



Two Big Problems With President Obama's Budget

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The president presented his budget Monday, and it stands on two pillars. The first is that budget cuts will get the deficit under control over the next 10 years, and the second is that stimulus spending will create jobs. One major problem with these pillars is that the Congressional Budget Office has a horrible track-record when it comes to predicting budget deficits.

In 2007, the CBO projected that the 2012 federal deficit would be [\\$117 billion](#). The CBO's projection of the 2012 federal deficit increased to [\\$212 billion](#) in 2009. It tripled to [\\$650 billion](#) in 2010, and then doubled yet again, to [\\$1.1 trillion](#) in 2011. At \$1.3 trillion, the projected 2012 deficit is now more than 10 times what the CBO projected in 2007.

Of course the economy went through the Great Recession, which was bound to throw off the numbers. But even in the depths of the Great Recession, the CBO's projection of the deficit only three years into the future was *one-sixth of the actual deficit*. In the CBO's defense, the law requires it to incorporate the White House's assumptions into its forecasts. So, if the White House assumes that fairies will drop gold from the sky, the CBO must make its best attempt to estimate the value of the gold and incorporate that value into its economic projections. The problem here is not the CBO forecasters, but the pie-in-the-sky politicians who will assume any fiction necessary to justify their spending.

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The president's budget proposal makes a frugal noise when it calls for \$3.8 trillion in spending along with \$1 trillion in cuts. But those cuts are spread out over 10 years, meaning that what the budget actually calls for is \$100 million in cuts—and that's assuming that the cuts aren't back-loaded into future years, which they surely are, and that they actually represent cuts as opposed to reductions in planned growth, which they surely don't.

Part of this \$3.8 trillion in spending will go to a \$350 billion stimulus initiative to hire more teachers, create jobs, and fix our infrastructure problems. This is where the second pillar of the president's budget runs into problems. In defiance of evidence from the largest stimulus spending experiment in human history—the 2011 budget—the president once again claims that deficit spending for the sake of stimulus will help the economy. This is only true if one assumes that the money that you're spending has fallen from the sky.

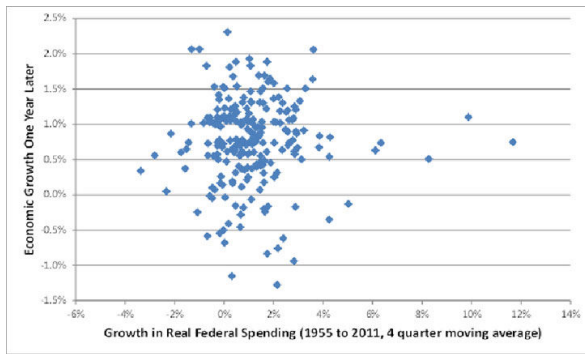
There's a dirty secret that macroeconomists don't want you to know: The models they use to predict the effects of stimulus aren't based on how the economy actually works—they are based on assumptions as to how the economy should work in theory. Even though the president's budget does not project much of a deficit increase in 2013, if we adjust current CBO deficit projections by the amount of error CBO has exhibited in the past, then we're looking at actual deficits of \$1.7 trillion in 2015 and \$2.5 trillion in 2017.

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Economists and politicians of both sides are wrong when they say that budget deficits don't matter. At their current growth rate, deficits are quickly becoming the only thing that matters, because they get compounded on top of our already massive national debt.

Stimulus proponents call for deficit spending in the name of "jump starting" the economy and "creating jobs." Enough already. The government moves jobs, it doesn't create them. When government spends money in one place, jobs appear. But, unless you believe in those gold-dropping fairies, the government must raise the money it spends through taxing or borrowing. When it taxes and borrows, jobs disappear. Net result: jobs aren't created; they're simply shuffled around.

Take a look at the chart below. Each dot represents a quarter from 1955 to 2011. The further to the right the dot is, the more government spending is happening. The further up the dot is, the more economic growth there is one year later. If stimulus spending created jobs, then we should see a pattern in the dots that would look like a straight line at a 45 degree angle. The dots to the right would be higher up and dots to the left would be lower down.



The fact is that government spending creates jobs only in the theoretical models that macroeconomists play with. Out here in the real world where real people do real work, the only thing that stimulus spending does is get politicians elected and create financial hardship for our children and grandchildren.

- See a collection of [political cartoons on the economy](#).
- See a slide show of [Mort Zuckerman's 5 Ways to Create More Jobs](#).
- Read the U.S. News debate: [Does Stimulus Spending Work?](#)

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