

The “T” Word by Dan Jacoby

President Obama has released an outline for budgets going forward over the next ten years,¹ and the truly frightening number is a projected annual deficit of \$1.75 trillion. That’s “trillion,” with a “t.” The Obama administration is trying to soften the political blow by calling it “the deficit we inherited,” implying that George W. Bush and his people are responsible. But how accurate is that claim?

It turns out to be incredibly accurate.

There are a lot of details that aren’t included, but it appears that the \$1.75 trillion number is the first “honest” number in decades. Since the mid-1960s, the bottom-line deficit (or surplus) number has included “off-budget” items, mainly including Social Security and other federal retirement and pension plans. They are “off-budget” because they are not part of the national treasury – they are separate accounts. The reason these accounts are included in publicly released figures is that they have almost always run a surplus over the last 45 years, so they mask the true deficit.

It appears that the Obama plan doesn’t include “off-budget” items in its \$1.75 trillion figure. Instead, they are presenting a true picture of how bad things are.

The second thing to note is that this figure is for “2009.” Whether the Obama administration means the calendar year or the fiscal year isn’t certain. (The fiscal year runs from October 1 through September 30.) Since this budget plan is for the fiscal year 2010, it stands to reason that the annual numbers are for fiscal, rather than calendar, years.

Finally, the projections show a steep drop in deficits for 2010 and beyond; by 2012 they expect to cut the deficit by two-thirds.

How much of this was inherited? According to the Treasury Department,² the national debt grew by over \$1.4 trillion during the final year of the Bush administration. Over the last four months, seasonally adjusted based on the last 16 years, the debt grew at an annual rate of about \$1.9 trillion. In other words, the \$1.75 trillion figure will be smaller than the debt Obama inherited from the last few months of the Bush administration.

This is despite the stimulus package that has already passed, the second half of the TARP money that didn’t get spent under Bush, and the housing bill that President Obama recently proposed.

Is this budget outline a “rosy scenario,” or is President Obama just including some serious spending cuts and new taxes to close the gap? There are some spending cuts recommended, but the numbers aren’t shown, so we won’t know just what he’s planning until he submits his full budget in April.

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¹ available at <http://www.whitehouse.gov/omb/budget>

² <http://www.treasurydirect.gov/NP/BPDLogin?application=np>