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CBPP STATEMENT

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STATEMENT BY JAMES R. HORNEY, DIRECTOR OF FEDERAL FISCAL POLICY, ON TODAY'S DEFICIT REPORTS BY THE OFFICE OF MANAGEMENT AND BUDGET AND THE CONGRESSIONAL BUDGET OFFICE

Today's budget reports provide no evidence that federal budget policies over the last year have failed or that a drastic new direction in short-term fiscal policy is needed. While they also provide little new information about the nation's longer-run budget path, the reports highlight the need for the President and Congress to begin taking steps now to ensure that deficits will fall to reasonable levels through 2019 and that they do not grow very rapidly in later decades, as they will under current policies.

The reports confirm what we have known for at least six months — that the fiscal 2009 deficit will be the largest deficit relative to the size of the economy since the end of World War II. The near meltdown of the housing market and financial system last year and the most severe economic downturn in the post-war era — and the steps that federal policymakers took to address those crises — are what produced the historically large deficit.

Had policymakers tried to limit this year's deficit by refusing to provide the resources needed to shore up the financial markets or to offset the sharp decline in business investment and consumer spending, we would probably be facing many more months of economic decline. Instead, we appear to be on the verge of a recovery. And unemployment, which is expected — as usual — to continue to rise for a number of months after the economy begins growing again, would likely grow to even higher levels had policymakers not taken those steps. Presidents Bush and Obama and Congress deserve praise for taking the steps necessary to keep the economic meltdown from sliding into a true catastrophe.

Just as the new deficit numbers do not show that recent fiscal policies were misguided, they also do not indicate the need for a dramatic change in the budgets proposed for the next few years. The President and Congress should not try to reduce deficits too quickly over the next few years because that would undercut the crucial efforts to stimulate a still fragile economy and risk stalling the nascent recovery.

What the President and Congress should do is to begin taking steps to ensure that the deficit will come down to reasonable levels (3 percent of Gross Domestic Product or less) in the slightly longer run (through 2019) and that the deficits do not begin to grow very rapidly in the following decades, as virtually all long-term budget projections show will happen under current policies. One key step in this process is enactment of health care reform that is fully paid for over the next 10 years and that begins to make changes to allow us to slow the rapid growth of health care costs that will drive big increases in deficits in coming decades if current policies are left unchanged.

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