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\$1.4 Trillion Deficit Complicates Stimulus Plans

By [JACKIE CALMES](#)

WASHINGTON — The Obama administration said Friday that the [federal budget](#) deficit for the fiscal year that just ended was \$1.4 trillion, nearly a trillion dollars greater than the year before and the largest shortfall relative to the size of the economy since 1945.

The number, while lower than forecast a few months ago, underscored the challenges ahead in shrinking the deficit even as the White House and Congress are considering more steps to stimulate an economy that is making a slow recovery. The political hurdles to finding a solution were evident on Friday as each political party immediately blamed the other for the growth of the deficit.

The shortfall for the fiscal year 2009, which ended Sept. 30, translates to 10 percent of the economy, according to a joint statement from the [Treasury](#) secretary, [Timothy F. Geithner](#), and the director of the [Office of Management and Budget](#), [Peter R. Orszag](#). For the 2008 fiscal year, the deficit of \$459 billion was 3.2 percent of the economy, as measured by the [gross domestic product](#).

Economists generally agree that annual deficits should not exceed 3 percent of the G.D.P., and that is the level [President Obama](#) had vowed to reach by the end of his first term in 2013.

But subsequent spending and tax cuts to stimulate the economy, and lower-than-expected revenues as the [recession](#) deepened before bottoming out, combined to push the administration's deficit forecast to 4.6 percent of G.D.P. for the fiscal year 2013.

At 10 percent of the gross domestic product, the 2009 deficit is the highest since the end of World War II, when it was 21.5 percent. At that level, it already has become a bigger economic and a political issue than any time since the late 1980s.

Investors who are essential to financing the debt, including China and other foreign interests, are eager for signs that the government will eventually regain control over its budgets.

And polls show that Americans are increasingly worried as well, raising concerns about Mr. Obama's ambitious domestic agenda, including his signature health care overhaul, that Republicans are stoking. At the same time, many Americans are demanding further help, confronting forecasts that job losses will not peak until mid-2010.

Mr. Orszag alluded to the administration's fiscal quandary in a statement on Friday. "As we move from rescue to recovery, the president recognizes that we need to put the nation back on a fiscally sustainable path," he said. He said proposals to help do that would be part of Mr. Obama's next budget early next year, for fiscal 2011.

The 2009 fiscal year began last October, just as President [George W. Bush](#) and Congress were contending with the near-collapse of the financial system and working to enact what became a [\\$700 billion rescue plan](#). After Mr. Obama took office, administration officials calculated that the deficit would surpass \$1.2 trillion. Mr. Geithner and Mr. Orszag recalled that forecast in their statement on Friday.

The 2009 deficit, they said, "was largely the product of the spending and tax policies inherited from the previous administration, exacerbated by a severe recession and [financial crisis](#) that were under way as the current administration took office."

The economic recovery efforts, through the Troubled Asset Relief Program for financial institutions, known as Tarp, and the \$787 billion, two-year [stimulus package](#), accounted for just under a quarter of the deficit, they said.

The administration's calculation of a \$1.4 trillion deficit tracks an estimate last week from the [Congressional Budget Office](#) that anticipated the data from the Treasury and the Office of Management and Budget. The actual deficit was slightly lower than each had expected in August, when the White House budget office projected a \$1.8 trillion deficit and the Congressional office forecast \$1.6 trillion.

The decrease from the earlier projections largely reflected updated accounting, including, Mr. Geithner said, the fact that “we are managing to repair the financial system at a lower cost to taxpayers.”

The Obama administration ultimately did not need additional billions it had budgeted for the effort. Also, several major institutions repaid their bailout money with interest, and other financial companies that have not are paying interest on their borrowings.

While many financial institutions have recovered — and prospered, as this week’s eye-popping earnings reports for JPMorgan Chase and Goldman Sachs showed — the persistent high unemployment, home foreclosure rates and credit needs of small businesses are keeping the White House and Congress focused on stimulating the economy. This adds to the deficit, rather than reduces it.

“It would be harmful to try to balance the budget at a time when the economy has not fully recovered and so many Americans are still struggling,” said Representative John M. Spratt Jr., Democrat of South Carolina and chairman of the House Budget Committee.

But on Friday, the deficit was front and center. The overall national debt, which is the accumulation of annual deficits, is nearly \$12 trillion, and projected deficits for the next decade will add an estimated \$9 trillion more. Administration officials say two-thirds of that is due to Bush administration policies — chiefly tax cuts, wars and the [Medicare](#) prescription drug benefit — not paid for with other savings.

“Today’s deficit announcement again highlights the fiscal mess handed to the Obama administration,” Senator [Kent Conrad](#), Democrat of North Dakota and chairman of the Senate Budget Committee, said in a statement.

Representative [John A. Boehner](#) of Ohio, the Republican minority leader in the House, rejected that position.

“It is irresponsible for Democrats to continue spending taxpayers’ money we don’t have to fund an agenda that would destroy the jobs we need to get our economy moving again,” Mr. Boehner said.

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