Joint Economic Committee
Representative Pat Tiberi, Chairman · Senator Mike Lee, Vice Chairman

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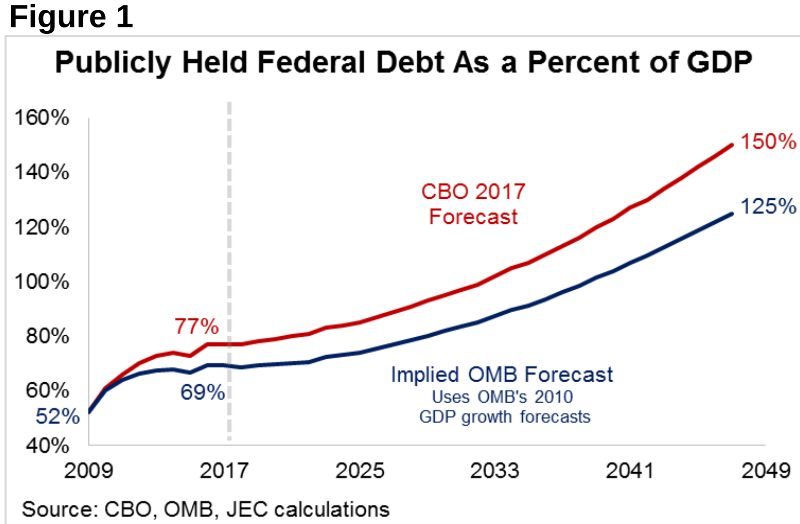
President Obama's Distressing Economic Legacy
On Display in CBO's Long-Term Outlook

> ***Key Points***:
> - *The federal debt problem is worse because of the poor economic recovery.*
> - *Obama Administration policies restrained economic growth.*
> - *Faster economic growth is critical to raising living standards and achieving public objectives.*

CBO revises federal debt projections again. Last month the Congressional Budget Office (CBO) released its *Long-Term Budget Outlook* (LTBO) for 2017.[1] The document includes forecasts of the publicly held debt-to-GDP ratio through 2047. In what has become a recurring warning, CBO cautions policymakers of the substantial risk that a large and growing national debt presents. The deterioration of the debt situation is partially attributable to CBO's projections of sub-par economic growth.

Economic growth projections fell short. In 2009, President Obama's first year in office, the Office of Management and Budget (OMB) presented a rosy forecast for economic growth in the 2010 budget.[2] Similarly, CBO forecast a relatively strong recovery.[3] According to OMB, annual real GDP was expected to grow by as much as 4.6 percent in the following decade. OMB's optimistic forecast was consistent with the common experience of strong recoveries following deep recessions that was long ago formally recognized by Milton Friedman's "Plucking Model" and the "Zarnowitz rule."[4] Indeed, Harvard Economist Robert Barro argues that in the two years following the recession annual per capita GDP growth should have been 3 percent.[5] The actual growth rate, however, was only 1.5 percent. In fact, annual economic growth overall, let alone per capita, never reached 3 percent during the entire Obama presidency, a milestone that every president realized since 1933. A comparison of President Obama's 2010 budget forecast and the 2017 CBO LTBO forecast, which reflects the policies of the past eight years, reveals a picture of accelerated deficits, historically high debt, and lost income.

Figure 1



Source: CBO, OMB, JEC calculations

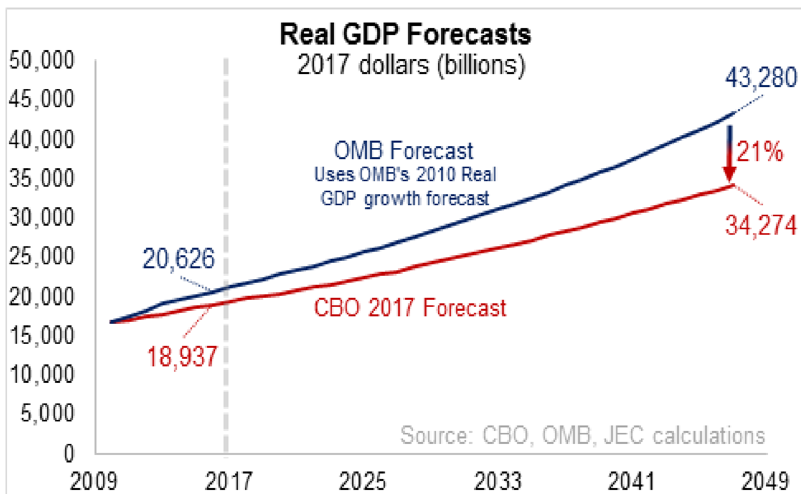
CBO warned of fiscal policy implications. In 2015, CBO explained how changes in tax and spending policies could affect output.[6] Increased debt draws money away from private investment in capital goods, reducing output. From 2009 to 2016, publicly held debt grew by 64 percent.[7] Higher tax rates discourage work and saving, reducing output. New taxes were imposed to finance the *Affordable Care Act* and the top marginal income tax rate increased from 35 to

39.6 percent. The loss of large income-based transfer payments by working-age people can penalize additional work and consequently reduce output. Federal government transfer payments grew 25 percent from the first quarter of 2009 to the fourth quarter of 2016; most of the increase went to working-age people.[8] Stanford economist John Taylor argued in 2014 that the weak recovery is due to a shift in policy toward more government intervention and discretion.[9]

Extent of the damage. To illustrate how slower economic growth affects the federal debt burden, JEC applies the 2010 OMB growth forecast to the 2017 CBO debt forecast from 2009 to 2047 (lower line in Figure 1) and compares the resulting debt-to-GDP ratios with those from the CBO forecast (upper line in Figure 1).[10] Using the JEC calculation in Box 1, publicly held debt as a percent of GDP in 2016 is 8 percentage points higher than it would have been had the economy followed the OMB forecast. By 2047, the difference grows to 25 percentage points with the debt-to-GDP ratio at an astounding 150 percent, which towers above the historical peak of 106 percent following WWII. Prior to the Obama Administration, the 50-year average debt-to-GDP ratio was only 35 percent.[11] CBO warns that the substantially higher debt will:

- Hurt the economy and constrain future budget activity;
- Increase government interest costs, increasing pressure on other budget items;
- Limit lawmakers' ability to respond to unforeseen events;
- Increase the likelihood of a fiscal crisis; and,
- Reduce national savings and income in the long term.[12]

Figure 2



Applying OMB's 2010 real GDP growth forecast generates a $43 trillion economy in 2047 (Figure 2). Alternatively, using 2017 CBO real GDP projections, which incorporate Obama-era policies, results in a $34 trillion economy in 2047.[13] In other words, 2047 GDP would be $9 trillion higher under the OMB forecast than under the current CBO forecast. From 2009 to 2016, the difference between the two forecasts widened to 8 percent. Moving forward, lost GDP gradually increases until the loss reaches 21 percent in 2047, by JEC's calculation.

Conclusion. The difference in CBO's current forecast and OMB's earlier projection demonstrates in dramatic terms how important economic growth is to private standards of living and achievement of public objectives.

Box 1

Applying 2010 OMB nominal GDP growth forecasts to actual 2009 nominal GDP, JEC calculates "OMB nominal GDP" through 2047. Below is the annual "Implied OMB debt-to-GDP ratio" calculation.

$$Implied\ OMB\ debt\text{–}to\text{–}GDP\ ratio = \frac{2017\ CBO\ debt\ forecast}{OMB\ nominal\ GDP\ forecast}$$

[1] "The 2017 Long-Term Budget Outlook," Congressional Budget Office, March 2017. https://www.cbo.gov/publication/52480

[2] Historical Administration Forecasts. https://obamawhitehouse.archives.gov/sites/default/files/omb/budget/fy2017/assets/historicadministrationforecasts.xls

[3] Supplemental GDP Data for the 2009 Long-Term Budget Outlook, Congressional Budget Office, June 2009. https://www.cbo.gov/about/products/budget-economic-data#1

[4] Friedman, Milton "The "Plucking Model" of Business Fluctuations Revisited," The Hoover Institution Stanford University, December 1988. Economist Victor Zarnowitz studied business cycles and explained that the deeper the recession the steeper the recovery.

[5] Barro, Robert "The Reasons Behind the Obama Non-Recovery It wasn't the severity of the Great Recession that caused the weak recovery, but government policies." *Wall Street Journal*, September 20, 2016. https://www.wsj.com/articles/the-reasons-behind-the-obama-non-recovery-1474412963

[6] "The 2015 Long-Term Budget Outlook," Congressional Budget Office, June 2015, p. 73.

[7] Historical Table 7.1, Office of Management and Budget; https://obamawhitehouse.archives.gov/omb/budget/Historicals

[8] U.S. Bureau of Economic Analysis, Federal government current transfer payments: Government social benefits: To persons [B087RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/B087RC1Q027SBEA , April 11, 2017; "The Job-Filled Non-Recovery," Robert J. Barro, Harvard University, September, 2016, p. 5; https://www.brookings.edu/wp-content/uploads/2016/08/barro-remarks.pdf

[9] Taylor, John B. "The role of policy in the Great Recession and the Weak Recovery." *The American Economic Review*, 104.5 (2014): 61-66.

[10] CBO and OMB debt-to-GDP estimates are based on 2017 CBO debt projections. Had OMB growth forecasts materialized, deficits would have been lower due to greater tax revenues collected and subsequently the ratio would have been lower. Thus Figure 1 understates the difference in the two forecasts.

[11] "Did the Obama Administration Leave America "Better Off"? Five Ways New CBO Projections Make the Case for a Course Correction," *Joint Economic Committee*, January 27, 2017. https://www.jec.senate.gov/public/index.cfm/republicans/2017/1/did-the-obama-administration-leave-america-better-off

[12] CBO, March 2017, p. iiv.

[13] CBO, March 2017, Long-Term Budget Projections, Supplemental Data, Annual Values for Demographic and Economic Variables That Underlie CBO's Extended Baseline. https://www.cbo.gov/about/products/budget-economic-data#1