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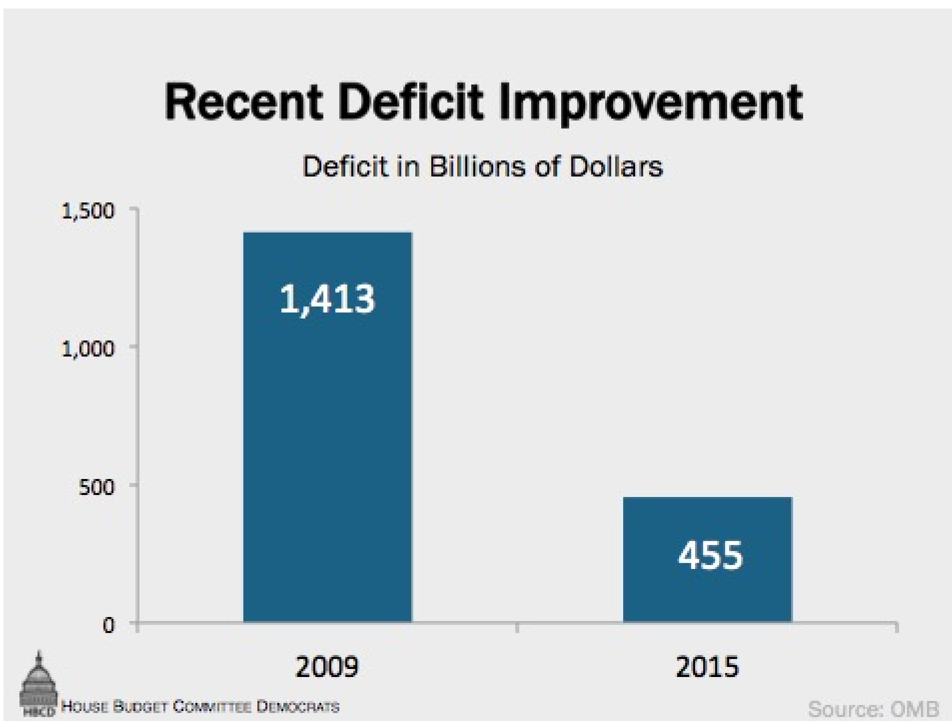
Debt and Deficit: Where We are Now

Deficit Significantly Improved in Recent Years

In January 2009, President Obama took office in the midst of the deepest economic downturn since the Great Depression. That month, the Congressional Budget Office (CBO) projected that President Obama was inheriting a deficit that would be well over $1 trillion for fiscal year 2009, a year that was already one-third over at that point. That year's deficit turned out to be $1.4 trillion.

Even though the recession turned out to be deeper than we knew at the time, the deficit has steadily declined since then. It is projected at $455 billion this year, according to the most recent estimates, the smallest level since 2007.



The deficit has improved even more when measured as a share of the economy. In these terms, the deficit has fallen from 9.8 percent of the economy in 2009 to an estimated 2.6 percent this year. This is a sustainable level for the economy.

National Debt Has Stabilized but Action Needed Soon

After growing in the recession and its aftermath, the national debt has now stabilized. Debt held by the public this year is estimated at 75.3 percent of GDP. Under the President's proposed budget, it would drop to 74.6 percent by 2018 and remain at that level through 2025.

While the actual debt burden has stabilized, the debt is continuing to climb in nominal dollars and a temporary suspension of the debt limit expired earlier this year. The Treasury Department is now using so-called "extraordinary measures" to avoid default and continue financing government activities – something it has had to routinely to turn to in recent years as the country reached the debt limit. Treasury's ability to manage this way is expected to run out sometime later this year or early next year. Before that point, Congress will need to raise or suspend the debt ceiling in order to avoid the United States defaulting on its obligations.

The need to act results from the need to finance activities Congress has already authorized. While some oppose raising the debt ceiling as an increase in the limit on the nation's credit card, in fact opposing an increase in the debt limit is more analogous to using a credit card and refusing to pay the bill when it arrives.

Holding Debt Limit Hostage Hurts Economy and Budget

We have approached the debt limit several times in recent years. In those cases, brinksmanship by the majority has caused economic troubles as investors responded to uncertainty and the possibility that the United States might default on its obligations. The result has increased Treasury's borrowing costs, thus generating higher debt.

Proponents of holding the debt limit – and thus the economy – hostage have argued that they are doing so in order to reduce future borrowing by obtaining policy concessions and/or budgetary reforms.

However, efforts to attach budgetary reforms to an increase in the debt limit can be counterproductive. In 2011, as part of debt limit legislation, Congress created the current sequester process to force an agreement to reduce future deficits. No agreement was reached and we are now stuck with a process and budget cuts that are weakening our economy and possibly our national defense.