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GETTING THE FACTS STRAIGHT:
A Tale of Deficits Under Two Presidents

by James Horney and Robert Greenstein

Some of President Obama's critics and political opponents have launched a line of argument that Obama is mostly to blame for the large federal budget deficits projected for the coming decade and that his Administration's role in swelling deficits and debt dwarfs that of the previous administration.[1] The critics cite what they present as proof: the fact that the deficit this year and in the years ahead will be much larger than the average deficits under President George W. Bush and that the increase in the national debt thus will be much larger under Obama than Bush.

But asserting that the deficits that lie ahead are primarily the result of policies enacted since President Obama took office is Orwellian. It stands truth on its head.

When President Bush took office in January 2001, the federal budget was on a more promising course than any President had inherited in decades. The budget had run surpluses for three straight fiscal years (after running deficits for nearly 30 years in a row) and was on course for a surplus in fiscal year 2001. More importantly, both President Bush's Office of Management and Budget and the Congressional Budget Office (CBO) projected that if the policies in place when President Bush took office remained unchanged, the budget would generate surpluses that would total $5.6 *trillion* over the next ten years[2] — more than enough to pay off the entire outstanding federal debt held by the public.

But President Bush and Congresses changed those policies sharply (and the economy did not perform as well as anticipated), and, as a result, large projected surpluses turned to large deficits. For fiscal years 2001 through 2008, the last full fiscal year before President Bush left office, the $3.5 trillion of *surpluses* that CBO had projected for these years turned into *deficits* of $2 trillion.[3] A look behind these numbers is revealing.

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[1] See, for instance, Karl Rove, "Obama Versus Bush on Spending," *Wall Street Journal*, January 21, 2010.

[2] Office of Management and Budget, "A Blueprint for New Beginnings," February 2001, Table S-15: Baseline Category Totals, p. 200; Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2002-2011," January 2001, Summary Table 1, p. xiv.

[3] These figures are from an analysis of CBO data by the Center on Budget and Policy Priorities. For an explanation of the methodology used, see Richard Kogan and Gillian Brunet, "How Projected Surpluses Became Deficits: Main Causes Were Tax Cuts and Higher Security Spending," Center on Budget and Policy Priorities, September 12, 2008. That report

To be sure, the fiscal deterioration was partly due to a weaker-than-expected economy, along with other "technical factors" that are largely beyond policymakers' direct control. But the economy was *not* the biggest factor. Far from it. Even with the somewhat disappointing economic performance from 2001 through 2008, the federal government would have run large budget surpluses in every year through 2008 — with a total surplus of $2 trillion over that period — if policymakers had not enacted tax cuts and program increases after January 2001 without paying for them.

Nor was this fiscal deterioration due largely to increases in domestic programs, although the new prescription drug benefit in Medicare contributed to deficits starting in 2006, when that benefit took effect.

The biggest factors were very large tax cuts and increases in security-related programs (primarily for two wars that were not paid for). The tax cuts and security spending increases cost nearly $3.4 trillion over those eight years and accounted for more than *four-fifths* of the fiscal deterioration that policy changes caused during that period.

Because of these policy changes, and the severe deterioration of the economy and financial system after the recession began in December 2007, President Obama faced a much different fiscal outlook when he took office in January 2009:

- CBO estimated that, without any new legislation, the deficit would total $1.2 trillion in fiscal 2009, a year which was nearly one-third over when President Obama took office.

- Furthermore, CBO's projections and data showed that, if the policies in place when President Obama took office remained in effect — specifically, if Congress extended the 2001 and 2003 tax cuts as well as relief from the Alternative Minimum Tax and the scheduled cuts in Medicare payments to doctors, as Congress had done throughout the decade — deficits would *average more than $1 trillion a year in 2010 through 2019*.[4]

In short, President Bush came into office with the budget projected to produce *surpluses* of $5.6 trillion over ten years (2002-2011) if he simply maintained its course. But he changed course dramatically, and when President Obama took office, that course had the budget headed toward *deficits* of $10.6 trillion over ten years (2010-2019). (See the box on page 3 for a discussion of why the Bush policies will add substantially more to deficits and debt in 2009-2016 than they did in 2001-2008, a point essential to any comparison of the effects of the Bush and Obama fiscal policies.)

Furthermore, the economy was in serious trouble when the Obama Administration started; it was shedding 750,000 jobs a month, and the international financial system was facing a potential catastrophic meltdown. As a result, Obama's first step was the American Recovery and Reinvestment Act, which he and Congress enacted in early 2009 and which, according to CBO and most economists, has helped bring the recession (i.e., the contraction of the economy) to an end and

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includes an analysis of the effects on deficits projected at the time for fiscal years 2009 through 2011, while the figures in this paragraph include only the effects on actual deficits through 2008, but the methodology is the same for the years 2001 through 2008.

[4] Paul N. Van de Water, "Trillion-Dollar Deficits Greet New Administration," Center on Budget and Policy Priorities, February 26, 2009.

Comparing Deficits and Debt in the Obama and Bush Years

Critics of President Obama's budget policies trumpet the fact that cumulative deficits — and the resulting increase in publicly held debt — are likely to be much larger in fiscal years 2009 through 2016 than during the eight fiscal years that President George W. Bush was in office (2001 through 2008).

To be sure, deficits totaled just over $2 trillion in 2001 through 2008. And based on CBO data, the Center on Budget and Policy Priorities estimates that deficits will total $8.9 trillion in 2009 through 2016 if the policies in place today remain unchanged. If President Obama's proposals to change policies are enacted, deficits over this eight-year period will be somewhat lower than that, but still much higher than in the eight years when President Bush was in office. The Office of Management and Budget projects deficits of $8.0 trillion over this period if the President's policies are adopted. (CBO's analysis of the President's budget is not yet available.)

But the deficits now projected through 2016 are largely the result of policies and economic conditions that President Obama inherited when he took office. The economic downturn, financial rescues, and the Bush-era policies drive the large deficits.[a] Of particular note, *the major Bush-era policies will have a much larger effect on deficits in 2009 through 2016 than they did in 2001 through 2008.*

- Because the Medicare prescription drug legislation, which created an expensive new benefit that is entirely deficit financed, did not take effect until 2006, it had relatively little effect on deficits and debt in the 2001-2008 period. The cost of that legislation is now growing substantially with each passing year as the population ages and health care costs continue to rise.

- In addition, many of the tax cuts enacted in 2001 and 2003 were phased in, with some taking full effect for the first time only in 2010;[b] these tax cuts will cost more, and have a more pronounced effect on deficits and debt, in 2009 through 2016 than they did in 2001 through 2008. Based on CBO data, we estimate that the Bush-era tax cuts (including relief from the Alternative Minimum Tax) increased the deficit by $1.7 trillion in 2001 through 2008, not counting the costs of the interest payments on the additional debt incurred (see below). Assuming these tax cuts are continued, they will add an estimated $2.3 trillion to deficits and debt in 2009 through 2016 (not including interest costs).

- Finally, the costs of these and other deficit-financed policies adopted in the Bush years, including the launching of two wars that were deficit financed, are climbing higher over time as a result of the *compounding effect* on the interest payments the federal government must pay on the additional debt it is incurring because of the refusal of the Bush Administration and Congress to pay for these policies when they were adopted. (For example, we estimate that the Bush-era tax cuts, if extended, will add a total of $3.2 trillion to the deficit in 2009 through 2016 when added interest costs are taken into account.)

The comparisons that President Obama's critics cite of levels of deficit and debt under Bush and Obama also ignore the fact that Medicare, Medicaid, and Social Security costs will be much higher in 2009-2016 than in 2001-2008 *without any change in policy*, as a result of the aging of the population (the first baby boomers turn 65 in 2011) and rising health care costs. Whoever was President now would face these cost increases. In comparing deficits and debt in 2001-2008 to those projected for 2009-2016, the President's critics also usually fail to adjust these figures for inflation, as though a dollar in the latter period and a dollar in the earlier period were equivalent.

What makes these facile comparisons especially misleading is the basic bottom-line fact: the Bush policies added dramatically to deficits and debt in 2001-2008 and will add even more to deficits and debt in 2009-2016, while the policies that President Obama has proposed would, if adopted, make deficits and debt over the 2009-2016 period modestly smaller than they otherwise would be.

[a] Kathy A. Ruffing and James R. Horney, "President Obama Largely Inherited Today's Huge Deficits: Economic Downturn, Financial Rescues, and Bush-Era Policies Drive the Numbers," Center on Budget and Policy Priorities, revised February 17, 2010.

[b] Three costly tax cuts enacted in 2001 that primarily benefit high-income individuals — repeal of the estate tax, repeal of the phase-out of the personal exemption for high-income households, and repeal of the limitation on itemized deductions claimed by high-income households — took full effect on January 1, 2010.

boost economic growth and employment above what they would have been without such stimulus, although the unemployment rate remains strikingly high.[5]

Obama also deserves some credit for at least proposing some initial measures to start reducing projected deficits. While his new budget avoids steps that would undercut the economic recovery in the next few years by precipitously reducing the deficit over that period, it propose policies that OMB estimates would reduce deficits over the next 10 years by $1.2 trillion below their levels in the absence of those policies.[6]

This level of deficit reduction is insufficient to hit the budget target that the President has set (and with which most fiscal policy analysts concur) — that deficits be small enough, after the economy recovers, to keep the debt held by the public from rising faster than the economy grows.[7] It is appropriate to ask whether President Obama is doing everything he should to repair the damage to the economy and the budget and to put them back on an appropriate course. But in what amounts to a 180-degree reversal from the previous administration, he has insisted that his priorities — such as health care reform, climate-change and energy policies, and student aid reform — be fully paid for so they do not add to the deficit, even though that makes them harder to enact. (To be sure, the Recovery Act was not paid for; but offsetting its costs with contemporaneous spending cuts or tax increases would have been foolhardy, defeating its very purpose of boosting the economy; moreover, most measures in the Act are temporary rather than representing permanent unpaid-for policies.)

To make progress on the needed mid-term and long-term deficit reduction will require strong bipartisan action. We are far from that at the moment. One step to improve the atmosphere for such action would be to end the deeply misleading portrayals, apparently for partisan purposes, of how we got into this mess in the first place.

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[5] See Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2010-2020," January 2010, pp. 23-46, and "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output as of September 2009, November 2009, Table 1, p.2.. For the views of private forecasters, see Mark Zandi, Chief Economist and Cofounder of Moody's Economy.com, *The Impact of the Recovery Act on Economic Growth*, written Testimony Before the Joint Economic Committee, October 29, 2009.

[6] Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2011*, February 1, 2010, Table S-2: Effect of Budget Proposals on Projected Deficits. That table also includes a line showing deficit reduction of $2.1 trillion over ten years under the President's policies. The *$1.2 trillion* figure that we use here does not count "savings" from reductions in future years in expenditures in Iraq and Afghanistan and is the figure most often cited by Administration officials in discussing the effects of the President's policy proposals. (The $2.1 billion figure, by contrast, counts as savings the reductions proposed for expenditures in Iraq and Afghanistan below the fiscal year 2010 level, adjusted for inflation.)

The budget that President Obama submitted last year also would have reduced deficits below what they would have been under continuation of the policies in place when he took office. See Kathy Ruffing and Paul N. Van de Water, "Obama Budget Reduces Deficit by $900 Billion Compared to Current Budget Policies," Center on Budget and Policy Priorities, March 31, 2009.

[7] He proposes a target of balance in the budget excluding interest payments on the federal debt held by the public. That would reduce the total deficit to about 3 percent of Gross Domestic Product, which would keep the level of debt from rising relative to the size of the economy. This stabilization of the debt-to-GDP ratio is what is generally understood by economists and budget analysts as necessary to put the budget on a sustainable path. See Kathy Ruffing, Kris Cox, and James R. Horney, "The Right Target: Stabilize the Federal Debt," Center on Budget and Policy Priorities, January 12, 2010.