

Future of Economy Riding on the Next Four Years

In his second term, Obama will confront high deficits and debts that could threaten the economy for years to come

By [DANIELLE KURTZLEBEN](#)

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When President Obama took office in 2009, he confronted plummeting growth and an economy hemorrhaging jobs. Four years later, growth is better but weak, and the job market is inching its way to recovery. Yet it appears increasingly likely that present economic concerns will take a backseat to worries about the future in his second term, as the threat of long-term deficits and debt take center stage.

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While boosting the economy now would provide short-term relief, solving the problem of high deficits could have long-lasting economic implications. In August, the Congressional Budget Office projected that continuing many current taxing and spending policies would lead to "a level of federal debt that would be unsustainable from both a budgetary and an economic perspective." By 2022, debt held by the public--currently at around 73 percent of GDP--would hit 90 percent of GDP, with interest payments taking up a larger and larger portion of government spending. Growing debt and deficits would eventually lead to slower growth than going over the so-called "fiscal cliff" of spending cuts and expiring tax cuts coming at the end of 2012, according to the CBO.

"My view is the next four years are really going to be on the economic side about fiscal issues, like what's our long-term plan to bring down the deficit?" says Aaron Chatterji, associate professor at Duke's Fuqua School of Business and a former senior economist on President Obama's Council of Economic Advisers.

Plenty of lawmakers from both parties agree that cutting deficits is important, but that's where the agreement ends. The challenge now is how to do that, says Adolfo Laurenti, deputy chief economist at Mesirow Financial, a financial services firm based in Chicago.



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"The topic will be, 'How quickly and how broadly and with what mix of spending cuts and tax hikes will we be working on improving our fiscal position?' It's going to have broad implications for the next president," he says.

That question will be the top priority well before Inauguration Day. After the election, Congress will come back to Washington to try to avert a fiscal cliff, not to mention the recession it could bring. But a sharply divided Congress could be a major barrier to a deal. One possibility is that members of Congress will postpone the fiscal cliff until early next year, giving the next Congress time to work out a solution. Chatterji expects Congress to create the framework of a deal in the coming weeks, but to actually strike the deal next session.

"I think it's a lot to expect that in the lame duck they can have a grand bargain," says Chatterji.

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turn. Whereas it shot up to 10 percent within eight months of Inauguration Day 2009, it is now slowly working its way down, and in October stood one full percentage point below where it was in October 2011.

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There is reason to think that recovery is growing more sustainable. The economy has, after all, been slowly growing despite impediments in the form of a European financial crisis, a slowdown in China, and the impending fiscal cliff. That's good, because a divided Congress and a tight budget will leave little room for stimulus.

Debt and deficits, entitlements, tax rates, and slow growth--it's a full economic plate for a president, but it's worth remembering that these could all be forgotten with just one turn of events.

"I think that's probably the best bet, that what will dominate the debate of the four years will likely be something that is not on the radar right now," says Laurenti. He points to several examples: President Obama was dealt an economic crisis that, by Inauguration Day, was revealing itself to be disastrous. President George W. Bush confronted the September 11 attacks nine months into his presidency. The Monica Lewinsky scandal derailed Bill Clinton's second term.

All of which is to say that no matter what Obama promised on the campaign trail, he will invariably have to make some unexpected decisions.

"I really think that very seldom presidents get to have a four-year mandate based on what they would like to do," says Laurenti. "Reality always comes in with some curveballs."

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