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Climate of Change

By [PAUL KRUGMAN](#)

Elections have consequences. President Obama's new budget represents a huge break, not just with the policies of the past eight years, but with policy trends over the past 30 years. If he can get anything like the plan he announced on Thursday through Congress, he will set America on a fundamentally new course.

The budget will, among other things, come as a huge relief to Democrats who were starting to feel a bit of postpartisan depression. The stimulus bill that Congress passed may have been too weak and too focused on tax cuts. The administration's refusal to get tough on the banks may be deeply disappointing. But fears that Mr. Obama would sacrifice progressive priorities in his budget plans, and satisfy himself with fiddling around the edges of the tax system, have now been banished.

For this budget allocates \$634 billion over the next decade for health reform. That's not enough to pay for universal coverage, but it's an impressive start. And Mr. Obama plans to pay for health reform, not just with higher taxes on the affluent, but by putting a halt to the creeping privatization of Medicare, eliminating overpayments to insurance companies.

On another front, it's also heartening to see that the budget projects \$645 billion in revenues from the sale of emission allowances. After years of denial and delay by its predecessor, the Obama administration is signaling that it's ready to take on climate change.

And these new priorities are laid out in a document whose clarity and plausibility seem almost incredible to those of us who grew accustomed to reading Bush-era budgets, which insulted our intelligence on every page. This is budgeting we can believe in.

Many will ask whether Mr. Obama can actually pull off the deficit reduction he promises. Can he actually reduce the red ink from \$1.75 trillion this year to less than a third as much in 2013? Yes, he can.

Right now the deficit is huge thanks to temporary factors (at least we hope they're temporary): a severe economic slump is depressing revenues and large sums have to be allocated both to fiscal stimulus and to financial rescues.

But if and when the crisis passes, the budget picture should improve dramatically. Bear in mind that from 2005 to 2007, that is, in the three years before the crisis, the federal deficit averaged only \$243 billion a year. Now, during those years, revenues were inflated, to some degree, by the housing bubble. But it's also true that we were spending more than \$100 billion a year in Iraq.

So if Mr. Obama gets us out of Iraq (without bogging us down in an equally expensive Afghan quagmire)

and manages to engineer a solid economic recovery — two big ifs, to be sure — getting the deficit down to around \$500 billion by 2013 shouldn't be at all difficult.

But won't the deficit be swollen by interest on the debt run-up over the next few years? Not as much as you might think. Interest rates on long-term government debt are less than 4 percent, so even a trillion dollars of additional debt adds less than \$40 billion a year to future deficits. And those interest costs are fully reflected in the budget documents.

So we have good priorities and plausible projections. What's not to like about this budget? Basically, the long run outlook remains worrying.

According to the Obama administration's budget projections, the ratio of federal debt to G.D.P., a widely used measure of the government's financial position, will soar over the next few years, then more or less stabilize. But this stability will be achieved at a debt-to-G.D.P. ratio of around 60 percent. That wouldn't be an extremely high debt level by international standards, but it would be the deepest in debt America has been since the years immediately following World War II. And it would leave us with considerably reduced room for maneuver if another crisis comes along.

Furthermore, the Obama budget only tells us about the next 10 years. That's an improvement on Bush-era budgets, which looked only 5 years ahead. But America's really big fiscal problems lurk over that budget horizon: sooner or later we're going to have to come to grips with the forces driving up long-run spending — above all, the ever-rising cost of health care.

And even if fundamental health care reform brings costs under control, I at least find it hard to see how the federal government can meet its long-term obligations without some tax increases on the middle class. Whatever politicians may say now, there's probably a value-added tax in our future.

But I don't blame Mr. Obama for leaving some big questions unanswered in this budget. There's only so much long-run thinking the political system can handle in the midst of a severe crisis; he has probably taken on all he can, for now. And this budget looks very, very good.

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