

## How the Reagan Budget Deficits Became Today's Surpluses

In 1986, the federal government ran a budget deficit equal to a staggering 5.0% of the Gross Domestic Product. This year, fiscal 2001, the government is expected to run a surplus (including Social Security and Medicare) of 2.7% of the GDP. How did this astonishing turnaround occur? There are two primary reasons.

- # First of all, defense spending plummeted from 6.2% of the GDP in 1986 to 2.9% of the GDP this year. This, of course, reflects the end of the Cold War.
- # Second, personal and corporate income taxes rose from 9.3% of the GDP in 1986 to 12.2% of the GDP this year—largely because of tax increases on the highest earners enacted under Presidents George H.W. Bush in 1990 and Bill Clinton in 1993.
- # In conjunction with the resulting drop in interest payments on the national debt—from 3.1% of the GDP in 1986 to 2.0% this year—the defense cuts and tax increases explain almost all of the percent of the shift from massive deficits to surpluses since 1986.

Which goes to show that cutting spending and raising revenues was the only logical and effective way to balance the budget. Old-fashioned, but obvious, one might say.

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As Shares of the Gross Domestic Product, fiscal 1986 to 2001

	1986	2001	Change	Percent change	% of change from deficit to surplus
<b>Revenues</b>					
Personal & corporate income taxes	9.3%	12.2%	+2.9%	+31%	37%
Non-income tax revenues	8.1%	8.2%	+0.1%	+1%	1%
<b>Total revenues</b>	<b>17.5%</b>	<b>20.4%</b>	<b>+3.0%</b>	<b>+17%</b>	<b>38%</b>
<b>Spending programs</b>					
Defense spending	6.2%	2.9%	-3.3%	-53%	42%
Domestic appropriations	3.3%	3.1%	-0.2%	-6%	3%
Mandatory programs, net	9.4%	9.4%	+0.0%	+0%	-0%
International programs	0.4%	0.2%	-0.2%	-48%	2%
<b>Total spending programs</b>	<b>19.4%</b>	<b>15.7%</b>	<b>-3.7%</b>	<b>-19%</b>	<b>47%</b>
<b>Interest on the national debt</b>	<b>3.1%</b>	<b>2.0%</b>	<b>-1.1%</b>	<b>-36%</b>	<b>14%</b>
<b>Total outlays, including interest</b>	<b>22.5%</b>	<b>17.7%</b>	<b>-4.8%</b>		
<b>Budget deficit (+) or surplus (-)</b>	<b>5.0%</b> (deficit)	<b>-2.7%</b> (surplus)	<b>-7.8%</b>	<b>-154%</b>	<b>100%</b>

Note: Income tax figures are net of the refundable earned-income tax credit. Mandatory spending figures are net of the refundable earned-income tax credit and unallocated offsetting receipts.

Source: Congressional Budget Office, Jan. 2001