

### *Seeing Red: Obama's Deficit Dilemma*

This presentation examines the unprecedented budgetary problems facing Barack Obama's administration. It considers the unprecedentedly difficult fiscal legacy that the 44th president inherited from his predecessor, George W. Bush, notably a highly politicized tax system, loss of domestic and defence spending restraint, dependence on foreign financing of US public debt, and the greatest peacetime deficit in US history emanating from the economic crisis of 2008 and beyond. The core of the address examines Obama's dilemma in striking a balance between the short-term need for large fiscal deficits to stimulate recovery from the economic crisis and the long-term need to prevent US public finances from descending into unsustainable levels of debt in the medium to long term. Too rapid a shift from stimulus to restraint risks tipping the economy back into recession, but any change of course to deal seriously with the deficit requires highly contentious political choices regarding tax increases, entitlement program cutbacks (particularly Social Security and Medicare that benefit middle-class Americans), and defence economies that will be unpopular with voters and difficult to enact in Congress. The capacity of Obama in particular and the US political establishment more broadly to begin the correction of fiscal course in the direction of deficit control will be a crucial test of the American political system's capacity to subordinate short-term partisan and political interests to the long-term national interest. Without progress towards eventual deficit elimination, the United States faces a crisis of fiscal sustainability in the mid twenty-first century that will pose a fundamental threat to its power and prosperity.

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