Deficit-Spending in Modern America: President Obama's First Budget

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Abstract

Deficit-spending has long been a staple of American budgeting, at the national level of government. Whereas states are constitutionally prohibited from overspending in a given fiscal year (i.e., a state must submit a balanced budget each year, even though the local units of government, in most states, are free to overspend through the issuance of bonds), no such requirement restrains the federal government. In fact, it is rare whenever Congress and the president agree on a budget that does not include a projected deficit. President Bill Clinton submitted three balanced budgets in the late 1990s, but for thirty years prior to that no balanced federal budget was passed.

The federal government has an easy time overspending. Not only is it not constitutionally or otherwise legally required to balance its books, the political pressure to overspend is enormous. That is, it is much easier to garner a congressional majority by giving in to spending projects than by agreeing to cut projects.

Deficit-spending became a hot political topic in the United States immediately after Ronald Reagan became president, in 1981. During his eight years in office federal revenues soared, but so did spending, resulting in a doubling of the national debt (i.e., the accumulated deficits). Politically, this was the path of least resistance in Congress: Reagan, a conservative Republican, succeeded in securing very large tax cuts, in exchange for the large spending increases sought by liberal Democrats in Congress.

The fiscal-year 2009 budget as revised by President Barack Obama and the newly-elected Congress includes unprecedented levels of deficit-spending—levels more than three times as great as any budget of the past. The argument used to pass such a budget is tied to the economic recession and, more specifically, the financial crisis, unearthed in September 2008, involving bank failures, gigantic derivatives problems, and systemwide credit problems.

In this article I attempt to place the Obama budgets for FY 2009 and FY 2010 (and, to a small extent, Obama's budgetary projections over a ten-year period, beginning with FY 2009) in perspective, by examining their departure from earlier budgets and considering whether these budgets constitute a permanent change in popular and political attitudes toward overspending by the federal government.

Is federal deficit-spending a bad thing?

Economists and political scientists offer a range of differing views on the desirability of deficit-spending. Critics of deficits argue that large and small companies, states, localities and families have to balance their budgets regularly, so it stands to reason that the federal government should be held to the same expectation. Moreover, many insist, the federal government has a much easier time raising revenues than do the states and their local units of government, so Congress and the president should more easily be able to balance their books by adjusting taxing and spending patterns as required.

Some critics believe that deficit-spending is undesirable because of its effects, which they say include inflation, economic slowdowns, and restrictions on available credit for investment purposes. And they point out that deficits are very expensive, as the yearly cost of servicing the debt (i.e., the interest paid on federal securities) now constitutes a substantial portion of overall federal spending.

One problem presented by deficits involves budget-making. When deficit-spending begins, budgetary choices are, necessarily, reduced (Rubin, p. 120). And as the federal budget grows larger, more and more budgetary items will be squeezed out of consideration.

"Supply-side" economists, who came into prominence during the Reagan presidency, generally dislike deficits, though they are far more inclined to favor lower taxes and higher deficits than higher taxes and lower deficits. Indeed, during the Reagan years deficits increased tremendously, even as revenue-collections soared.

Supply-siders, such as Arthur Laffer and Jude Wanniski, favor stimulating production and thus increasing the supply of goods and services (Lieberman, p. 23). Their aim is to give people reason to work, which is why they usually oppose public spending on social programs.

Deficit-spending has its defenders, however. "Keynesians" (defenders of the economist John Maynard Keynes) believe in stimulating the economy when the country is faced with economic slowdowns. Keynesians usually favor increased spending and lower taxes (an obvious recipe for deficits) as a means of priming an economy in trouble (Lieberman, p. 23).

Deficits certainly can be considered pernicious, if the overspending necessitating the deficits is, in itself, wasteful or otherwise harmful to the country. For example, if one considers entitlement spending to be excessive, then increased deficits owing to increases in entitlement payments is a bad thing (Lieberman, p. 29). Within the general public, deficits are routinely frowned upon, as survey polls consistently show (Wilson, p. 181). This does not mean, however, that voters are willing to punish elected officials for their overspending, as gigantic deficits of the last three decades have not resulted in a voter backlash, at least not in general. (This is not to suggest that voters will not punish leaders for poor economic behavior—they will, and have. California's Proposition 13, in 1978, proved this beyond any doubt. Passage of the measure by a two-to-one margin, despite the opposition of leaders in both political parties, reflected voters' anger that state leaders had not reduced property tax limits to minimize property tax-hikes resulting from skyrocketing housing values. The initiative then sparked a nationwide tax revolt which helped propel tax-cutter Reagan into the White House.)

Deficits are also a problem, at least ethically, when they are "hidden" in budgets, which presidents frequently are guilty of when they submit their budgets to Congress (Rubin, p. 188). When this happens, and an objective reader of the budget cannot locate all of the deficit-spending actually included in the budget, voters have no way to understand, much less assess, the all-important federal budgetary process.

Budget deficits also should be considered problematic when they result in money transfers from one class of people to another. That is, when a deficit is incurred, it usually involves a simple process: the federal government overspends, by issuing securities, which are purchased by upper-income individuals (often people outside of the United States). The payments for the earnings on these bonds is borne, of course by American taxpayers. But since not all taxpayers pay equally—the poor pay practically nothing—it is important to consider which taxpayers bear the burden of this process. The bulk of taxes are paid by middle- and upper-income earners. But middle-income taxpayers very seldom purchase the securities that taxpayers service. Upper-income taxpayers make these purchases. Thus, when examined according to income level, the only group of taxpayers who pay for this overspending and do not get a return on their payment, are those in the middle class (O'Connor and Sabato, p. 468)

How big are Obama's deficits?

However one measures the deficit included in President Obama's FY 2009 budget, and however one weighs the excuses for its size, it is enormous. The FY 2009 deficit was, originally, $482, and at the time it was proposed by President George W. Bush, critics—especially members of the Democratic Party—screamed that it was excessive (Fox News, July 28, 2008). But compared to the revised Obama budget for FY 2009, the Bush projection appears very mild—even frugal! The finalized FY 2009 deficit probably will be about -$1.75 trillion—that is the estimate of Obama's economic and financial forecasters (The Swamp, March 21, 2009). Compared to the greatest Bush deficit--$419 billion, in FY 2004—the figure is staggering (Scribd, 2009).

Indeed, the FY 2009 deficit projection exceeds the Bush deficits of the last five years, combined. It is justified, according to Democratic Party operative, by the economic and financial crisis which began in September 2008. The budget includes overspending which is designed to provide a stimulus for the economy, such as was done during the 1930s, amidst the Great Depression, under President Franklin D. Roosevelt.

Another way to look at the revised FY 2009 budget is in relation to the size of the budget overall. Obama expects total spending in FY 2009 to total $3.55 trillion (another record), so the $1.75 trillion deficit (which, according to many sources, including the Congressional Budget Office, is probably closer to $1.8 trillion) would amount to 49% of the entire budget (New York Post).

The budget Obama envisions for FY 2010 calls for a budget deficit of $1.17 trillion, and two years after that (Obama's last budget of this term) the plan is to whittle the deficit to $533 billion (The Swamp). But even this reduction—which Republicans and other critics consider unrealistic, given the rosy revenue forecasts the Obama team is relying upon—portends a deficit larger than that of any pre-Obama budget.

Does Obama's budget represent fundamental change in federal budgeting?
The Obama budgets include far more overspending than do the budgets of any of his predecessors. But size alone does not provide a complete picture of how his budgets represent fundamental change in federal budgeting. Besides projecting unprecedented levels of deficit-spending in relation to the size of the yearly budgets, Obama's budgets rely on greater levels of borrowing and taxing than at any other time in American history.

While Obama repeatedly claims that he "inherited" a budgetary mess, his spending plans call for far more overspending than his predecessor, George W. Bush, projected (Hassett, May 18, 2009). Kevin Hassett points out that the projected deficits Obama sees over the next ten years would exceed all of the deficits since and including the Vietnam War and the Iraq and Afghanistan Wars (Hassett).

Since the crisis-instigated overspending is termed "stimulus" and "investment" spending by its proponents, it is likely that many taxpayers view the proposed deficits as extraordinary—and perhaps temporary. Yet this alone—this perspective on current-year overspending—is a fundamental shift from the standard view of deficit-spending of past years, when taxpayers, like their leaders, thought of deficits as necessary or unnecessary-- but never as anything but simple deficits.

The spending which caused the FY 2009 deficit to balloon includes $787 in spending for the "stimulus package" which, according to Obama, is the key to pulling the country out of recession. However, the revised budget also includes considerable deficit-causing increases for various corporate bailouts as well as other types of spending) New York Post).

Obama's plans for the next ten years certainly run counter to the ideals contained in the Balanced Budget and Emergency Deficit Control Act (commonly referred to as Gramm-Rudman-Hollings) of 1985. This bipartisan law, enacted in response to Reagan-era deficits, called for limits on deficits; automatic across-the-board cuts; and more compact, transparent, budget time-tables (Congressional Quarterly, 1986, p. 459). Except for the last of these, the Gramm-Rudman-Hollings plan, which called for deficit eliminations, seems to be completely lost in current budget discussions.

It is also important to note that the Congressional Budget Office—which is bipartisan—projects that the Obama budgets, beginning with the revised FY 2009 budget, will result in additional deficits, over the next decade, totaling \$9.3 trillion. This amount would nearly double the national debt, which currently stands at \$10.6 trillion (New York Post).

Moreover, at this time Obama is aggressively promoting a national health-care program, and Congress—which is controlled by Obama's Democratic Party—is, for the most part, very receptive to the idea. The heretofore termed "down payment" on this plan would add another\$635 billion to the national debt (New York Post).

Have popular and political attitudes concerning overspending changed?
American voters dislike deficits, but not as much as they dislike taxes. This is why deficits—even huge ones—have been tolerated for so long (Wilson, p.181). But voters also recognize that budgets restrict the things government can do (Rubin, p. 120). They understand this because they themselves, at home and in their places of work, have to deal with the problems caused by overspending. They realize, from experience, that too much spending crowds out choices in spending.

On the other hand, voters clearly do not understand the intricacies of spending, budgeting, taxing and borrowing at the federal level. This is perhaps why they do not rebel against overspending (which is the outcome of these processes, when frugality is not exercised, for whatever reasons, by leaders) the way they do over high taxes. Furthermore, even though they would like to see cuts in spending, they, like many of their leaders, simply do not know what to cut, or when to cut (Rubin, p. 197). This is why across-the-board cuts are often made in governmental budgets, especially at the state and local levels (Rubin, p. 198). These sorts of cuts, while not necessarily fair or justifiable, are at least understandable at a very basic level.

Conclusion

Historically, deficits have been frowned upon, by economists and political scientists, for three reasons. First, government deficits squeeze business and industry, by grabbing money in the credit markets that could be used for investment and expansion. Second, deficits usually cause high rates of inflation, as more money is pumped into the Treasury. And third, deficits cause increases in interest on the national debt, which causes debt payments to increase as a percentage of the national budget (Lieberman, p. 24). This does not mean that deficit-spending is always a bad thing. In the past, for example, wars have united politicians and analysts, of all ideological stripes, in support of deficits.

But the most basic consequences of deficit-spending are recognized by most analysts. Deficits not only hurt businesses and stretch taxpayers, they also contribute to an attitude about work and personal responsibility that most people consider unhealthy. Deficits transfer obligations from one set of taxpayers to another; transfer financial obligations from one generation to the next; and transfer wealth to people outside of the country (O'Connor and Sabato, p. 468). These are not the sorts of things that people speak of admiringly. Today, the greatest danger of deficit-spending is, perhaps, that Americans will adopt a nonchalant attitude about the practice, either because they view it as inevitable, or because they do not recognize the hazards inherent in runaway deficit-spending.

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