



How George Bush, Big Spender, Destroyed Nirvana

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If you could go back in time to President George W. Bush's inaugural address and add one economic statement, what would it be? For me, there is an obvious answer.

If Bush had promised in January 2001 that the baseline of government spending that he inherited when he took office would be the cap during his term, then we would have a big budget surplus today. It would have been easy to do. He just had to say: "I will not spend one penny more than President Bill Clinton planned to. I will veto any bill that tries to."

I have written before in this space that Bush has outspent Clinton by a mile. With government spending still out of control, the gap between where we are and where a disciplined nation could have been is getting bigger and bigger.

With a recession looming, the policy implications of the spending explosion are serious. If a deep recession occurs, we will have less wiggle room.

To see how different the world could have been, I gathered data from a number of sources and ran an alternative history. In that wishful place, government spending was set equal to the spending envisioned by the Congressional Budget Office in the January 2001 long-run forecast, plus the spending for the war in Iraq and to fight terrorism. This simulation assumes that the war would have happened in spite of Bush's spending promise, and wouldn't have induced him to seek cuts elsewhere.

We have a deficit because the government grew fat. We can't fix that with tax increases. Uncle Sam must go on a diet.

The difference between that spending path and the one we are on is huge. Today, we expect federal spending in 2008 will be \$2.9 trillion. According to the alternative history, spending would be \$2.5 trillion.

Surplus Fantasy

With spending at the lower level, we would have a surplus of \$152 billion if revenue were equal to what it is currently projected to be.

Running the simulation forward, the gap between revenue gets wider and wider. By 2017, we are scheduled to spend almost \$1 trillion more than we would have if we had stuck to the Clinton baseline. With the low spending baseline we would have a surplus in 2017 of \$1.1 trillion, instead of the \$151 billion surplus that's currently forecast.

Think of it this way. If we now had the lower spending levels that Bush inherited, we could extend his tax cuts, repeal the alternative minimum tax, enact the current stimulus package, and still have a 10-year budget surplus of \$1.9 trillion. And, remember, that allows spending to be adjusted up for the Iraq war and the war against terrorists.

Many observers might say this scenario is unrealistic. The 2001 long-run forecast covered both discretionary and mandatory spending. No administration, the argument might go, could have held the line on the growth of Medicare and Social Security spending.

Hold the Line

There are two responses to that.

First, a president could always demand that spending be capped and that discretionary spending be reduced to offset unexpected increases in mandatory outlays. Social Security might be the third rail of American politics, but it might not be.

It has been changed before. Why couldn't it be changed again? Families do that all the time. If Johnny needs braces, then you take fewer trips to the restaurant.

The second response is perhaps more powerful. Let's see what happens when we allow mandatory spending to go up as it did. This lets Bush have his prescription-drug benefit, which is now part of mandatory spending.

If we had held the line on everything else that is discretionary, we could have had the prescription-drug plan, the Iraq war and the war against terrorists. We could have kept all the Bush tax cuts, made them permanent, repealed the AMT and added the stimulus package and still ended up with a balanced budget from 2008 to 2017.

Bloated Uncle

It makes you sick to think about it. All that money wasted on ethanol and bridges to nowhere has accumulated into a pile that massive. Uncle Sam ate a whopping helping of apple pie every day for seven years, and now he is obese.

This is important to bear in mind as we move forward to the general election. We don't have a deficit because of Iraq, or the tax cuts, or the drug benefit. We have a deficit because the government grew fat. We can't fix that with tax increases. Uncle Sam must go on a diet.

A simple way to start would be this: Whoever is elected president this November should pledge that he or she won't spend \$1 more than we currently plan to. If Bush had done that seven years ago, we would be in a different world.

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