

Review and comment



A recent Congressional Budget Office analysis found that the deficit will be even larger than originally projected. The CBO report states that, across the line, spending and policies have conspired to increase the size of the deficit. The tax cuts cost about \$400 billion. The deficit is about 9.8% of output, the second-largest after the 2009 situation. The timing of the report is not good for President Obama. His State of the Union speech outlined plans to keep the U. S. competitive, and didn't focus so much on the deficit. This is letting Republicans take him to task for failing to engage in realistic cost-cutting measures. Republicans are accusing Obama of irresponsible spending. Meanwhile, Democrats are arguing that macro-economic factors like unemployment justify spending even with the deficit. Obama in particular is arguing for long-term investments into workforce and infrastructure to stay competitive. Republicans, as is common, are associating spending cuts with shrinking government. Some Republicans like Scott Walker have even turned down federal government money and associated projects. They are thus clearly rejecting New Deal-style “ pump and prime”, work creation missions. The deficit will impact the 2012 budget intensely. Republicans are hoping to extend spending past March 4th so as to gain more time to debate the issue. Treasury officials predict that by April, the deficit ceiling is likely to be exceeded barring immediate action. The article notes that most initiatives focus only on 15% of the budget: Discretionary spending that is non-security oriented. The journal notes that this is deeply flawed: Most of the deficit comes from non-discretionary programs that are much harder to cut such as Social Security (which is a financial obligation and has a separate, non-discretionary fund) and the military which is politically impossible to cut. First, I think that partisan commitments are transparent in this article. The <https://assignbuster.com/review-and-comment/>

Wall Street Journal, while an excellent paper, has a noted conservative bias. The article fails to note an obvious conclusion: The highest deficit was in 2009, when Obama was just getting into office. Bush had wrecked the deficit and Obama had improved it; this is fairly obvious from the economic data they provide yet goes unmentioned, which makes the narrative of “ Obama will struggle to push through his plans” more problematic. The balance between the deficit and maintaining jobs and productivity in a recession is clearly difficult, and shows that talking about macroeconomics, finance, etc. is impossible unless you acknowledge from whose perspective you are analyzing and what vectors you are looking at and valuing. If you want to cut unemployment, then it makes sense even in a recession to spend; if you don't care as much, the deficit is bad. The major problem is that the whole deficit discussion is absurd on the face of it. It assumes three things. First: The hundreds of billions in corporate subsidies, tax cuts and shelters for the rich, and other “ wealthfare” initiatives are off the table in principle. Second: So is military spending, even when the military wastes trillions of dollars. Third: It assumes no tax cuts. The issue is that the deficit is a political weapon; remember that the biggest deficits were run up by Reagan, a Republican who tried with a straight face to preach financial austerity! Nothing's wrong with cutting deficits, though the economic impacts of deficits are of course up for debate like most other things in economics. But the problem is that Republicans are simply assuming multiple things that cannot be cut that are the majority of the budget. I think this underlines a difference between the way politicians and economists approach issues. An economist would look at the budget and try to begin with those two sources.

A politician has a vested interest so certain parts of the analysis are just off the table.