Center for American Progress

Who's to Blame for the Deficit Numbers?

Michael Ettlinger, Michael Linden August 25, 2009

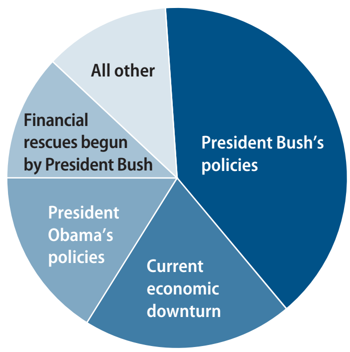
The revised deficit numbers reported by the Congressional Budget Office and the Office of Management and Budget today show a lower deficit than previously estimated for 2009, with higher deficits for 2010 and beyond. Political opportunists will be busy looking for chances to score points over these numbers—pinning the dismal fiscal picture on the Obama administration.

The real story is, however, fairly obvious. The policies of the Bush administration, which included tax cuts during a time of war and a floundering economy, are clearly the primary source of the current deficits. The Obama administration policies that are beginning to give the economy a needed jumpstart—the American Recovery and Reinvestment Act in particular—place a distant third in contributing to the 2009 and 2010 deficit numbers. The deficit picture for the years beyond still needs to be painted.

To come to these conclusions, we calculated the relative importance of the several factors contributing to the 2009 and 2010 deficits by looking at the impact in those years of various policies. A detailed description of our approach is at the end of this column. Below is the percentage share of the major contributing factors to the total deterioration from the surpluses projected in 2000 to the current deficits according to our analysis. The policies of President George W. Bush make up the largest share, followed by the current economic downturn, and then President Barack Obama's policies.

Shares of contribution to fiscal deterioration 2009 and 2010

Cause	Percent of total
President Bush's policies	40%
Current economic downturn	20%
President Obama's policies	16%
Financial rescues begun by President Bush	12%
All other	12%



Before explaining these further, it should be said that the generally worse deficit numbers reported today aren't all that surprising. Since the last projections in May, it's been plain that this recession has been worse than most analysts thought. With a weak economy comes lower tax revenue and higher safety net expenditures—with the loss in tax revenue causing the lion's share of the deficit problem. The effects of a deeper recession have a longlasting impact. Even as growth is restored, it is growth from a reduced starting point—a smaller economy in 2009 usually means a smaller economy than previously predicted for several years hence.

Encouragingly, there have been signs of late that the administration's policies to end the recession are starting to take hold. Without such efforts, the picture would be much gloomier, particularly in the short term. One piece of good news is that the government is no longer expecting to spend another $250 billion rescuing financial institutions through the Troubled Assets Relief Program—which explains the improved deficit picture for 2009. And the projections for deficits in future years would be far more pessimistic if the American Recovery and Reinvestment Act policies were not starting to get traction.

As for the deficit's cause, the single most important factor is the legacy of President George W. Bush's legislative agenda. Overall, changes in federal law during the Bush administration are responsible for 40 percent of the short-term fiscal problem. For example, we estimate that the tax cuts passed during the Bush presidency are reducing government revenue collections by $231 billion in 2009. Also, because of the additions to the federal debt due to Bush administration policies, the government will be paying $218 billion more in interest payments in 2009.

Had President Bush not cut taxes while simultaneously prosecuting two foreign wars and adopting other programs without paying for them, the current deficit would be only 4.7 percent of gross domestic product this year, instead of the eye-catching 11.2 percent—despite the weak economy and the costly efforts taken to restore it. In 2010, the deficit would be 3.2 percent instead of 9.6 percent.

The weak economy also plays a major role in the deficit picture. The failure of Bush economic policies—fiscal irresponsibility, regulatory indifference, fueling of an asset and credit bubble, a failure to focus on jobs and incomes, and inaction as the economy started slipping—contributed mightily to the nation's current economic situation. When the economy contracts, tax revenues decline and outlays increase for programs designed to keep people from falling deep into poverty (with the tax impact much larger than the spending impact). All told, the weak economy is responsible for 20 percent of the fiscal problems we face in 2009 and 2010.

President Obama's policies have also contributed to the federal deficit—but only 16 percent of the projected budget deterioration for 2009 and 2010 are attributable to those policies. The American Recovery and Reinvestment Act, designed to help bring the economy out of the recession is, by far, the largest single additional public spending under this administration.

The cumulative cost of the financial sector rescue, mostly initiated under President Bush in response to the financial markets collapse, is also significant—contributing to 12 percent of the problem. A variety of other changes, described in the methodology section, are also contributors.

For the longer term, it's a bit disingenuous to assign any responsibility for the deficits. That's a story yet to be told, and CBO and OMB provide a selection of numbers to choose from for the long run. Much will depend on how the economy fares. If the Bush tax cuts, scheduled to expire at the end of 2010, were to be continued in their entirety there would be large deficits. If, as the Obama administration has proposed, they are only extended for those making under $250,000, then they still contribute to the deficit but not as substantially.

There are a number of similar budget items that have a long history for which one can, with equal legitimacy, assign responsibility to either their originators or current policymakers for continuing them. New Obama program initiatives, it's important to note, contribute little to future deficits. The administration has insisted that its additional spending, especially on health care, be fully paid for with savings elsewhere in the budget and additional revenues. In fact, to address our budget challenges it is critical to reform health care which, through Medicare, Medicaid, and other programs, is the single biggest budget headache in the long run.

Regardless of responsibility, of course, the long-run deficit situation is one that needs to be addressed.

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Methodology

Three times each year, the Congressional budget office releases revised estimates of its budget projections going forward 10 years. In each of these revisions, the CBO describes how its current estimate has changed from its previous estimate, and why. By studying these estimates, we can attribute the change in the federal bottom line to various factors: specific legislative policies, changing economic conditions, and technical modifications.

Contributors to the nation's fiscal situation in 2009 and 2010 (in billions of dollars), as measured against surpluses projected in 2001

	2009	2010
President Bush's policies	-$923 billion	-$918 billion
Current economic downturn	-$426 billion	-$469 billion
President Obama's policies	-$225 billion	-$497 billion
Financial rescues begun by President Bush	-$422 billion	-$123 billion
All other	-$302 billion	-$262 billion

Specifically, in January of 2001, just as President George W. Bush was taking office, the Congressional Budget Office projected that in fiscal year 2009, the federal budget would enjoy a $710 billion surplus. Today the Congressional Budget Office says that the budget will have a $1.6 trillion deficit, a swing of $2.3 trillion. Our analysis looks at the component causes of that swing.

Note that this is somewhat different than determining the sources of the deficit—the numbers we derive add up to more than the deficit because they include loss of surplus. It is reasonable, however, to allocate the costs pro-rata between the surplus reduction and the deficit increase. Thus, the percentages presented above can be fairly characterized as the percentage contribution of each factor to the deficits for each year.

In order to determine what caused that swing, we allocated changes in CBO's projections to one of five categories.

To President Bush we attributed all changes that CBO marked as "legislative" from its January 2002 update until its September 2008 update. We then modified this total in several ways. First, we subtracted more than $40 billion due to later revisions in CBO's estimate of the costs of Medicare Part D. CBO categorizes these changes as "technical."

Second, we added about $60 billion in costs stemming from the economic stimulus of 2008 that CBO also classifies as "technical." Finally, we adjusted downward the current cost of President Bush's tax cuts. CBO's estimates of the cost of President Bush's tax proposals for 2009 and 2010 were based on its economic assumptions for those years.

Because the economy is worse than CBO expected at the time it made those estimates, the cost of those tax cuts is also somewhat smaller than expected—as the tax system in general is producing less revenue, the cost of enacted tax reductions is less. To account for this, we adjusted the cost estimates of both the Economic Growth and Tax Relief Reconciliation Act and the Tax Increase Prevention and Reconciliation Act (the Job Growth and Tax Relief Reconciliation Act had no budgetary effect for 2009 and 2010) by the same ratio as CBO's GDP projections at the time and current projections. This adjustment has the effect of reducing the amount of the fiscal deterioration attributable to President Bush. We believe this is more generous to the former president's contribution to the current problems than a similar analysis recently conducted by *The New York Times*.

The impact of the current economic downturn was calculated by summing all of the changes attributed to "economic factors" in CBO's estimates from January 2008 through August 2009. To these we added revenue adjustments made in January and March 2009 that CBO classifies as "technical" but describes as being mostly due to economic changes.

To President Obama, we attributed all legislative changes since CBO's March 2009 update.

The "financial rescues begun by President Bush" category consists of expenditures stemming from TARP and the Federal Deposit Insurance Corporation, and from CBO's decision to bring Fannie Mae and Freddie Mac onto the federal books.

The remaining causes, including the economic changes from 2001 to 2007, CBO's technical changes not accounted for elsewhere, and policies enacted at the very end of 2008 (such as Alternative Minimum Tax relief) were allocated to "all other." We added $100 billion in additional expenditures for 2010 because CBO's baseline does not include an additional AMT "patch" for fiscal year 2010, though such a "patch" is exceedingly likely.