

# The Economy, an Ongoing Concern for the Obama Administration

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Jessica Rinaldi/REUTERS

More than 6 months have passed since Barack Obama won his second term as president of the United States, and during that time, the focus of public opinion has shifted from economic and domestic issues to electronic espionage and international events, particularly the revolts in Syria. However, on a national level, Obama's clear victory at the polls represented the possibility for him to continue his proposals and consolidate what he achieved in his first term, since many of his commitments and the economic and social problems he has to face could not be resolved in only four years.

The reasons and variables that determined Obama's victory have been analyzed again and again; among them demo-

graphics, minorities, electoral organization and strategy, social networks, the undecided vote, or the large amounts of money raised during the electoral campaign. These will all undoubtedly be factors in the mid-term elections slated for late 2014. However, the importance of economic variables will once again come to the fore, and with them, a rigorous review of how they evolve.

No scholar of U.S. political processes can help but notice the importance of economic performance in explaining the election's outcome, particularly given the drastic results of the financial, mortgage, and productive crisis that began in late 2007. This is why those variables, determinant factors in Barack Obama's reelection, must be monitored.

Among the economic issues of most concern to the U.S. public—and that will continue to be front and center—are the growth of the economy, the budget deficit, the debt, unemployment, and the trade deficit. All these are linked to

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economic policy decisions that unleash sharp disputes in Congress and can even bring the government to a halt. This happened with fiscal policy, on which Democrats and Republicans do not agree. Rather, their positions seem to radicalize: on the one hand, the Obama administration proposes raising taxes for those in the highest income bracket, while the Republicans reject that proposal and insist on lowering spending.

We should remember that, starting in 2005, gross domestic product (GDP) growth dropped steadily, but in 2009, it declined sharply (-2.8 percent). To resolve this complicated situation, from the first months of his presidency, Obama drew up a US\$787-billion economic stimulus package. From then on, and despite positive performance, the recovery has been slow and uneven: while in 2010, growth increased 2.5 percent, in 2011, it grew more slowly, by 1.8 percent; and for 2012, it was 2.8 percent.<sup>1</sup> This last figure was impacted by the economy's weak performance in the last quarter of 2012: only 0.4 percent. In fact, in that same period, defense spending dropped significantly (22 percent), a contraction that could not be compensated by the positive —though quite low— levels of consumption, investment, and exports.

The U.S. economy's erratic growth posed serious questions not only domestically, but also in other countries that, like Mexico, concentrate their foreign trade with that nation and are also productively interdependent with it. This is a factor fundamentally in the auto industry, which means that a drop in economic growth rates and demand has immediate repercussions in Mexico.

Another ongoing concern in the United States is the fiscal deficit, that is, the difference between public spending and revenues. It should be pointed out that when Obama took office for the first time in 2009, the deficit was almost 10 percent of GDP, or US\$1.3 trillion, which was above the historic average. However, by early 2013, that ratio had dropped to 7 percent, a figure that has remained stable. For that reason, the Congressional Budget Office (CBO) reported that in this fiscal year, the deficit would decline to US\$642 billion, only 4 percent of GDP for 2013. It also maintains that, if the

trend continues, the deficit will drop to US\$560 billion (3.4 percent of GDP) in 2014 and US\$378 billion (2.1 percent of GDP) in 2015.<sup>2</sup>

Among the causes of the declining deficit in 2013 is the increase in tax revenues, together with reduced government expenditures due to the cutback in defense spending and unemployment benefits, either because workers have found jobs or because their benefits have run out. It is also pointed out that the government has received significant revenues from mortgage giants Fannie Mae and Freddie Mac, which have recovered after having been bailed out during the financial crisis.

It is difficult to discover the reasons why the Republicans want to balance the budget. Since the 1960s, the country has almost permanently lived with what are considered acceptable deficit levels and for only four years, during President William Clinton's second term, it had a fiscal surplus. However, the decrease in the deficit does not satisfy the Republican representatives, who are constantly pressing for a balanced budget by guaranteeing less public spending rather than increasing taxes. Therefore, in Congress, a polarization exists that makes it impossible to forge agreements between Democrats and Republicans. Among the latter is where the most conservative positions prevail, identified with the Tea Party's political platform. All this leads to extreme situations that affect millions of people.

This has also been expressed around the issue of the debt since, to finance expenditures, which exceed revenues, the government must go into debt. In this context, the debt has increased, reaching 100 percent of GDP, and is predicted to continue on its constant rise for the long term given the government's diverse expenditures, some related to health programs, particularly Obama Care, Medicare, and Medicaid. This has been widely debated in Congress, where in August 2011 a US\$2.1-trillion increase in the debt ceiling was passed. However, in negotiations between Democratic and Republican members of Congress, they included an agreement to significantly decrease the deficit and that, if this did not happen in 2012, a mechanism for automatically cutting different public expenditures would be brought into play, beginning in January 2013: this is called the "sequester."

Although the automatic cut-backs finally began last March, this mechanism is known to have been derived from a political decision that was not the best response for the economy or for working people. Therefore, the conflict will continue to be debated.<sup>3</sup> Nevertheless, at the end of the current fiscal

year, a reduction in spending of up to US\$85 billion has to be made, meaning that the adjustments would be distributed over seven months. In addition, unpaid furloughs, obligatory for government employees, could be announced in areas as diverse as education, defense, airports, or the national parks services. This means that the impact would spread throughout the country. However, according to some reports, four out of every ten U.S. Americans have already felt the impact of those cut-backs.

On April 10, 2013, President Obama presented his annual budget for the 2014 fiscal year, which presupposes continuing negotiations between Republicans and Democrats. His proposal is for a US\$3.77 trillion budget, with investments in infrastructure and education, new taxes on the wealthiest, and reductions in the costs of social security and Medicare. With this proposal, the president thinks the deficit will drop to US\$744 billion, which would be the equivalent of 4.4 percent of GDP (even less than the predicted 5.5 percent).

While for the White House spokesperson, Obama's budget plan could supply sufficient arguments to put an end to the automatic spending cuts in place since March, the Republican reaction to this project was immediate and forceful. House of Representatives Speaker John Boehner made it clear that the proposal did not convince them and that they wanted to repeal the health reform backed by Barack Obama in 2012 and to partially privatize Medicare. This means that if they do not come to an understanding, the government would have to partially close down.

In September and October the negotiations were held about the debt ceiling, which is currently US\$16.7 trillion, a vital issue for the United States to be able to continue servicing its debt. Because of its importance for the government, determining the debt ceiling became a way for the Republicans to pressure or blackmail regarding issues that are fundamental for them, like the health insurance law. Despite the importance of all these issues today, however, unemployment continues to be at the center of public interest. In spite of the constant decline *vis-à-vis* its high in 2010 (9.6 percent), 2012 closed with 8.1 percent and it has continued to drop, reaching almost 7.4 percent.<sup>4</sup> This, however, continues to be a tragedy for millions of people, as Nobel Prize laureate for economy Paul Krugman said.<sup>5</sup> The figures are staggering: of the more than 10 million U.S. Americans out of work, 4.3 million have been unemployed at least 27 weeks. Also, 7.9 million people work only half-time, and more than 2 million unemployed, discouraged, no longer even look for work.

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Finally, the trade deficit has decreased slightly. However, we have to consider that U.S. exports depend on countries that are suffering from big economic problems, particularly those in the euro zone. Although trade flows rallied between 2010 and 2012, and this helped encourage the recovery in the United States, the prospects both in Europe and in China are of a serious slow-down.

#### CONCLUSION

A review of the evolution of these economic variables results in a relatively positive balance sheet for Barack Obama's second term. Despite his political opponents' strong opposition, advances were made, above all if we consider the disastrous economic situation that came out of the previous administration, that of George W. Bush. The results are not completely satisfactory but they show positive trends.

But perhaps more important than following the key economic variables will be healing the divisions that have characterized U.S. society in recent years and that seem even more exacerbated in Congress. Tempering those extreme positions among Democrats and Republicans would be politically and economically even more significant for Barack Obama and for the nation. ■■

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#### NOTES

<sup>1</sup> U.S. Department of Commerce, Bureau of Economic Analysis, table 1.1.1.1, [http://www.bea.gov/table/index\\_nipa.cfm](http://www.bea.gov/table/index_nipa.cfm).

<sup>2</sup> Congressional Budget Office, May 2013, "Budget Projections: Fiscal Years 2013 to 2023," <http://www.cbo.gov>, p. 8.

<sup>3</sup> In fact, lowering government spending would spark a greater economic slow-down, which would also have an impact on employment.

<sup>4</sup> United States Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov>.

<sup>5</sup> Paul Krugman, "The Forgotten Millions," *The New York Times*, December 6, 2012.