

THE TAXONOMIST

Rewriting History: A Cautionary Tale

By Robert S. McIntyre

During the House debate in early March on the first round of the Bush tax cuts, Majority Whip Tom DeLay of Texas got up on the House floor to try to rewrite history. “Mr. Speaker,” said DeLay, “I have to say, that the Democrat leadership has no credibility when it comes to fiscal responsibility. They are the ones that were in charge and who drove up the debt. They point to Reaganomics as the reason for the debt going up, but what they do not point out is that . . . the Democrat-controlled House drove spending up . . . It is spending, stupid. It is spending that creates the deficit. It is spending.”

Well, that’s an interesting fable. But it has nothing to do with what really happened back in the 1980s.

As everyone knows, under Ronald Reagan, the federal budget deficit ballooned—growing from 2.7 percent of the Gross Domestic Product in fiscal 1980 to 5 percent of the GDP in 1986. (The deficit actually peaked in 1983, at 6 percent of the GDP, before some of the Reagan policies began to be reversed.). Here’s how that occurred:

First of all, contrary to right-wing mythology, the Democratic-led House and Republican-led Senate, at Reagan’s insistence, did cut non-defense spending a lot. From fiscal 1980 to fiscal 1986, domestic appropriations—what DeLay would call “Democrat programs”—fell from 4.7 percent of the GDP to 3.3 percent, a drop of almost a third.

All other non-defense outlays fell by 0.2 percent of the GDP. And non-income-tax revenues, mostly payroll taxes, rose by 0.5 percent of the GDP. The sum of these changes by themselves would have lowered the budget deficit by more than 2.1 percent of the GDP—essentially balancing the budget.

But, of course, that wasn’t the end of the story. From fiscal 1980 to 1986, defense spending jumped from 4.9 percent of the GDP to 6.2 percent. Personal and corporate income taxes fell from 11.3 percent of the GDP to 9.3 percent, reflecting the 1981 Reagan tax cuts, net of the partially offsetting tax hikes in 1982, 1983 and 1984. And consequently, interest on the national debt ballooned from 1.9 percent of the GDP in fiscal 1980 to 3.1 percent by fiscal 1986. The sum of these deficit-increasing changes boosted the deficit by 4.4 percent of the GDP.

The combined effect was to increase the deficit by 2.3 percent of the GDP, which completely explains the deficit’s jump from 2.7 percent to 5 percent of the GDP from fiscal 1980 to fiscal 1986. In other words, big cuts in “Democrat programs” in the first half of the eighties were far outweighed by the huge cost of Republican tax cuts and defense increases.

To be sure, our story eventually has a happy ending, at least up until now. We got to a budget surplus

this year by abandoning the Reaganomic fiscal policies that Tom DeLay so reveres and along with President Bush wants to recreate.

Since 1986, defense spending has plummeted from 6.2 percent of the GDP to 2.9 percent this year, reflecting the end of the Cold War. Meanwhile, personal and corporate income taxes rose from 9.3 percent of the GDP in 1986 to 12.2 percent 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 percent of the GDP in 1986 to 2 percent this year—the post-1986 defense cuts and tax increases explain virtually all of the shift from a deficit of 5 percent of the GDP in 1986 to an expected surplus of 2.7 percent of the GDP in 2001.

Which goes to show that cutting spending and raising revenues was the only logical and effective way to eliminate the deficit. Old-fashioned, but obvious, one might say. Except, it seems, to Tom DeLay, George W. Bush and their ilk, who in their heart of hearts probably think that Ronald Reagan actually balanced the budget. And whose oddball view of history may hold the seeds for a resurgence of deficit spending in the not-too-distant future, unless wiser heads in the Senate prevail later on this year.