



U.S. HOUSE OF REPRESENTATIVES

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Democrats are the Party of Fiscal Responsibility

Over the past year, we have seen a repeat of long-standing Republican fiscal and economic policies: Republicans have passed a deep tax cut, overwhelmingly benefitting corporations and wealthier Americans; the deficit, predictably, has soared; and Republicans have pointed to the deficits they have created as justification for cutting spending on programs vital to American families, including Social Security and Medicare. This three-step plan is not new. Proponents of the 1981 Reagan tax cuts called it “starving the beast.” Similarly, the results are not new. This is the third time in recent decades that Republicans have passed deep tax cuts for the wealthy that led to markedly higher budget deficits.

Democrats have taken a very different fiscal approach. Democratic Congresses and Presidents have presided over eras of deficit reduction and even balanced budgets, and Democrats have pushed to require Congress to pay for major new initiatives. While Republicans’ main approach to federal budget deficits is to simultaneously create and complain about them, Democrats have actually done something about them.

Balancing the Budget in the 1990s

The budget deficit began to climb after President Reagan and congressional Republicans passed deep tax cuts in 1981. Treasury Department analysis indicates that this bill remains the largest tax cut since at least 1940 both as a percentage of the economy and as a share of federal receipts. Over the ensuing 12 years, the deficit climbed to a then-record \$290 billion in 1992. During those years, the national debt doubled as a share of our economy, rising from 32 percent of GDP in 1981 to 64 percent of GDP in 1993, ending decades of steady decline since the end of World War II.

Congressional Democrats responded with a major deficit reduction package in 1990 and then again in 1993 with a historic budget and economic plan that turned our fiscal outlook around. Not a single Republican in Congress supported that 1993 plan, with many Republicans arguing that it would never work and would be disastrous for both the economy and our fiscal circumstances. They could not have been more wrong. The next few years saw the strongest economy in a generation with steadily shrinking deficits.

Within five years, the budget was in surplus, for the first time since President Johnson left office with a balanced budget for 1969. Annual budget surpluses continued for four years, from fiscal year 1998 through 2001.¹

While budget forecasts at the time indicated we were entering a new era of surpluses, annual budget deficits returned in 2002. Notably, this was the first fiscal year after Republicans took control of the White House and Congress, allowing them to pass deep tax cuts targeted toward wealthy Americans, the same policy shift that preceded the large deficit increases of the 1980s and today.

Restoring Fiscal Discipline After Deficits Returned

Democrats continued to fight for fiscal responsibility once budget deficits returned.

Restoring the PAYGO rules. One of the major contributors to the budget surpluses of the 1990's was the "pay-as-you-go," or "PAYGO," principle established in the 1990 budget deal and extended in 1993 and 1997. PAYGO required Congress to pay for spending and tax initiatives with offsetting savings, and was backed up by across-the-board spending cuts if Congress did not do so. Unfortunately, congressional Republicans ignored PAYGO in passing the 2001 tax cuts and allowed it to expire in 2002. Democrats reestablished the PAYGO principle after retaking Congress in 2007 and adopted a new version of statutory PAYGO in 2010. Republicans, in contrast, ignored PAYGO again and instead operate on a "cut-as-you-go" principle, which requires that all new spending be offset with other spending cuts while allowing unlimited deficit-financed tax cuts.

Paying for health care legislation. The contrast between the two parties on fiscal responsibility can be seen in their differing approaches to major health care legislation. In 2003, Republicans established a new prescription drug benefit for Medicare, with a cost then estimated at \$395 billion over ten years, and simply charged that cost to future taxpayers through deficit financing. When Democrats took control of Congress and the White House, we enacted the Affordable Care Act (ACA) in 2010 and expanded access to health insurance coverage for millions of families. But instead of simply increasing spending and deficits as the Republicans had done, Democrats and President Obama actually paid for the new benefits, reducing future budget deficits by \$143 billion over ten years.

¹Republicans often cite the balanced budget agreement of 1997 to claim shared credit for the balanced budgets of the late 1990s. However, that agreement sought to balance the budget in 2002 and included spending increases and tax cuts that actually worsened short-term deficits. It was less about achieving a balanced budget than about taking credit for the fiscal progress that was already happening.

Reserving special budget rules for deficit reduction. Congress has special rules that expedite passage of budgetary legislation, most significantly by limiting debate time in the Senate and allowing the Senate to pass bills with just a simple majority rather than the 60 votes necessary for most legislation. This budget “reconciliation” process was put in place primarily to expedite passage of deficit-reduction legislation. In recent years, Republicans turned this process upside down, using it to expedite passage of tax cuts that increase future budget deficits. Democrats have a long history of limiting the use of the reconciliation process for deficit reduction. Of the 21 reconciliation bills enacted into law, 16 of them have reduced deficits while only five have increased deficits. All five deficit increasing reconciliation bills were passed by Republican Congresses.²

Differing Approaches Produce Differing Results

It should be no surprise that these different approaches to fiscal responsibility have had different results. While economic ups and downs and other factors also affect the federal budget, the pattern is clear. Republican control of Congress and the White House beginning in 2001 was followed by an immediate revival of the budget deficit. In contrast, after Democrats retook control in 2009, the deficit fell steadily, dropping from \$1.4 trillion that year to \$438 billion by 2015.

Now that Congress and the White House are once again under unified Republican control, Republicans have resumed their fiscally irresponsible policies. Last year, they enacted a set of tax cuts that have sent the deficit soaring, resulting in trillion-dollar deficits yet again. CBO has estimated that the GOP tax law will cost about \$2 trillion over ten years (approaching \$3 trillion under GOP plans to extend parts of it). It is no surprise that CBO now projects that the deficit will be nearly \$1 trillion next year and exceed that level in 2020 and for the foreseeable future.

² The only one of them to be signed by a Democratic President was part of a two-bill package that did reduce projected deficits.