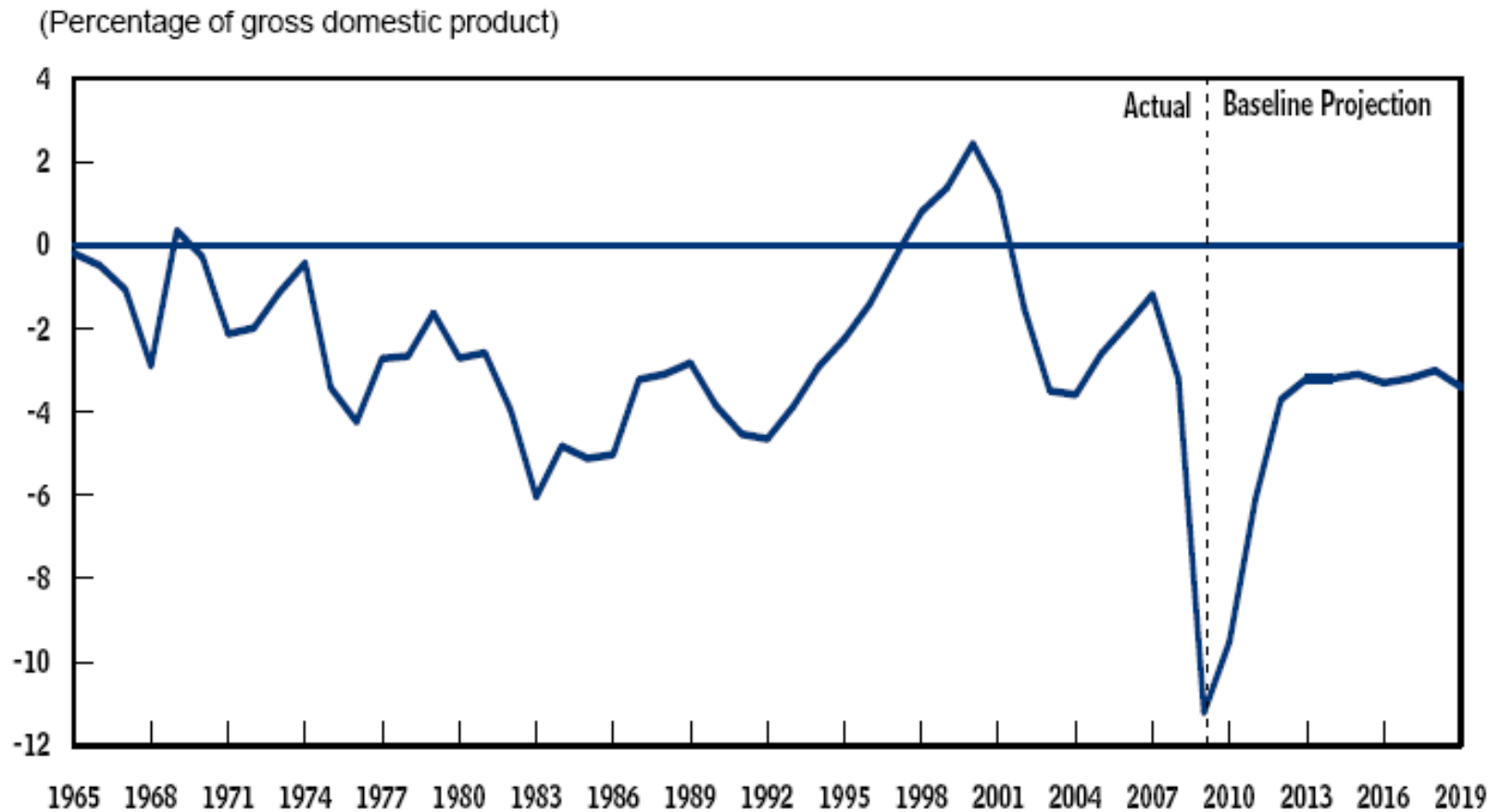




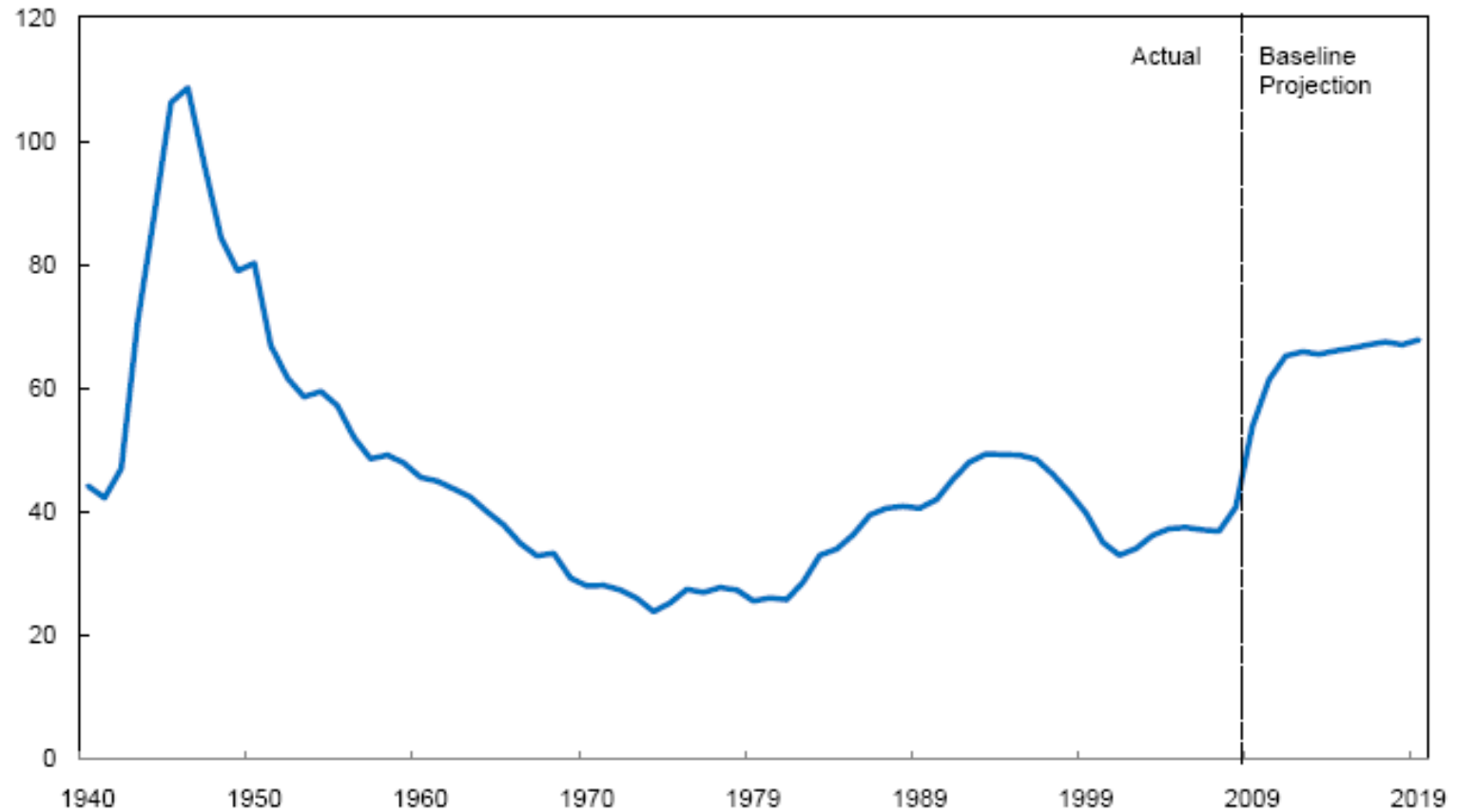
Total Deficit or Surplus in CBO's Baseline, 1965 to 2019





Debt as a Percentage of GDP, 1940 to 2019

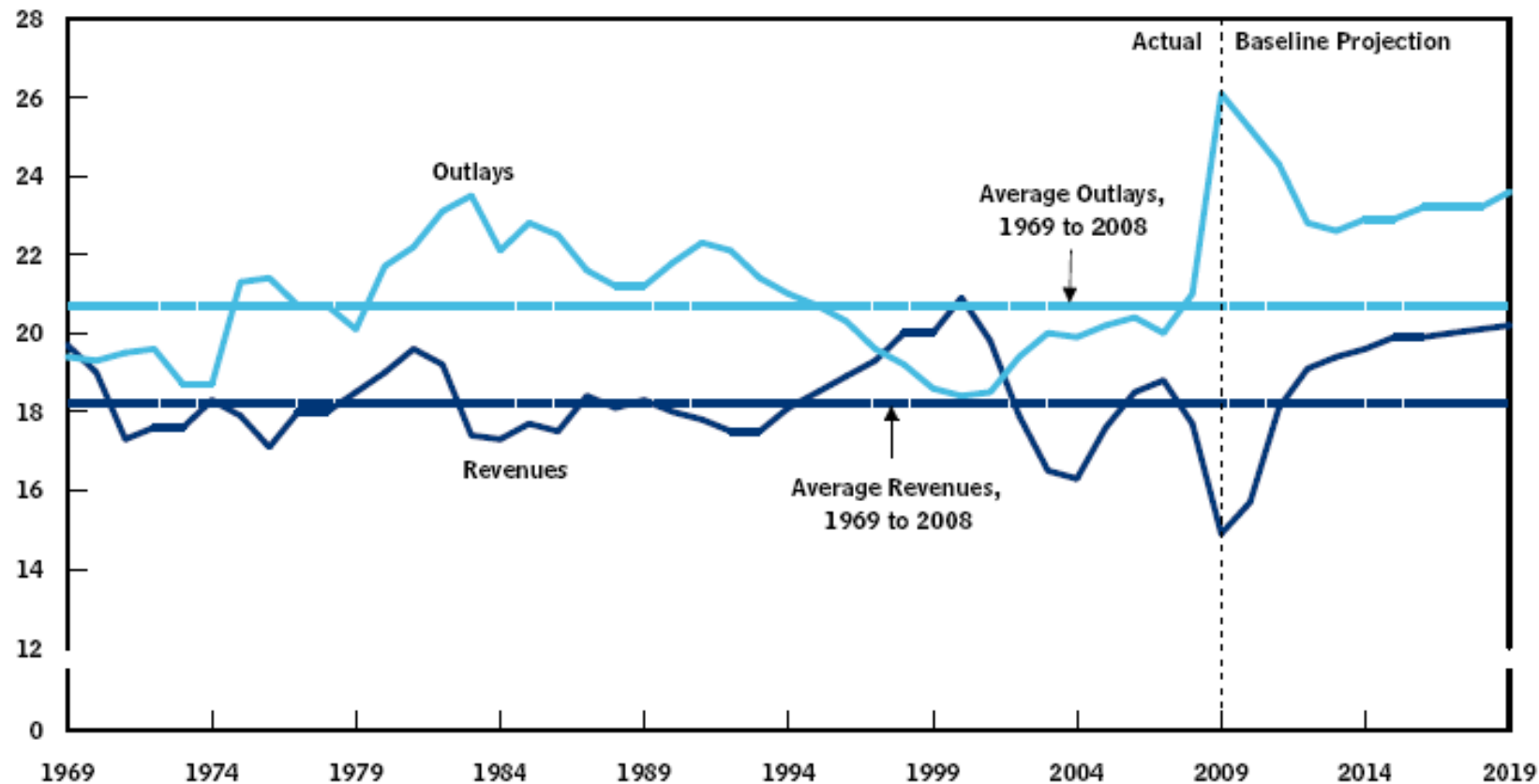
(Percentage of gross domestic product)





Revenues and Outlays in CBO's Baseline, 1965 to 2019

(Percentage of gross domestic product)



“The fact that we are here today to debate raising America's debt limit is a sign of leadership failure. It is a sign that the U.S. Government can't pay its own bills. It is a sign that we now depend on ongoing financial assistance from foreign countries to finance our Government's reckless fiscal policies.

“Over the past 5 years, our federal debt has increased by \$3.5 trillion to \$8.6 trillion. **That is "trillion" with a "T."** That is money that we have borrowed from the Social Security trust fund, borrowed from China and Japan, borrowed from American taxpayers. And over the next 5 years, between now and 2011, the President's budget will increase the debt by almost another \$3.5 trillion. ...

“Increasing America's debt weakens us domestically and internationally. Leadership means that "the buck stops here." Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. Americans deserve better.

“I therefore intend to oppose the effort to increase America's debt limit.”

Senator Barack Obama, Speech on the U.S. Senate floor, March 16, 2006.

[<http://www.govtrack.us/congress/record.xpd?id=109-s20060316-](http://www.govtrack.us/congress/record.xpd?id=109-s20060316-5#sMonofilemx003Ammx002Fmmx002Fmmx002Fmhomemx002Fmgovtrackmx002Fmdatamx002Fmusmx002Fm109mx002Fmcrmx002Fms20060316-5.xmlElementm27m0m0m>)

[5#sMonofilemx003Ammx002Fmmx002Fmmx002Fmhomemx002Fmgovtrackmx002Fmdatamx002Fmusmx002Fm109mx002Fmcrmx002Fms20060316-5.xmlElementm27m0m0m>](http://www.govtrack.us/congress/record.xpd?id=109-s20060316-5#sMonofilemx003Ammx002Fmmx002Fmmx002Fmhomemx002Fmgovtrackmx002Fmdatamx002Fmusmx002Fm109mx002Fmcrmx002Fms20060316-5.xmlElementm27m0m0m>)

“But there is no doubt that we've been living beyond our means and we're going to have to make some adjustments. Now, what I've done throughout this campaign is to propose a net spending cut. ... What I want to emphasize, though, is that I have been a strong proponent of pay-as-you-go. Every dollar that I've proposed, I've proposed an additional cut so that it matches. ... We need to eliminate a whole host of programs that don't work. And I want to go through the federal budget line by line, page by page, programs that don't work, we should cut. Programs that we need, we should make them work better.”

Barack Obama in debate against John McCain, October 19, 2008.

<http://www.cnn.com/2008/POLITICS/10/19/ct.presidentialdebate3.transcript/index.html>

In March-April 2003, Daniel Klein surveyed a random sample of 1,000 AEA members. Based on 264 surveys returned, here's an answer to one question:

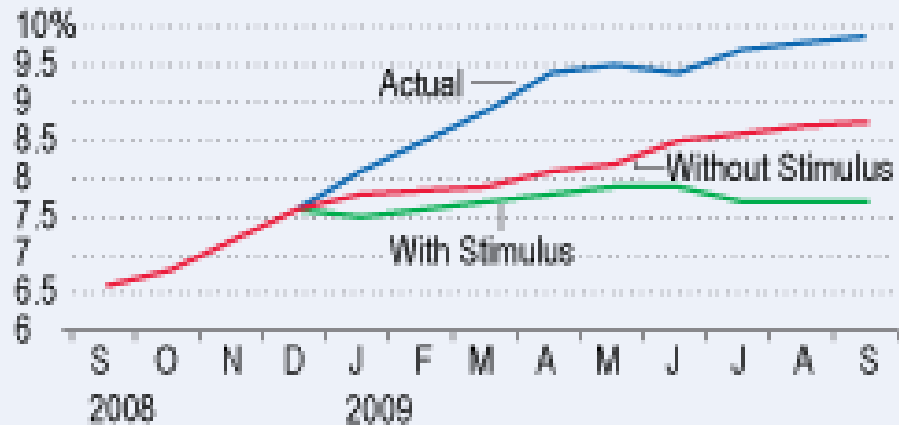
Tuning the economy by fiscal policy:

| | |
|---------------------|------------|
| Support strongly | 65 (24.6%) |
| Support mildly | 69 (26.1%) |
| Have mixed feelings | 49 (18.6%) |
| Oppose mildly | 43 (16.3%) |
| Oppose strongly | 37 (14.0%) |
| Have no opinion | 1 (0.4%) |

Daniel B. Klein and Charlotta Stern., 2006. Economists' policy views and voting. *Public Choice* (2006) 126: 331–342. Data from p. 337.

Stimulus and Jobs

Team Obama's estimate of the impact of its spending program on employment, compared to the actual jobless rate



Wall Street Journal, October 11, 2009.

“In my view, it is almost certain that we are headed for a period of heavily constrained growth, quite likely that the economy will experience a recession as technically defined, and distinctly possible that we’re headed into a period of the worst economic performance since the stagflation of the late 1970s and recessions of the early 1980s. ... Fiscal stimulus, therefore, is potentially critical. But it can be counterproductive if it is not timely, targeted and temporary.”

Summers, Lawrence. 2007. “THE STATE OF THE U.S. ECONOMY.” Speech given at the Brookings Institution, Washington, D.C. December 19. At <
http://www.brookings.edu/~media/Files/events/2007/1219_economy/20071219_economy.pdf>

Factors affecting fiscal multipliers

- 1) Timely
- 2) Targetted
- 3) Temporary
- 4) Openness to trade
- 5) Flexibility of exchange rates
- 6) Existing national debt
- 7) Developed or developing country
- 8) Government investment or consumption
- 9) Central bank response
- 10) Supply-side, demand-side, financial crisis?
- 11) Automatic stabilizers vs. discretionary policy
- 12) Fiscal policy vs. natural rebound

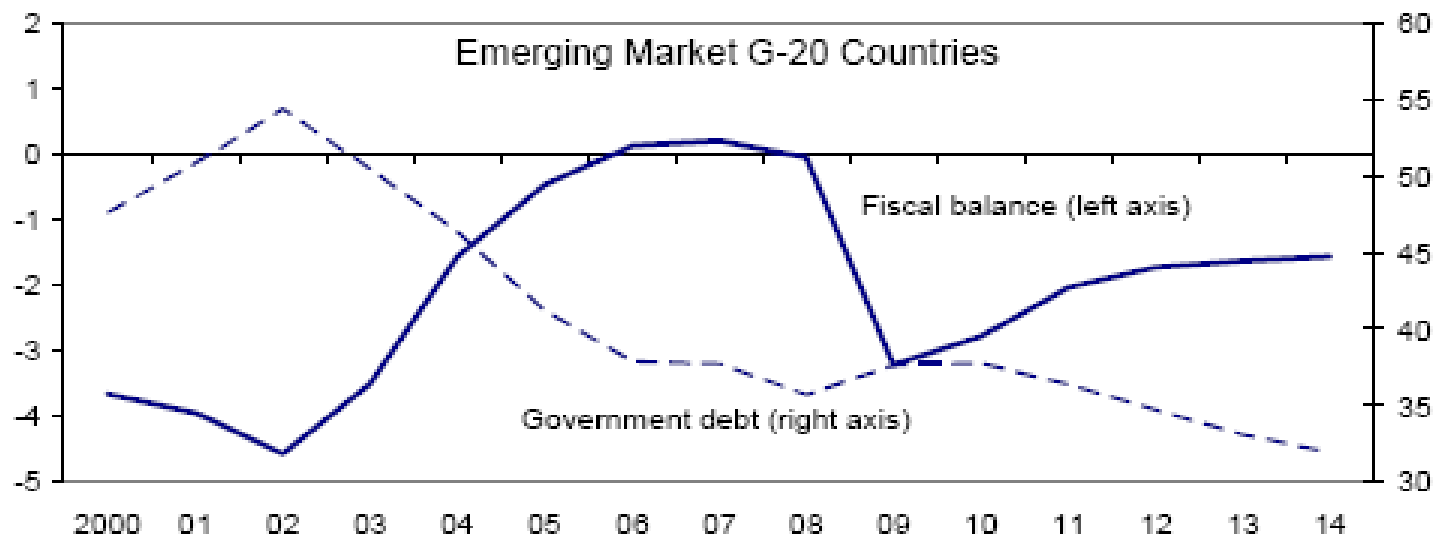
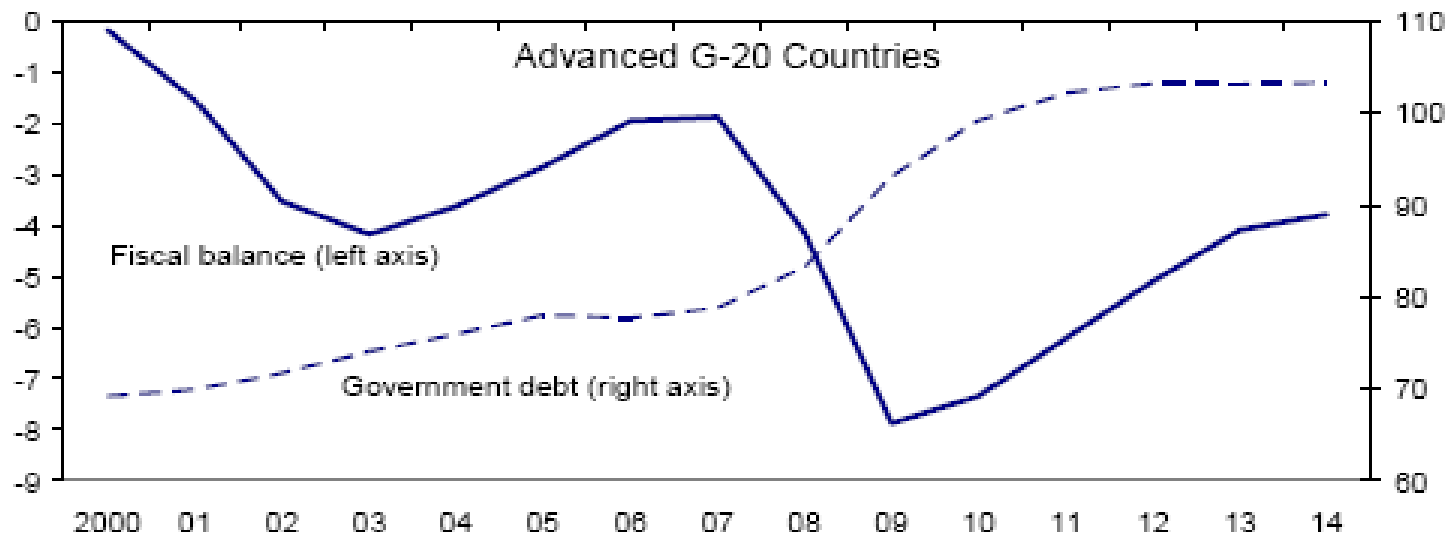
William G. Gale and Peter R. Orszag, “Budget Deficits, National Saving, and Interest Rates.” *Brookings Papers on Economic Activity*, 2004: 2 pp. 101-187. At <<http://www.jstor.org/stable/3805107>>.

Some findings:

Each percent-of-GDP in current deficits reduces national saving by 0.5 to 0.8 percent of GDP.

Continuing deficits of 3.5% of GDP for a decade would reduce GDP by 1-2%

An increase of 1% of GDP in future deficits would raise long-term interest rates by .4-.7 percentage points



Source: January 2009 World Economic Outlook (WEO); updated to reflect the final version of the stimulus package in the U.S., and recent financial sector support measures in the U.K.

Robert Barro on Ricardian equivalence and size of government:

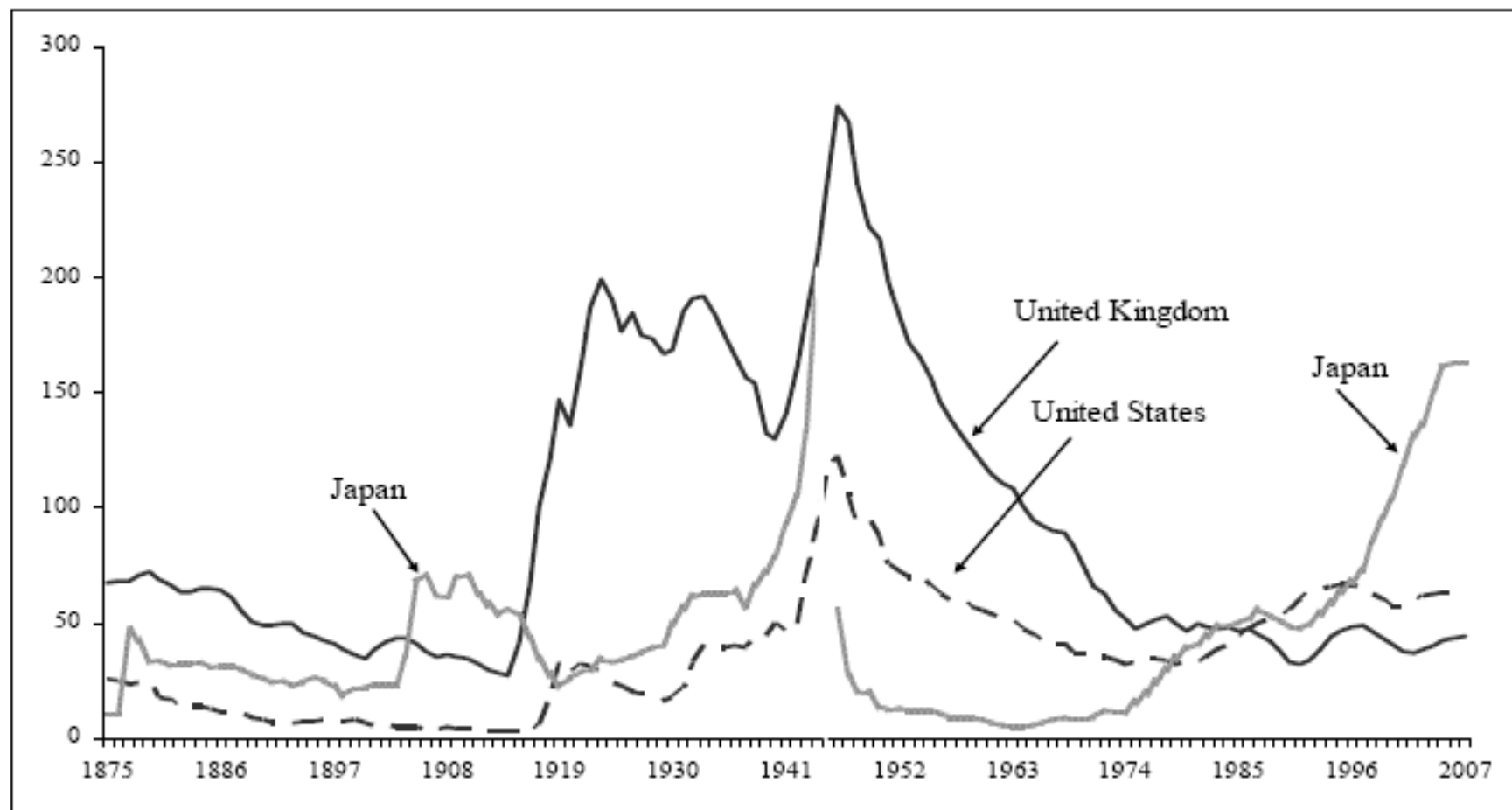
“The Ricardian proposition is about the consequences of paying for a given amount of public expenditure in different ways. Specifically, does it matter—or does it matter a lot—whether the government pays for its spending with current taxes or with current borrowing, which entails higher future taxes? So, a central part of the proposition is that the amount of public expenditure—today and tomorrow—is being held constant. It’s never part of Ricardian equivalence that the level of government expenditure doesn’t matter.”

The Region: Federal Reserve Bank of Minneapolis, September 2005, 16–27.

Some Perspectives on Chronic Large Budget Deficits

- 1) Crowding out
- 2) Growth of Government as the Issue
- 3) Deficits in an International Context
- 4) Future threshold effects?
- 5) An overlapping generations approach

Figure 10. Public Debt-to-GDP ratio (in percent), Selected Countries, 1875–2007



Sources and notes: United Kingdom: Goodhart (1999) and WEO database. United States: *Historical Statistics of the United States*, Millennial Edition Online; Office of Management and Budget; and U.S. Census Bureau. Japan: *Hundred-Year Statistics of the Japanese Economy*, Bank of Japan; and *Estimates of Long-Term Economic Statistics of Japan since 1868*, Toyo Keizai Shinposha. Data for Japan refer to the central government.