If Not for Republican Policies, the Federal Government Would Be Running a Surplus
Prepared by the minority staff of the Senate Budget Committee

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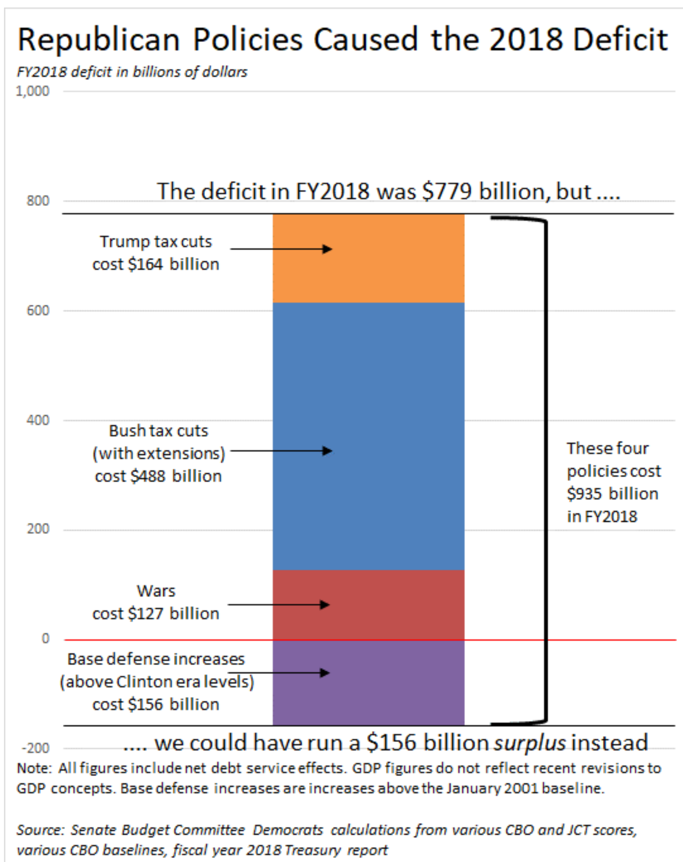
Introduction

In 2000, the federal government ran a surplus of $236 billion. The next year, the Congressional Budget Office projected that over the following ten years, the accumulated surplus would add up to $5.6 trillion – $889 billion in 2011 alone.[1]

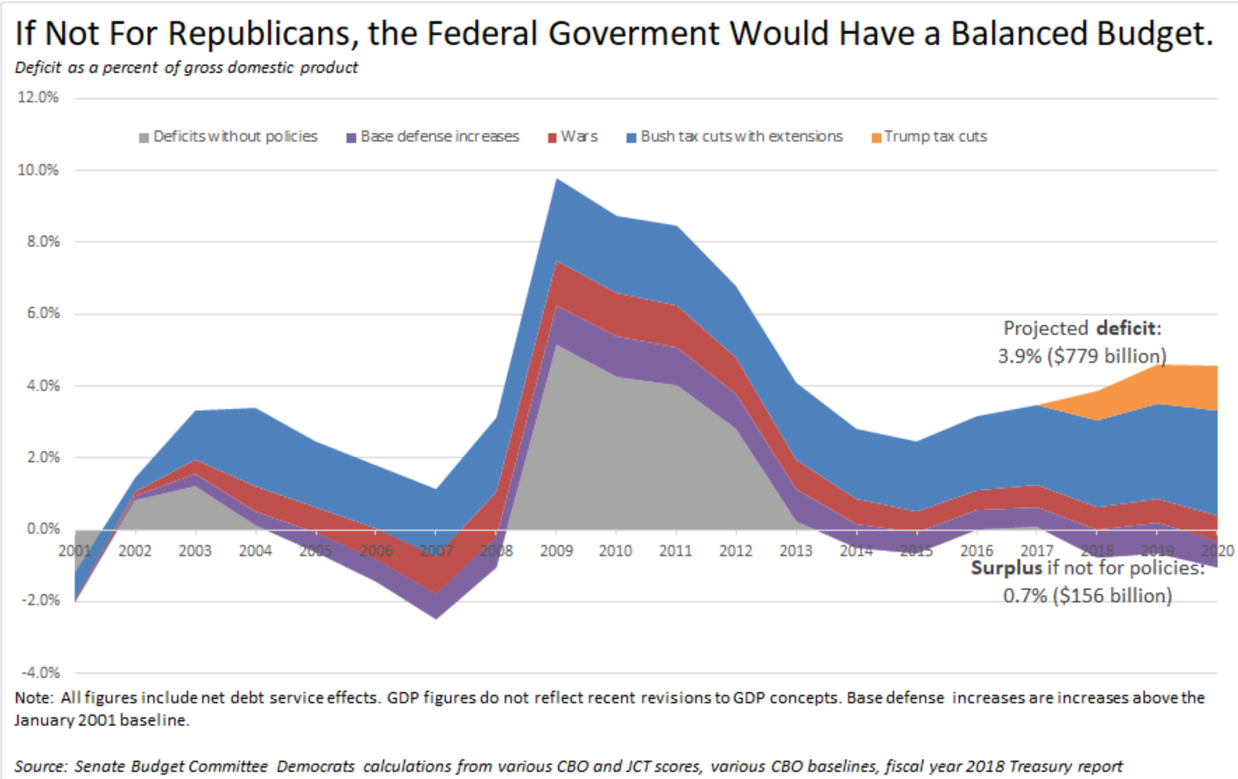
For the recently-completed fiscal year, 2018, the federal government ran a deficit of $779 billion.[2]

What contributed to the $779 billion deficit in 2018?

- Bush Tax Cuts: $488 billion[3]
- Trump Tax Cuts: $164 billion
- Direct costs of wars in Iraq and Afghanistan: $127 billion[4]
- Base defense increases: $156 billion



Simply put, without the wars in Iraq and Afghanistan, the enormous post-9/11 defense buildup, and several rounds of costly, regressive tax cuts, the federal budget would not be $779 billion in deficit, but rather $156 billion in surplus.



The story of how the federal government turned projected surpluses into deficits is one of two decades' worth of Republican policies that amounted to a massive transfer of wealth from working families and middle-class Americans to the wealthiest individuals and largest corporations in the country.

Even worse, these were policies that put our armed forces in the middle of immutable quagmires overseas that have left thousands of American troops – and thousands of Iraqi, Afghani, and other civilians – dead, and thousands more dealing with injuries for the rest of their lives.

In short, the last 20 years of federal policymaking have been a disaster for our economy, for our health, and for our standard of living.

<u>Tax Cuts</u>

Despite 40 years of Republican rhetoric on how tax cuts "pay for themselves" through increased economic growth, there has been one consistent problem: It is not true.

President Reagan's own Fiscal Year 1990 budget, reported that his 1981 tax cut would reduce federal revenues by $397.6 billion in 1992 alone, a 27 percent reduction.[5] This is the equivalent (as a percent of the revenue base) to a 10-year, $11.5 trillion tax cut today.[6] In fact, Reagan's tax cuts were so fiscally unsound that, over the remainder of his term in office, he was forced to sign into law tax hikes that would be the equivalent to a 10-year, $6.2 trillion tax increase today.

Not learning the lesson of the 1980s, President George W. Bush came into office promising that his proposed tax cuts would, according to the Heritage Foundation, effectively pay off the national debt by 2011.[7, 8] Facing a recession at the beginning of his presidency, Bush's response was not temporary stimulus, but rather the massive tax cuts that he had campaigned on – tax cuts that gave as much as 38 percent of their benefits to the top 1 percent[9] and were, for the most part, eventually made a permanent feature of the tax code.

Including their various expansions and extension, the Bush Tax Cuts contributed nearly $500 billion to the deficit in 2018. Without the Bush Tax Cuts, the national debt, as a percent of the economy, would be more than 25 percentage points lower today.

President Trump did not have the pretense of an economic slump to pass his tax cuts in December 2017 – it was simply Republican orthodoxy that tax cuts for the wealthy and large corporations would trickle down to working families and would magically pay for themselves. Ultimately, the tax cuts that did pass are projected to add $1.9 trillion to the debt over 11 years[10] and provide more than 83 percent of their benefits to the top 1 percent.[11] **In all, the Trump Tax Cuts – which coupled permanent corporate tax cuts with temporary individual tax cuts – added $164 billion to the 2018 deficit.**

Wars

Almost every war that the United States has fought, beginning with the War of 1812, has been at least partially paid for or offset by increasing federal revenue. During the Civil War, President Abraham Lincoln instituted the first ever income tax in American history. The Spanish-American War, both World Wars, the Korean War, and the Vietnam War were all funded through increases in federal revenue. In fact, during the Korean War, income tax rates were as high as 91 percent; they remained at that level through the entire Eisenhower administration.

However, President George W. Bush did not raise revenue to offset the costs of the wars in Iraq and Afghanistan. Since 2001, Congress has appropriated more than $2 trillion specifically for overseas conflicts. **Because of this spending, in Fiscal Year 2018 alone, the deficit was $127 billion higher because the United States did not pay for American military involvement in these conflicts.**

In addition, Congress vastly expanded the "base" defense budget in the wake of 9/11, expanding military capabilities separate and apart from the direct warfighting effort. **This defense buildup added an additional $156 billion to the deficit in 2018.** [12]

Other Policies Contributed to 2018's Deficit

This analysis shows that without Republicans' tax cuts, war-fighting, and defense build-up since 2001, the federal budget would have been $156 billion in surplus. Instead, the 2018 deficit was $779 billion.

Of course, this analysis leaves out other policies that likely contributed hundreds of billions of dollars more to the deficit in 2018.

First, the more than $200 billion cost in 2018 alone of our response to the attacks on September 11, 2001 is not comprehensive. The approach used above included only the funding explicitly designated for war and base defense increases. It therefore does not include any increased cost to the Department of Veterans Affairs (VA) associated with increased overseas conflicts.

Further, this analysis omits the costs of the 2008 Great Recession, which was caused, prolonged, and worsened by the greed, fraud, and recklessness on Wall Street precipitated by the deregulation of the financial sector. The Great Recession eliminated 8.7 million jobs[a] and reduced average family wealth by more than one-quarter.[b] And it continues to have a significant impact on the federal budget: The combined cost of the revenue loss and automatic increase in safety-net spending that resulted from the Great Recession contributed $41 billion to the deficit in 2018 and increased the debt by 9 percent of GDP, when interest costs are included. These figures do not even count the costs of the American Recovery and Reinvestment Act of 2009 ("the stimulus").

[a] Center on Budget and Policy Priorities, "Chart Book: The Legacy of the Great Recession," 27 September 2018. https://www.cbpp.org/research/economy/chart-book-the-legacy-of-the-great-recession
[b] McKernan et al, "Impact of the Great Recession and Beyond: Disparities in Wealth Building by Generations and Race," Urban Institute, 21 April 2014. https://www.urban.org/research/publication/impact-great-recession-and-beyond

Opportunity Cost

In addition to the budgetary costs of burdening the federal budget with military spending and regressive tax cut, there is an enormous opportunity cost of what the federal government could have otherwise done with the same dollars. If we had not spent $935 billion on the military and tax cuts in 2018 alone – or if the costs had been offset – we would have run a $156 billion surplus. That means the federal government could have paid for any of the following proposals – multiple times over for some – in Fiscal Year 2018 *and still balanced the budget.*

- Very nearly eliminate poverty for all Americans of any age. *Estimated cost: $174 billion*.[13]
- Pay the one-year average of the 10-year infrastructure funding gap. *Estimated cost: $144 billion.*[14]
- Provide high-quality early care and education (ECE) for children from birth to kindergarten. *Estimated cost: $140 billion*.[15]

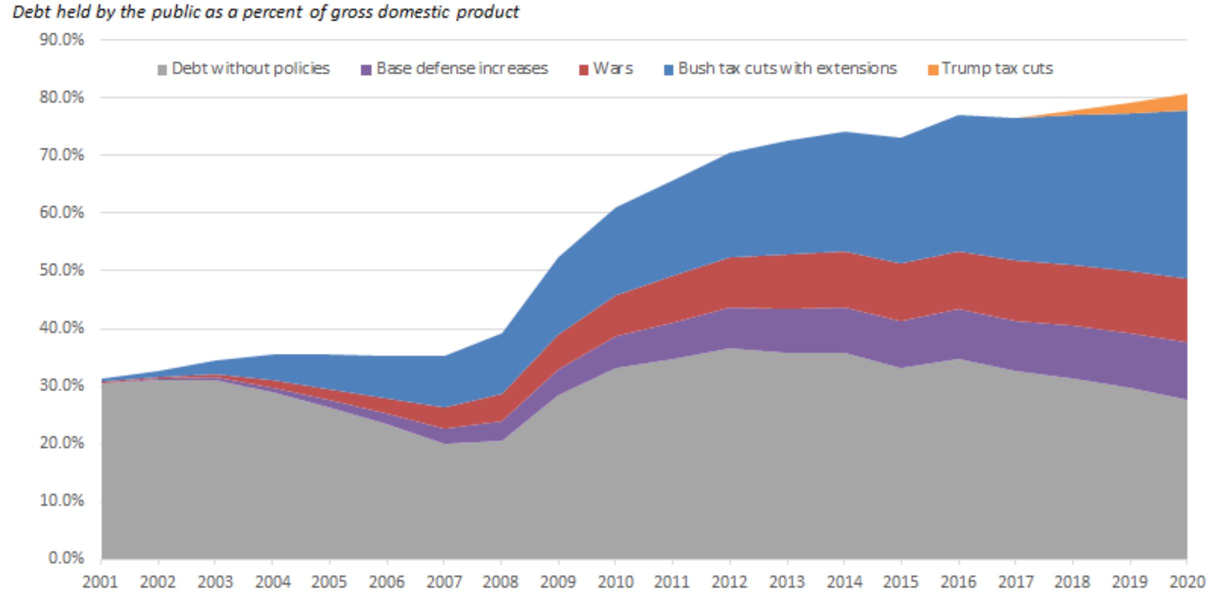
- Eliminate child poverty by simply boosting the income of all families with children (and children who do not live with their families) over the poverty line. *Estimated cost: $69 billion.*[16]
- Double the budget of the National Science Foundation, the National Institutes of Health, the Centers for Disease Control and Prevention, the National Oceanic and Atmospheric Administration, and the United States Geologic Survey. *Estimated cost: $61 billion*.[17]
- Make public colleges and universities tuition free for working families, cut student loan interest rates in half, and allow every American with student debt to refinance at the lowest interest rate possible. *Estimated cost: $60 billion.*[18]
- Double the $1.40 per-meal allowance[19] in the Supplemental Nutrition Assistance Program. *Estimated cost: $70 billion*.[20]
- End homelessness in America. *Estimated cost: $22.5 billion.*[21]

Conclusion

Despite longstanding Republican protestations that theirs is the party of "fiscal responsibility," two Republican policies alone – enormous, regressive tax cuts and the massive post-2001 defense buildup – served to turn what would otherwise be a $156 billion surplus in 2018 into a $779 billion deficit. Counterfactually, if these policies were never enacted – or if they were paid for with new revenues instead of added to the national debt – the debt would not be equivalent to nearly 80 percent of the economy, but rather 31 percent, and on a downward path.

New Policies Are Responsible for a Significant Portion of the Existing Debt.

Debt held by the public as a percent of gross domestic product



Note: All figures include net debt service effects. GDP figures do not reflect recent revisions to GDP concepts. Base defense increases are increases above the January 2001 baseline.

Source: Senate Budget Committee Democrats calculations from various CBO and JCT scores, various CBO baselines, fiscal year 2018 Treasury report

Methodology

Budget Committee staff derived the cost of the Bush tax cuts from various Joint Committee on Taxation (JCT) scores. The cost includes both the revenue and outlay effects, and ensuing interest, of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the non-extenders portion of the Working Families Tax Relief Act of 2004, and the Tax Increase Prevention and Reconciliation Act of 2005, as well as the Alternative Minimum Tax (AMT) "patches" in the Tax Increase Prevention Act of 2007, the Troubled Asset Relief Program (TARP), and the American Recovery and Reinvestment Act of 2009. It also includes the Bush tax cuts, Lincoln-Kyl estate tax agreement, and AMT patch sections of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, as well as Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 extensions and the permanent AMT patch in the American Taxpayer Relief Act of 2012. The net cost was then run through the historical interest matrix.

The Trump Tax Cuts score, including associated interest, was taken from the April 2018 Congressional Budget Office (CBO) baseline. Budget Committee staff estimated the outlays for Overseas Contingency Operations (OCO) by "spending out" the funding through a blended OCO spendout rate averaged across many years of OCO spendout rates. The cost was then run through the historical interest matrix.

The outlays for base defense spending were estimated by calculating the difference between base defense baseline in January 2001 and the actual funding levels and spending out that budget authority under the average defense spendout rates. The cost was then run through the historical interest matrix.

Committee staff estimated the cost of the Great Recession by taking CBO's estimate of the size of automatic stabilizers until recovery and running through the historical interest matrix. The resulting estimate is a gross undercounting of the true budgetary cost of the Great Recession because it ignores the permanent damage to the economy and also the new fiscal stimulus measures enacted in response.

For calculating interest costs, Senate Budget Committee minority staff created a historical interest matrix that uses a blend of various historical Treasury constant maturities to estimate the effective rate on new debt and debt rolled over in that year.

Appendix A: Costs of Policies (Billions of Nominal Dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Actual and projected surplus (+)/deficit (-)	128	-158	-378	-413	-318	-248	-161	-459	-1,413	-1,294	-1,300	-1,087	-680	-485	-438	-585	-665	-782	-973	-1,003
Costs without associated interest																				
Bush tax cuts (with extensions)	-74	-38	-151	-256	-213	-205	-211	-253	-292	-280	-300	-280	-320	-294	-302	-327	-355	-386	-418	-449
Trump tax cuts																		-160	-214	-243
Base defense increases	-4	-15	-35	-47	-64	-76	-86	-114	-144	-152	-147	-141	-131	-100	-83	-86	-80	-119	-135	-88
OCO	-6	-13	-44	-82	-87	-101	-135	-163	-162	-161	-160	-144	-118	-101	-86	-78	-88	-86	-82	-82
Total	-84	-65	-230	-384	-365	-382	-432	-529	-598	-593	-607	-565	-569	-495	-471	-491	-523	-751	-849	-863
Associated interest																				
Bush tax cuts (with extensions)	-2	-4	-5	-11	-22	-38	-52	-50	-40	-40	-41	-40	-39	-41	-45	-53	-70	-103	-143	-196
Trump tax cuts																		-3	-14	-29
Base defense increases	0	0	-1	-2	-5	-9	-14	-15	-13	-14	-15	-15	-15	-16	-17	-19	-25	-36	-50	-68
OCO	0	0	-1	-3	-7	-13	-20	-21	-18	-19	-19	-19	-18	-19	-20	-23	-29	-41	-57	-75
Total	-2	-5	-8	-16	-33	-60	-86	-86	-72	-73	-75	-73	-72	-76	-82	-96	-124	-183	-264	-367
Costs including associated interest																				
Bush tax cuts (with extensions)	-76	-41	-157	-267	-235	-243	-264	-303	-332	-320	-341	-320	-359	-335	-347	-380	-425	-488	-561	-645
Trump tax cuts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-164	-228	-272
Base defense increases	-4	-15	-36	-49	-69	-85	-100	-128	-157	-166	-162	-156	-146	-116	-99	-105	-105	-156	-185	-156
OCO	-6	-13	-45	-85	-94	-114	-155	-184	-181	-180	-179	-163	-136	-120	-107	-101	-118	-127	-139	-157
Total	-86	-70	-238	-400	-398	-442	-518	-615	-670	-665	-682	-638	-640	-571	-553	-586	-647	-935	-1,113	-1,230
Surplus (+)/deficit (-) if not for policies (excluding interest)	212	-93	-147	-28	46	134	271	71	-814	-702	-693	-522	-111	11	33	-94	-142	-31	-124	-141
Surplus (+)/deficit (-) if not for policies (including interest)	215	-88	-140	-13	80	194	357	157	-743	-629	-618	-449	-39	87	114	2	-18	153	140	227

Appendix B: Costs of Policies (Percent of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Actual and projected surplus (+)/deficit (-)	1.2%	-1.5%	-3.3%	-3.4%	-2.5%	-1.8%	-1.1%	-3.1%	-9.8%	-8.7%	-8.5%	-6.8%	-4.1%	-2.8%	-2.4%	-3.2%	-3.5%	-3.9%	-4.6%	-4.6%
Costs without associated interest																				
Bush tax cuts (with extensions)	-0.7%	-0.3%	-1.3%	-2.1%	-1.7%	-1.5%	-1.5%	-1.7%	-2.0%	-1.9%	-2.0%	-1.7%	-1.9%	-1.7%	-1.7%	-1.8%	-1.9%	-1.9%	-2.0%	-2.0%
Trump tax cuts																		-0.8%	-1.0%	-1.1%
Base defense increases	0.0%	-0.1%	-0.3%	-0.4%	-0.5%	-0.6%	-0.6%	-0.8%	-1.0%	-1.0%	-1.0%	-0.9%	-0.8%	-0.6%	-0.5%	-0.5%	-0.4%	-0.6%	-0.6%	-0.4%
OCO	-0.1%	-0.1%	-0.4%	-0.7%	-0.7%	-0.7%	-0.9%	-1.1%	-1.1%	-1.1%	-1.0%	-0.9%	-0.7%	-0.6%	-0.5%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%
Total	-0.8%	-0.6%	-2.0%	-3.2%	-2.8%	-2.8%	-3.0%	-3.6%	-4.2%	-4.0%	-3.9%	-3.5%	-3.4%	-2.9%	-2.6%	-2.7%	-2.7%	-3.7%	-4.0%	-3.9%
Associated interest																				
Bush tax cuts (with extensions)	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.3%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.3%	-0.4%	-0.5%	-0.7%	-0.9%
Trump tax cuts																		0.0%	-0.1%	-0.1%
Base defense increases	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.3%
OCO	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.3%	-0.3%
Total	0.0%	0.0%	-0.1%	-0.1%	-0.3%	-0.4%	-0.6%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	-0.4%	-0.4%	-0.5%	-0.5%	-0.6%	-0.9%	-1.2%	-1.7%
Costs including associated interest																				
Bush tax cuts (with extensions)	-0.7%	-0.4%	-1.4%	-2.2%	-1.8%	-1.8%	-1.8%	-2.1%	-2.3%	-2.2%	-2.2%	-2.0%	-2.2%	-1.9%	-1.9%	-2.1%	-2.2%	-2.4%	-2.7%	-2.9%
Trump tax cuts	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.8%	-1.1%	-1.2%
Base defense increases	0.0%	-0.1%	-0.3%	-0.4%	-0.5%	-0.6%	-0.7%	-0.9%	-1.1%	-1.1%	-1.1%	-1.0%	-0.9%	-0.7%	-0.6%	-0.6%	-0.5%	-0.8%	-0.9%	-0.7%
OCO	-0.1%	-0.1%	-0.4%	-0.7%	-0.7%	-0.8%	-1.1%	-1.2%	-1.3%	-1.2%	-1.2%	-1.0%	-0.8%	-0.7%	-0.6%	-0.5%	-0.6%	-0.6%	-0.7%	-0.7%
Total	-0.8%	-0.6%	-2.1%	-3.3%	-3.1%	-3.2%	-3.6%	-4.2%	-4.6%	-4.5%	-4.4%	-4.0%	-3.9%	-3.3%	-3.1%	-3.2%	-3.4%	-4.7%	-5.3%	-5.6%
Surplus (+)/deficit (-) if not for policies (excluding interest)	2.0%	-0.9%	-1.3%	-0.2%	0.4%	1.0%	1.9%	0.5%	-5.6%	-4.7%	-4.5%	-3.3%	-0.7%	0.1%	0.2%	-0.5%	-0.7%	-0.2%	-0.6%	-0.6%
Surplus (+)/deficit (-) if not for policies (including interest)	2.0%	-0.8%	-1.2%	-0.1%	0.6%	1.4%	2.5%	1.1%	-5.2%	-4.3%	-4.0%	-2.8%	-0.2%	0.5%	0.6%	0.0%	-0.1%	0.8%	0.7%	1.0%

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[1] Congressional Budget Office, "Changes in CBO's Baseline Projections Since January 2001," 7 June 2012. https://www.cbo.gov/publication/41463

[2] U.S. Department of Treasury, "Mnuchin and Mulvaney Release Joint Statement on Budget Results for Fiscal Year 2018," 15 October 2018.

[3] Includes costs of subsequent expansions and extensions. See Methodology section. (This, and the following figures, include resulting interest costs.)

[4] Solely includes Overseas Contingency Operations appropriations.

[5] Federal Reserve Bank of St. Louis, Budget of the United States Government, Fiscal Year 1990. https://fraser.stlouisfed.org/files/docs/publications/usbudget/bus_1990.pdf

[6] Figure based on the average tax cut over the five-year period provided by the President's Budget of 25.9 percent.

[7] Beach, William and Wilson, D., "The Economic Impact of President Bush's Tax Relief Plan," The Heritage Foundation, 27 April 2001. https://web.archive.org/web/20110308142121/http://origin.heritage.org/Research/Reports/2001/04/The-Economic-Impact-of-President-Bushs-Tax-Relief-Plan

[8] The Heritage report implies that the Bush Tax Cuts would *cause* the debt to be paid by 2011; however, even this report acknowledges the tax cuts would lose some revenue. Nonetheless, the report projects that the debt-to-GDP ratio would be lower in 2011 with the tax cuts (4.7 percent) than if the tax cuts were not passed (4.8 percent,

according to CBO's January 2011 baseline. See: Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2002-2011," 1 January 2011. https://www.cbo.gov/publication/12958)

[9] In 2010. See: Citizens for Tax Justice, "The Bush Tax Cuts Cost Two and a Half Times as Much as the House Democrats' Health Care Proposal," 8 September 2009. https://www.ctj.org/pdf/bushtaxcutsvshealthcare.pdf

[10] Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 2018. https://www.cbo.gov/system/files?file=115th-congress-2017-2018/reports/53651-outlook.pdf#page=133

[11] In 2027. Tax Policy Center, "T17-0316 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2027," 18 December 2017. https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0316-conference-agreement

[12] It goes without saying that the cost to federal budget is intimately less important than the loss of blood and life that our nation's soldiers, seamen, airmen, and Marines have paid during these conflicts. According to data from the Department of Defense, 4,423 Americans have been killed in Iraq since 2003. (See: https://dod.defense.gov/casualty.pdf.) An additional 31,958 Americans have returned home wounded as a result of the misguided war in Iraq. Although estimates vary, roughly 194,000 to 222,000 Iraqi civilians have been killed since the United States invaded their country in 2003. (See: Brown University, Watson Institute of International & Public Affairs, "Costs of War." https://watson.brown.edu/costsofwar/figures/2016/direct-war-death-toll-iraq-afghanistan-and-pakistan-2001-370000)

[13] West, Rachel. "For the Cost of the Tax Bill, the U.S. Could Eliminate Child Poverty. Twice." Talk Poverty, 12 December 2017. https://talkpoverty.org/2017/12/12/u-s-eliminate-child-poverty-cost-senate-tax-bill/

[14] American Society of Civil Engineers, "2017 Infrastructure Report Card," 2018. https://www.infrastructurereportcard.org/the-impact/failure-to-act-report/

[15] National Academies of Sciences, Engineering, and Medicine." Transforming the Financing of Early Care and Education," February 2018. http://sites.nationalacademies.org/DBASSE/BCYF/Finance_ECE/index.htm

[16] West, Rachel. *Op. cit*.

[17] Congressional Budget Office data.

[18] Sanders, Bernie. "The College for All Act: Fact Sheet," 3 April 2017. https://www.sanders.senate.gov/download/the-college-for-all-act-fact-sheet?id=A2524A5A-CA3F-41F8-8D93-DD10813DC384&download=1&inline=file

[19] U.S. Department of Agriculture, "Supplemental Nutrition Assistance Program Participation and Costs," 7 September 2018. https://fns-prod.azureedge.net/sites/default/files/pd/SNAPsummary.pdf

[20] Congressional Budget Office data.

[21] West, Rachel. "Yes, America Can Afford to Dramatically Reduce Poverty and Increase Opportunity," Center for American Progress, 14 April 2016. https://www.americanprogress.org/issues/early-childhood/reports/2016/04/14/135547/yes-america-can-afford-to-dramatically-reduce-poverty-and-increase-opportunity/