Investor's Business Daily; Date: 2012 May 17; Section: Issues & Insights; Page Number: A13

President Obama's Place In U.S. History: Debt-Monger

By MIKE COSGROVE

The U.S. economy generated federal tax revenues of $2.6 trillion in 2011 — a sizable pot of funds. Yet the federal government spent much more, with the result being a federal budget deficit of over one-third of tax revenues. That is very weak stewardship by President Obama.

In comparison, Jamie Dimon, CEO of JPMorgan Chase, generated net revenue of $97 billion last year and was criticized by Obama for a $2 billion trading loss — a 2% hit on net revenue.

Stockholders of JPM ate that loss. But U.S. taxpayers need to shoulder higher taxes for years for the trillions of dollars of outstanding federal debt that Obama has added since becoming president.

Hypothetically, what would be the results if Obama and Dimon traded leadership roles? One wouldn't be surprised if the shares of JPM took a major dive while the overall U.S. equity market rose and economic growth accelerated.

It is more useful to compare the performance of Obama to recent U.S. presidents in terms of additions to the outstanding federal debt.

The U.S. is weighed down with excess sovereign debt of over 100% of gross sovereign debt to gross domestic product. As recently as 2000, the same ratio was 55%. And the sovereign debt explosion post-2008 has been particularly egregious.

The following table summarizes the issue in terms of: 1) additions to sovereign debt per year by recent presidents and 2) the productivity of those sovereign debt additions (their multiplier.)

Sharing The Blame

Inflation-adjusted additions to U.S. sovereign debt

Rank*	President	Debt added per year	Multiplier**
1	Clinton	$88 billion	3.90
2	Reagan	$325 billion	0.68
3	H. W. Bush	$400 billion	0.39
4	G. W. Bush	$550 billion	0.31
5	Obama	$1.1 trillion	0.23

*Ranked from least to most **Change in GDP/change in debt
Source: Econoclast

Message: President Clinton's policy of austerity for Federal outlays worked. The nonausterity policies of Reagan and the two Bush presidents added major increments to the U.S. sovereign debt issue.

Clearly President Obama is the all-time leader in adding to the outstanding Treasury debt. In his first three years in office, he has added $3.3 trillion of inflation-adjusted debt to outstanding federal debt. Obama's record-setting pace added $1.1 trillion per year to taxpayer obligations. He will add more than $1 trillion this year to the outstanding debt.

Among all past presidents of the U.S., there can be no doubt: Obama is the clear winner at adding to the U.S. taxpayer obligations. He has found his place in history.

How did this federal debt explosion happen? Sovereign debt additions are a long-running problem, and U.S. voters and politicians repeated many of the mistakes of debt-laden countries in Western Europe and Japan.

Adverse policies to put America on this path of excessive sovereign debt started in the 1930s when Social Security was established as a defined pay-as-you-go benefit program instead of a defined contribution program.

Along came Medicare in the 1960s — another defined benefit program. Approximately half of Medicare expenditures are funded from general revenues, the other half from Medicare taxes.

Income-tax policy has evolved to exclude half the people who file a federal income-tax return.

Entitlements and income-support programs flow to one portion of the voters;the other half pays the federal income tax to support the programs.

The design of Social Security, Medicare and the tax system led, in part, to today's entitlement problems and excessive central government outlays.

Obama appointed the Bowles-Simpson commission, whose deficit-reduction plan was released in late 2010. Had the president pushed the entitlement and tax reform of his commission, he would have been able to take credit for leadership and for major success if the parameters of Bowles-Simpson had passed Congress.

Major changes modeled on the major parts of Bowles-Simpson need to be implemented to restructure the entitlement programs and the tax system. The longer the delay in restructuring entitlements and the U.S. tax system, the greater the cost to economic growth and U.S. taxpayers.

• Cosgrove, principal at Econoclast, a Dallas-based capital markets firm, is a professor at the University of Dallas.