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ECONOMIC VIEW

Finding Messages in a Blueprint

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PRESIDENTIAL candidates campaign with soaring rhetoric, but presidents and their advisers make actual policy with spreadsheets. So for policy wonks like me, there is no better place to learn what President Obama really believes than the budget proposal released late last month.

Here are four lessons we can learn from the budget documents about the president and his economic team:

THEY ARE ECONOMIC OPTIMISTS Like everyone else, the president's economists expect 2009 to be a grim year of falling national income and rising unemployment. But despite all the talk about the worst crisis since the Great Depression, they expect their policies to bring the recession to a swift conclusion. For the next four years, they forecast an average growth rate of 4 percent. The unemployment rate is projected to fall to 5.2 percent in 2013.

Not everyone is so sanguine. The administration forecast is "way too optimistic," said Nariman Behravesh, chief economist at IHS Global Insight and author of the excellent primer "Spin-Free Economics."

Let's hope that the administration is right. But if I had to bet, I'd put my money on Mr. Behravesh.

THEY LIKE TO SPEND In light of the economic downturn, the stimulus package and all the bailouts coming out of Washington, it is no surprise government spending is skyrocketing. According to the president's budget, federal outlays will be 27.7 percent of gross domestic product in 2009 and 24.1 percent in 2010 — levels not reached since World War II.

But more telling about the president's priorities is what happens to spending after the crisis is well behind us, at least according to the administration's forecast. In a second term for Mr. Obama, with the economy recovered and unemployment stabilized at 5 percent, federal outlays would be 22.2 percent of G.D.P. — well above the average of 20.2 percent over the last 50 years.

It is also well above levels in recent history. Before the financial crisis hit in 2008, federal outlays under President George W. Bush never exceeded 20.4 percent of G.D.P. That includes spending from the Iraq war. President Obama is counting on that conflict being over, and no new money-draining military commitment taking its place. Yet federal spending still remains high.

To be sure, part of the increase in government spending is driven by the aging of the population. As more baby boomers retire and become eligible for Social Security and Medicare, spending rises automatically. But President Obama's focus on universal health insurance suggests that he is more interested in expanding the benefits that Americans can claim than in reining in the unfunded entitlements already on the books.

THEY ARE SERIOUS ABOUT CLIMATE CHANGE President Obama's budget makes clear that he wants to address the problem of global climate change. This commitment stands in stark contrast to policy during the previous two administrations.

President Bill Clinton offered the Kyoto Protocol, but the policy ended up more symbolic than real. The treaty was overwhelmingly rejected by both parties in Congress, in part because it left out China, now the world's largest emitter of carbon. President Bush rejected the Kyoto principles as well, but he never made finding an alternative approach to climate change a major priority.

For the new administration, climate change is not only an environmental issue but a budgetary one as well. Under the proposed cap-and-trade system, the government would auction off a limited number of carbon allowances. The cost would be passed on to consumers as higher energy prices, encouraging conservation. According to President Obama's budget projections, the system would also raise more government revenue than his much-discussed tax increases on upper-income households.

The thrust of the policy makes sense, but several questions remain. First, why not instead impose a more transparent and administratively simpler tax on carbon emissions? Is it merely because the phrase “climate revenues” used in the budget is more politically palatable than the word “tax”? More important, how will the president get China on board? Without China’s participation, any climate policy, along with the associated revenue, may be a political nonstarter.

THEY ARE DEFICIT DOVES Few economists would blame either the Bush administration or the Obama administration for running budget deficits during an economic downturn. What is more telling is what happens to the deficit during normal economic times. From that perspective, the Obama budget policy looks surprisingly similar to the Bush version.

From 2005 to 2007, before the current crisis, unemployment in the United States hovered around 5 percent. During those years, the budget deficit averaged just under 2 percent of G.D.P.

In the Obama administration’s forecast, unemployment again reaches 5 percent in 2014 and remains at that level thereafter. But despite that rosy prediction, the budget does not get close to balance. The Obama team calculates that under its proposed policies, the budget deficit will average a bit over 3 percent of G.D.P.

So if you are a deficit hawk who lamented the Bush budget deficits, the new president’s budget should not make you feel much better. President Obama offers different fiscal priorities than President Bush did: less military spending, more domestic spending and higher marginal tax rates to “spread the wealth around.” But the borrowing and debt imposed on future generations will not be very different, at least if the numbers in the Obama administration’s own budget document can be trusted.