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Spratt Op-Ed on the Deficit

Success in the 1990s Shows Deficits Can Be Wiped Out, But Only as a Presidential Priority that Congress Shares, Backed by an Enforceable Plan

In January 2001, the Office of Management and Budget (OMB) looked out ten years and saw nothing but roses. The Clinton Administration had moved the budget from a $290 billion deficit to a $236 billion surplus, and given President Bush an advantage that no president in recent times had enjoyed. OMB saw surpluses that were unprecedented, totaling $5.6 trillion from 2002 through 2011.

OMB still sees nothing but red, but now it's an ocean of red ink. The projected surpluses have vanished. They have been replaced by deficits expected to total over $3 trillion between 2002 and 2011.

Deficits become debt, and the growth of the national debt over the last four years shows how serious the problem is. A ceiling is imposed by law on how much the United States Treasury can borrow. In November of this year, the Treasury hit that ceiling, $7.384 trillion, and pressed Congress to raise it by $800 billion. This was the third such increase since 2002, when the Bush Administration first asked for the debt ceiling to be raised by $450 billion. The next year, the Bush Administration was back asking for another increase in the debt ceiling, this time by $984 billion. To make room for the Bush budgets over four years, the debt ceiling has been raised three times by a total of $2.234 trillion. At the current rate, the United States is adding one trillion dollars to our national debt every eighteen months.

According to the Congressional Budget Office (CBO), if the President's current tax and spending polices are continued over the next ten years, the deficit will drop to $312 billion in 2005, but then rise to $439 billion by 2014. The national debt will swell to $14.5 trillion, almost double today's level.

No one in his right mind thinks that this course can be sustained, but before asking how we can change course, we need to ask how it happened. Four years ago, the budget was in surplus. Now the budget is mired in deficit, to the tune of $413 billion in fiscal 2004. How did such a reversal occur in so short a time?

First of all, the estimates at OMB were off by a mile, and CBO did not do much better. Economists at OMB and CBO now acknowledge that their ten-year projections were over the mark by 50% or more. They would still forecast a baseline surplus (before tax cuts and new spending), but that surplus between 2002 and 2011 would run in the range of $2.4 trillion, rather than $5.6 trillion, and all of that $2.4 trillion comes from the surpluses in Social Security and Medicare trust funds. There was no surplus in the regular budget, not then, not now, and not over the next ten years.

But on the basis that there were such surpluses, the Bush Administration moved major tax cuts through Congress. The impact of the first tax cut on the budget was more than $1.6 trillion, which wiped out much of the re-stated $2.4 trillion surplus. The tax cuts that followed in 2002 and 2003 finished off much of the rest.

In selling cuts of this size to the Senate, the Bush Administration agreed to expirations that would "sunset" the tax cuts, allowing for them to be reconsidered if projections of the economy did not pan out. Most of the expirations fall on December 31, 2010, but the President ran on the assurance that all of these tax cuts would be renewed. If renewed, the impact on revenues will be like another major tax cut, resulting in a revenue loss of $1.1 trillion by 2014.

This is not the only tax cut on the agenda. The alternative minimum tax (AMT) needs to be fixed or it will descend on 30 million middle-income taxpayers for whom it was never intended. The revenue impact of fixing the AMT is significant, around $550 billion. In addition, in his budget for 2005, President Bush proposed a miscellany of other tax measures, like medical insurance credits, that add up to $167 billion.

The Bush Administration projected that if its tax cuts were enacted, revenues from the individual income tax would be $1.118 trillion in 2004. Actual revenues have come in around $811 billion. This is $307 billion less than projected, and three-fourths of the $413 billion deficit in 2004. Clearly, revenues are part of the problem.

In a nutshell, the Bush Administration based its budget, with large tax cuts, on a blue sky forecast that left little margin for error. When the unforeseen happened, the budget's bottom line took it on the chin. In March of 2001, the economy slipped into recession, and though it was short and shallow, the recession took a toll on the budget. In September of 2001, terrorists struck, and the response to their attacks, including the wars in Afghanistan and Iraq, have hit the budget hard. In 2001, national defense was expected to cost $3.6 trillion over the next ten years, 2002 through 2011. Today, it's likely that defense will cost $5 trillion over the same period. The dollar cost of war in Afghanistan and Iraq is running close to $6 billion a month, and there is no indication that it will taper off soon.

The federal budget has not been adapted to these new realities. When pushed for solutions, the Administration tends to say that spending has to be "brought under control." But over the last four fiscal years, between 90% and 95% of the real growth in discretionary spending has occurred in three categories: the response to 9/11, the buildup in homeland defense, and the surge in national defense spending due to war in Iraq and Afghanistan. Despite its protests about spending, all of these increases were sought by the Bush Administration.

The cost of war in Iraq and Afghanistan is about $200 billion already; more troops are on the way; and another supplemental of at least $70 billion is expected early next year. The response to 9/11 is behind us, but we are only beginning to fathom the cost of homeland defense. So, the prospect of cut-backs in these categories, where spending has been rising most, does not seem likely.

What about domestic discretionary spending, excluding homeland security? This category covers the operation of the government as we know it--- from highways to education, from the national parks to the National Institutes of Health. Spending in these accounts is relatively flat, about $350 billion a year. Obviously, in a category where spending totals $350 billion, cuts can be found to reduce a $413 billion deficit, but they won't be easy and they won't come close to eliminating the deficit.

What about entitlement spending? The perennial challenge with the big medical entitlements, Medicare and Medicaid, is not how to cut but how to slow down the rate of spending growth, which outpaces the rest of the budget because it reflects the rising cost of health care coupled with a growing number of beneficiaries. Cost control will be more necessary than ever as prescription drug coverage under Medicare becomes available. My Republican colleagues voted reluctantly for meager coverage, believing the cost would be $400 billion over ten years. Months later, when the Administration sent Congress its budget, OMB disclosed that the ten-year cost of Medicare drug coverage is not $400 billion but approximately $540 billion.

The federal budget reflects the economy, and it is often argued that when the economy gets up to speed, the deficit will diminish. Here's the problem with that argument. The deficits of $300 to $400 billion projected over the next ten years are based on forecasts that already assume a robust rate of growth. OMB and CBO assume an economy growing at 4% this year and next year and at a respectable rate of 3% over the remaining eight years.

As if the deficit were not complicated enough, a new complexity has been added. The president has told congressional leaders that he will push for privatization of Social Security this year, allowing workers to deposit part of their payroll taxes in personal accounts. If just two percentage points are diverted from the 6.2% payroll tax into private accounts, the budget deficit will be $1.2 trillion worse over the next ten years and $3 trillion dollars worse over the next twenty years, excluding interest costs.

By this point, it should be clear that this is a daunting problem, and one that will not correct itself over time. But it is not an unsolvable problem, as we proved in the 1990s.

The first lesson learned from the Budget Summit Agreement of 1990, the Clinton Budget of 1993, and the Balanced Budget Act of 1997 is that deficit-reduction has to be a compelling goal on both sides of the aisle, and especially among the leadership, including the President, who must make it an overriding objective. None of the three budget agreements in the 1990s would have come to fruition without the unflagging support of the first President Bush and President Clinton.

The second lesson learned from the nineties is that there has to be a multi-year plan and budget rules to back it up. Discretionary spending caps worked well, so long as the caps were realistic, and the pay-as-you-go rule worked, so long as it required offsets for tax cuts and entitlement increases alike.

The third lesson learned is that the deficit-reduction plan has to be a collaborative effort. It's natural for Republicans to ask why Democrats should have a seat at the table and a hand in making the budget when we are not in the majority. There are two good reasons: they need our allegiance to the final plan and they need cover. This is an enormous problem, and no one should think the solution won't be politically painful. The 1990 budget helped the first President Bush lose his re-election, and the 1993 budget helped Democrats lose our majority in Congress.

Finally, whatever the plan, it has to deal with revenues; it has to deal with defense spending as well as non-defense spending; and it has to deal with entitlements. Just as everyone needs to be at the table, everything needs to be on the table.

There are many reasons why the deficit should be a compelling priority. Deficits will drive up interest rates, stifle growth, and undermine the dollar. But the main reason for ridding the budget of deficits is not economic or fiscal; it is moral. Every generation of Americans has strived to leave the next generation a better country. Surely, we do not want our legacy to be a mountain of public debt.

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