took office. And predictably, the deficit numbers peak in the wake of the recession and then come down as tax revenues return to normal and spending associated with "automatic stabilizers" recedes. So, the *right* way to measure an improvement in the deficit picture takes this eventual return to normal into account. Applying this metric to the Obama Administration reveals a simple truth: the deficit was, is, and will be worse than under this administration.

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The deficit reached a higher level and declined less than was projected before the president took office. This simple comparison takes into the account the fact that coming out of recession, invariably, the deficit would decline. Taking credit for this fact ignores the real story, which is one of persistent deficits that will contribute to an accumulation of debt that will have tripled in nominal terms by 2019.