How the Deficit Got This Big

By TERESA TRITCH

With President Obama and Republican leaders calling for cutting the budget by trillions over the next 10 years, it is worth asking how we got here — from healthy surpluses at the end of the Clinton era, and the promise of future surpluses, to nine straight years of deficits, including the $1.3 trillion shortfall in 2010. The answer is largely the Bush-era tax cuts, war spending in Iraq and Afghanistan, and recessions.

Despite what antigovernment conservatives say, non-defense discretionary spending on areas like foreign aid, education and food safety was not a driving factor in creating the deficits. In fact, such spending, accounting for only 15 percent of the budget, has been basically flat as a share of the economy for decades. Cutting it simply will not fill the deficit hole.

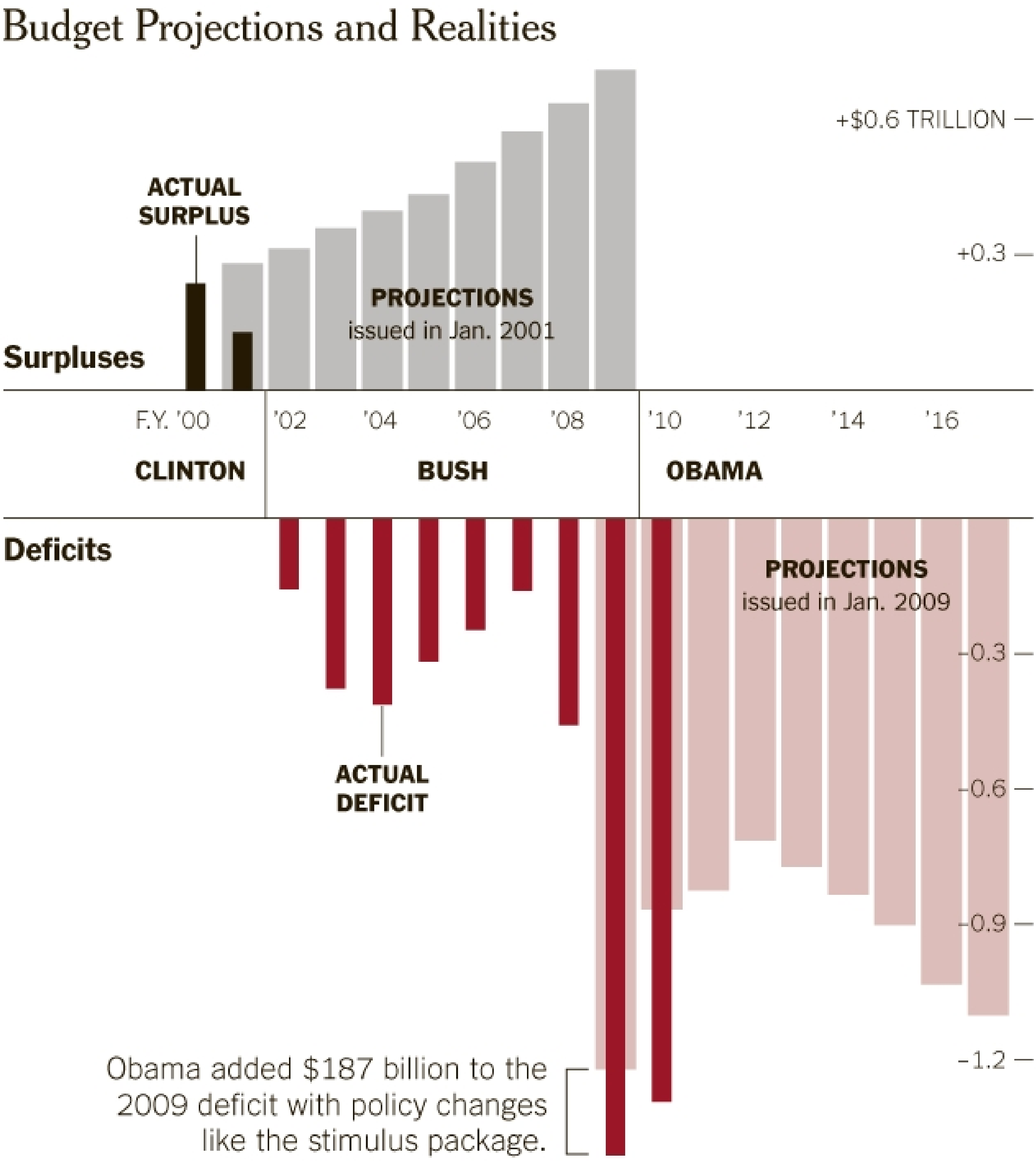
The first graph shows the difference between budget projections and budget reality. In 2001, President George W. Bush inherited a surplus, with projections by the Congressional Budget Office for ever-increasing surpluses, assuming continuation of the good economy and President Bill Clinton's policies. But every year starting in 2002, the budget fell into deficit. In January 2009, just before President Obama took office, the budget office projected a $1.2 trillion deficit for 2009 and deficits in subsequent years, based on continuing Mr. Bush's policies and the effects of recession. Mr. Obama's policies in 2009 and 2010, including the stimulus package, added to the deficits in those years but are largely temporary.

The second graph shows that under Mr. Bush, tax cuts and war spending were the biggest policy drivers of the swing from projected surpluses to deficits from 2002 to 2009. Budget estimates that didn't foresee the recessions in 2001 and in 2008 and 2009 also contributed to deficits. Mr. Obama's policies, taken out to 2017, add to deficits, but not by nearly as much.

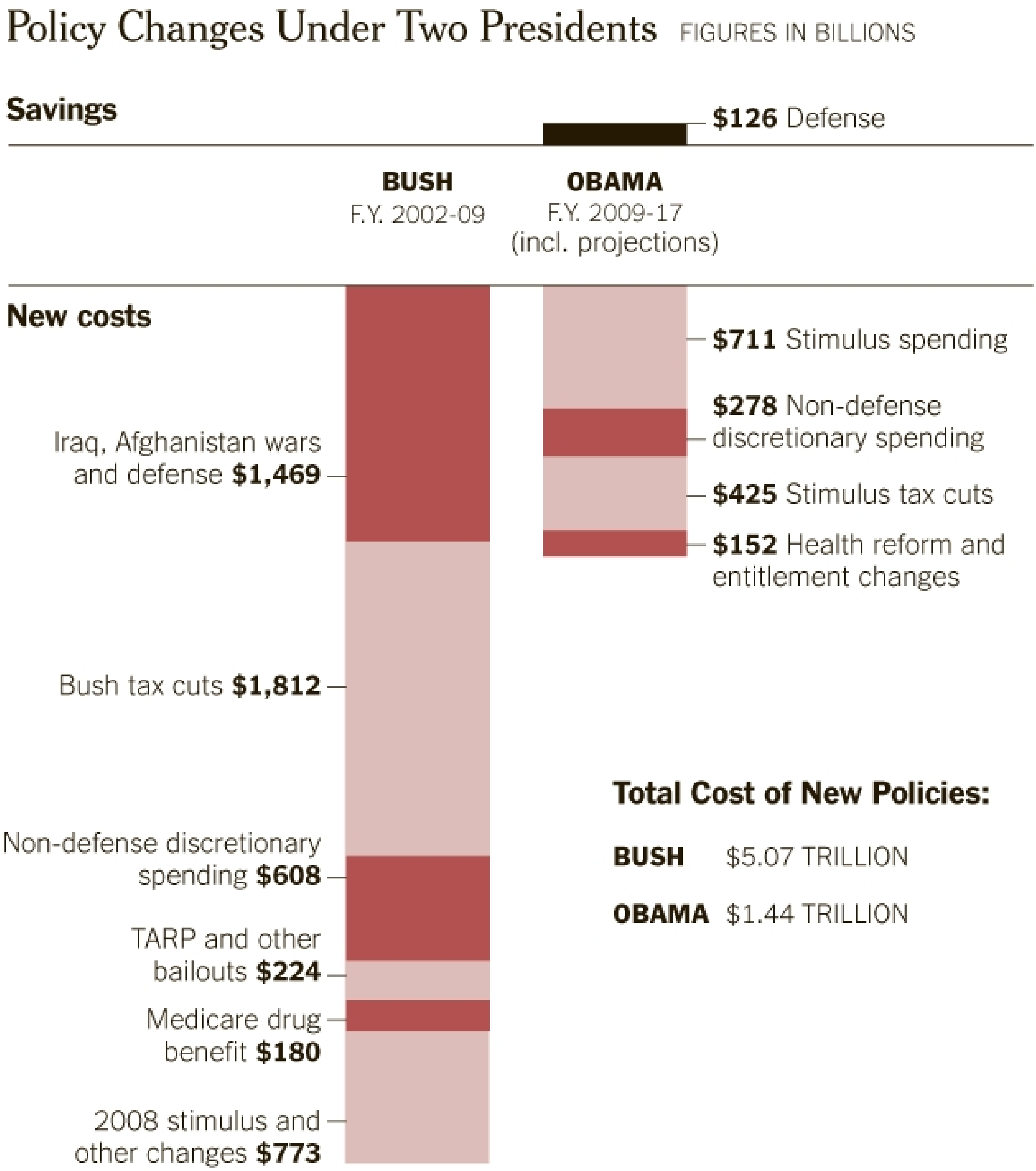
A few lessons can be drawn from the numbers. First, the Bush tax cuts have had a huge damaging effect. If all of them expired as scheduled at the end of 2012, future deficits would be cut by about half, to sustainable levels. Second, a healthy budget requires a healthy economy; recessions wreak havoc by reducing tax revenue. Government has to spur demand and create jobs in a deep downturn, even though doing so worsens the deficit in the short run. Third, spending cuts alone will not close the gap. The chronic revenue shortfalls from serial tax cuts are simply too deep to fill with spending cuts alone. Taxes have to go up.

In future decades, when rising health costs with an aging population hit the budget in full force, deficits are projected to be far deeper than they are now. Effective health care reform, and a willingness to pay more taxes, will be the biggest factors in controlling those deficits.

Graph #1


Budget Projections and Realities
+$0.6 TRILLION
+0.3
ACTUAL
SURPLUS
PROJECTIONS
issued in Jan. 2001
Surpluses
F.Y. '00
'02
'04
'06
'08
'10
'12
'14
'16
CLINTON
BUSH
OBAMA
Deficits
PROJECTIONS
issued in Jan. 2009
-0.3
ACTUAL
DEFICIT
-0.6
-0.9
-1.2
Obama added $187 billion to the
2009 deficit with policy changes
like the stimulus package.

Graph #2


Policy Changes Under Two Presidents FIGURES IN BILLIONS
Savings
$126 Defense
BUSH
F.Y. 2002-09
OBAMA
F.Y. 2009-17
(incl. projections)
New costs
Iraq, Afghanistan wars and defense $1,469
Bush tax cuts $1,812
Non-defense discretionary spending $608
TARP and other bailouts $224
Medicare drug benefit $180
2008 stimulus and other changes $773
$711 Stimulus spending
$278 Non-defense discretionary spending
$425 Stimulus tax cuts
$152 Health reform and entitlement changes
Total Cost of New Policies:
BUSH $5.07 TRILLION
OBAMA $1.44 TRILLION