Policy Analysis

Cato Institute Policy Analysis No. 147: The Profligate President: A Midterm Review of George Bush's Fiscal Policy Performance

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Executive Summary

Midway through his presidency, George Bush is mired in a fiscal policy crisis worse than anyone could have envisioned when he entered the Oval Office two years ago. This crisis is the resurgence of record federal deficits. In January the Office of Management and Budget issued its budget forecast predicting that deficit spending will climb to a staggering $325 billion in 1992--not including the cost of Operation Desert Storm.(1) That is roughly $1 billion in federal borrowing each day. Even last year's $140 billion five-year tax hike--the second largest ever--will not stem such a tidal wave of red ink.

The deterioration of America's fiscal health cannot be blamed on the legacy of Reaganomics, as liberals have argued. Nor is it, as conservatives maintain, primarily the fault of the pro-spending coalitions in the Democrat-controlled Congress--although certainly some of the blame lies there. It is almost exclusively the creation of the Bush administration itself.

The crisis has been caused by an explosion of new domestic spending under Bush. Between the time that Reagan left the White House in 1989 and next year (FY 1992), domestic spending will have climbed by $300 billion--from $670 billion to $970 billion.(2) Since 1989 the federal government's domestic outlays, adjusted for inflation, have grown by an enormous 10 percent per year.(3) Domestic spending is expanding at a faster clip under Bush than it did under other recent presidents typically labeled as big spenders, including Lyndon Johnson, Richard Nixon, and Jimmy Carter. Incredibly, Bush is on the way to being the biggest champion of new domestic spending since Franklin Roosevelt.

Some of the increases in spending may have been beyond the direct control of the White House. For instance, large domestic expenditures have been required to bail out the savings and loans--crisis that was not created by Bush. Yet dozens of new spending programs--for education, space exploration, transportation, and the fight against drugs--have been launched, not over the Bush administration's objections but with its endorsement and in some cases at its insistence. They are expenditures that OMB director Richard Darman labels "investments in the future." In dollar terms, over two years those "investments" have translated into increases of $34 billion for the Department of Health and Human Services, $18 billion for housing and related programs, $5.5 billion for agricultural programs, $4.7 billion for the Department of Education, and $2.5 billion for the Department of Energy. In the early 1980s Reagan made an impassioned plea for the abolition of the latter two agencies. Last October Bush signed legislation to spend $40 billion a year for both.

To argue that the current economic recession and deficit crisis are an indication that the supply-side policies of the 1980s have finally come back to haunt the nation is to completely misunderstand the economic policy orientation of

George Bush. Whereas Reaganomics was based on the tenets of lower tax burdens and reduced government spending, the core of "Bushonomics" appears to be ratcheting government spending upward and raising taxes to pay the tab. It took Reagan six years to reduce government spending from 24 to 22 percent of GNP. It has taken Bush only two years to push spending back to its peak of the early 1980s.

When Reagan handed the federal purse strings over to the Bush administration, the country's economic and fiscal outlook was not gloomy, but unusually bright. In January 1989, following six consecutive years of economic growth and five consecutive years of declining budget deficits (from 5.4 to 2.9 percent of GNP between 1985 and 1989), even the usually cautious Congressional Budget Office anticipated four more years of continued slow but steady reductions in federal deficit spending--down to 2 percent of GNP by 1993.(4) Virtually every blue-chip private forecaster concurred. Instead, the deficit will climb to at least 4.5 percent of GNP this year. In sum the Bush administration has not inherited the nation's budgetary and economic problems; it has created them.

Clearly, Bush must return to the supply-side policies that won him the White House if his administration is to rescue the faltering economy and reverse the flow of red ink. The administration should start by abandoning the phony spending and tax benchmarks established by the 1990 bipartisan budget agreement. The pact, which promised near ly $500 billion in deficit reduction, is now almost universally recognized as a fraud perpetrated solely to win political support for a massive tax increase that makes room for new spending. It will not reduce the deficit, as recent forecasts reveal. Entitlement programs will expand by $200 billion over five years under the agreement. Not a single program in the 1,300-page budget will be terminated. Domestic discretionary spending will climb by at least 6 percent under the spending ceilings. That spending rate represents progress only when compared with the administration's dismal track record in restraining domestic expenditures over the past two years.

The deficit-reduction strategy that holds greatest promise is the one on which Bush originally campaigned for the presidency: the flexible spending freeze.(5) If Bush had capped overall spending at 3 percent of nominal growth during his first three years, the deficit next year would be $97 billion, not more than $300 billion.

Could such a spending cap be effectively enforced today? One reason to think that it could be is that many defense analysts believe that military expenditures should fall sharply in the future, given the diminished Soviet threat in Europe and elsewhere, regardless of what happens in the Persian Gulf. That means that not all of the pressure for reducing expenditures needs to fall on the domestic side of the budget, as it did in the early 1980s. Further, although a 3 percent growth cap may seem an austerity measure in Washington, it is noteworthy that many state governors, struggling to comply with constitutional balanced-budget requirements this year in light of the recession, will be pleased if they are able to increase expenditures by 3 percent in 1991.

So far, Bush has proven himself to be one of the most profligate presidents in U.S. history, with little or no capacity for saying no to special interests. Although he accused Michael Dukakis of being a big-spending liberal from Massachusetts, his own administration measures its commitment to education, the environment, transportation, housing, and other areas by how much it is willing to spend. To pay for its profligacy the Bush administration has imposed on the American worker a record federal tax burden and a record expansion of the federal debt. If the administration refuses to reverse the cycle of unprecedented growth in domestic spending, record-high federal taxes, and mushrooming deficits, the economic recession may be far more severe than anyone is now predicting and the blame will rest squarely on the White House steps.

A Kinder, Gentler, Bigger Spending President

During his 1988 bid for the presidency, George Bush distinguished himself from Ronald Reagan by promising to create a "kinder and gentler nation." He also said that he wanted to be known as the "environmental president" and the "education president." By now it is apparent that what Bush meant was that he was eager to spend substantially more money than Reagan had on a wide range of domestic programs.

Bush has now reached the midpoint of his four-year term in office and has completed two budget cycles. Since last year's five-year budget agreement sets broad targets for spending and taxes through 1995, it is possible with some degree of confidence to make forecasts of government expenditures through the next fiscal year (FY 1992). OMB director Richard Darman has already announced that the president's budget will adhere strictly to those benchmark spending levels. The standard of comparison for the analyses in this study is 1989, Reagan's last budget year.(6)

Table 1 shows that the total federal budget will rise from $1.14 trillion in 1989 to $1.36 trillion in 1991 and $1.46 trillion in 1992. That is, in two years under the Bush administration the size of the federal government has expanded by almost 20 percent and in just one more year it will be just under 30 percent larger than it was in 1989. The spending increases of the first three Bush years are $100 billion in 1990, $110 billion in 1991, and a projected $100 billion in 1992.

The best way to measure the impact of federal spending on the overall economy is to examine federal expenditures as a percentage of GNP. Figure 1 shows that, after a slow, steady decline during the Reagan years, the trend reversed course in 1990. It also shows that in 1991 and 1992 the federal government will consume 24 percent of GNP, the second largest percentage since World War II. The trends in the data contradict assurances by the White House that the new budget package will steadily reduce federal spending to below 20 percent of GNP by 1993.

The overall spending totals mask a critical fiscal policy development that has occurred over the past several years: a dramatic shift in federal spending from defense to domestic programs.

Table 1
Growth of the Federal Budget under Reagan and Bush

	Total (Billions of Dollars)	Percentage Increase	Percent of GNP
1981	678		22.7
1982	746	10.0	23.8
1983	808	8.3	24.3
1984	852	5.4	23.1
1985	946	11.0	23.9
1986	990	4.7	23.7
1987	1,003	1.3	22.7
1988	1,064	6.1	22.2
1989	1,142	7.3	22.2
1990	1,252	10.1	23.2

Source: OMB, Budget of the United States Government, Fiscal Year 1991, pp. 281-82; CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990, p. 4.

Most Americans believe that military spending has been climbing consistently since Reagan became president in 1981. The truth is that the Reagan defense build-up ended in 1986 (Figure 2). Since 1989 the military budget has declined by roughly 10 percent in real dollars (Table 2). The decline has been partially a result of budget restraint imposed under the Gramm-Rudman-Hollings deficit-reduction law of 1985. More recently the slowdown in defense spending has been attributable to changed conditions around the world, particularly those associated with the collapse of the Iron Curtain in Eastern Europe and the diminished Soviet threat to U.S national security. It is not yet certain how much new spending the military will request as a result of the Persian Gulf crisis.

One might expect that, in an era of shrinking Pentagon budgets, total federal spending and the budget deficit would now be falling. The reason they are not has been the domestic budget hikes orchestrated by Bush and his cabinet. The domestic spending build-up has been dramatic and quick. What took Reagan six tortuous years from 1983 to 1989 to accomplish--a decline in the domestic budget from 15.3 to 13 percent of GNP--has taken Bush, and a willing Congress, only two years to erase (Figure 2). Next year the Bush administration is scheduled to elevate domestic programs to 15.8 percent of GNP, which is much higher than the level reached during the Carter years.

Figure 1

Total Federal Spending as a Percentage of GNP: The Reagan and Bush Years
Source: CBO, "The 1990 Budget Agreement: An Interim Assess- ment," December 1990; OMB, Budget of the United States Government: Fiscal Year 1991.
(Graph Omitted)

Figure 2
Domestic and Defense Spending as a Percentage of GNP: The Reagan and Bush Years
Source: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990; OMB, Budget of the United States Government: Fiscal Year 1991. pp. A302-3.
(Graph Omitted)

Table 2
Outlays for National Defense, 1981-92

	Billion 1982 Dollars	Percentage Change
1981	171	4
1982	185	8
1983	201	9
1984	211	5
1985	230	9
1986	244	6
1987	251	3
1988	253	1
1989	256	1
1990	243	-5
1991(est.)*	230	-5
1992(est.)*	210	-9

Source: OMB, Budget of the United States Government: Fiscal Year 1991, pp. A302-3; CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990, p. 4.

*Excludes cost of Persian Gulf War.

Figure 3 shows just how prolific a spender George Bush has turned out to be compared with his post-World War II predecessors in the White House. Domestic expenditures adjusted for inflation have grown at an annual rate of 10 percent under Bush during his first two years, the most rapid increase under any of the past eight chief executives. Extending the forecast through 1992, the second year of the heralded deficit-reduction agreement, shows domestic spending still expanding at an annual rate of more than 9.0 percent (from 1989 to 1992).

The Bush administration is admittedly handicapped because it is confronted with a Democrat-controlled pro-spending Congress. That certainly explains some of the recent spending increases. Yet for perspective, it is worth noting that in Reagan's last two years Congress was run by the Democrats, yet domestic spending was restrained, albeit slightly less successfully than during his first six years. Gerald Ford faced an entirely hostile legislature during his years in office, yet the budget grew only half as fast during his watch as it has during Bush's. Ford repelled budget-busting appropriations by liberal use of the veto. By contrast, last year Bush did not veto a single spending bill. Nor has he sent a single rescission request to Congress--a presidential prerogative that allows the White House to trim spending on specific wasteful programs.

It also might be argued that the massive spending totals under Bush are an anomaly because of the savings-and- loan bailout that will cost American taxpayers almost $300 billion between 1990 and 1993. Because Bush inherited the S&L

crisis, the large expenditures for the cleanup may distort his budget record. However, even if S&L costs are excluded entirely from the analysis, real domestic outlays are still growing by 6 percent per year under Bush.

Indeed, domestic spending has been growing virtually across the board during Bush's watch. Table 3 compares the 13 annual appropriations totals as passed by Congress and approved by Bush for 1991 with similar appropriations totals approved by Reagan for 1989. Bush has allowed spending to accelerate by 20 percent or more in two years for commerce, education, health/labor, housing, the legislative branch, transportation, and treasury/postal (Figure 4). Only outlays for defense and military construction have declined.

Although Ronald Reagan was thwarted in his effort to cut government spending (real domestic spending grew by 1 percent per year during his two terms), one of the central budgetary achievements of the Reagan years was to halt the creation of new domestic spending programs. Catastrophic health insurance was the only major new spending initiative launched during the eight Reagan years, and even that was later repealed. Yet in just two years the Bush administration has given birth to more than a dozen new and expensive initiatives. It also has permitted major renewed funding of programs that had been sharply cut back during the Reagan years. Table 4 offers a sample of the spending increases for selected programs under Bush. Amazingly, he has generously refunded many programs that Reagan had tried with some success to abolish or scale back, such as federal land acquisitions, federal job-training programs, and Head Start.

Indeed, the Bush budget documents boast of the president's eagerness not to cut the budget but to spend federal dollars to solve America's pressing social and economic problems. The following are a few excerpts from the 1991 Bush budget proposal (from the section of the budget entitled "Investing in the Future"):

Figure 3
Annual Real Spending Increase by President, 1946-91
Source: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990; OMB, Historical Tables of the United States Budget: Fiscal Year 1990.
(Graph Omitted)

Figure 4
Federal Spending Increases by Agency under Bush (Percentage Nominal Change, 1989-91)
Sources: "Congress Cranks Out 13 Bills in Last 8 Days of Session," Congressional Quarterly, November 3, 1990, p. 3723; House Appropriations Committee, historical documents.
(Graph Omitted)

Table 3
Growth in Appropriations under Bush

	1989*	1991*	Change(%)
Agriculture	46.6	52.2	12
Commerce/State	14.8	19.3	30
Defense	282.0	269.0	-5
Education	22.7	27.4	21
Energy	17.8	20.2	13
Foreign operations	14.3	15.5	8
HUD/Independent agencies	59.4	78.0	31
Interior	9.9	11.7	18
Labor/HHS**	117.7	154.8	31
Legislative branch	1.8	2.2	21
Military construction	8.8	8.4	-5
Transportation	10.8	13.0	20

Treasury	16.0	20.7	29

Source: "Congress Cranks Out 13 Bills in Last 8 Days of Session," Congressional Quarterly, November 3, 1990, p. 3723; House Appropriation Committee historical documents.

* Billions of current dollars.

** Excludes Social Security spending and other entitlements.

* "Although Federal money is not the key to solving the nation's serious education problems, the President does propose to increase the discretionary budget of the Department of Education by $1.2 billion--bringing the Departmental total to a record $24.6 billion."

* "The President proposes not only to reauthorize Head Start, but to increase it by half a billion dollars in a single year--bringing Head Start to an unprecedented $1.9 billion."

* "Like education, drug abuse is a problem that cannot be solved by federal funds alone--or by funds alone whatever the source. Nonetheless, the 1991 budget proposes $9.7 billion in outlays--a 41 percent increase relative to 1990."

* "In 1990 the Administration proposed new funds for the first time in several years for federal acquisition of lands with particularly high value for the environment. The 1991 budget proposes to expand this program of acquiring high priority lands by creating a new 'America the Beautiful' fund. The America the Beautiful initiative would fund the purchase of $1 billion of key land and water resources over the next four years."

Table 4
Spending Increases for Selected Federal Programs, 1989-91

Program (FY 1991)	Actual 1989 Budget (Billion of Dollars)	Estimated 1991 Budget (Billions of Dollars)	Percentage Increase 1989-91
National Aeronautics & Space Administration	11.04	14.14	28
High-energy physics & superconducting collider	0.65	0.94	44
National Science Foundation	1.75	2.23	28
HIV/AIDS research & treatment	2.45	3.20	31
Head Start	1.20	1.89	57
Drug programs	5.60	9.70	73
"America the Beautiful" (land acquisition, reforestation and Legacy '99)	0.00	0.63	na
Pollution control & abatement	4.88	5.85	20
Global change research	0.66	1.03	57
Legislative functions	2.10	2.68	28
Energy programs	11.39	13.44	18
Housing programs	19.68	23.02	17
Public housing assistance	12.20	15.10	24
Federal job-training programs	3.80	4.20	11

Source: OMB, Budget of the United States: Fiscal Year 1991, pp. 49-149.

Note: NA = Not applicable.

Bush's domestic spending build-up should not be altogether surprising. Bush has surrounded himself with cabinet members who have virtually no enthusiasm for the Reagan philosophy of minimalist government--particularly when it comes to their own agencies. Unfortunately, that is particularly true for the conservatives in the Bush cabinet. Last year three conservatives held cabinet positions: William Bennett, Jack Kemp, and Dan Quayle. None has been an effective advocate of spending restraint, simply because each has been busy promoting a pro-spending agenda of his own: Bennett, before he left, secured a $4 billion budget increase to fight drugs; Quayle, a $3 billion increase to send spacecraft to the Moon and Mars; and Kemp, a $3.5 billion increase in multibillion-dollar housing programs.(7)

While busy conceiving new programs and resurrecting many others cut by Reagan, the Bush administration has had no success in eliminating existing ones. Although Bush has recommended selective program terminations in his first two budgets, not a single major domestic program has been ended. In this area, however, Bush's efforts have not been much less fruitful than those of Reagan or Carter, who also struck out repeatedly in their attempts to win support from Congress for terminating even the most blatantly inefficient programs.

More of the Same: The Federal Spending Outlook beyond 1992

The 1990 budget agreement bulldozed through Congress by the president and the leadership on Capitol Hill is intended to reduce budget deficits by $490 billion over five years. OMB director Richard Darman, one of the principal architects of the agreement, has touted it as "the toughest federal budget enforcement system ever."(8)

Will the pace of domestic spending expansion lessen in future years as a result of the highly heralded 1990 budget summit pact? The answer is, only marginally. The budget deal caps domestic discretionary spending at the inflation rate over the next three years. That requirement is far from an austerity measure, but it would be an improvement relative to Bush's budgetary performance during his first two years in office. However, because the domestic programs are "held harmless" to changes in economic conditions, budget emergencies, and changes in technical assumptions, the new law's ceilings would be more aptly described as spending floors.(9) Rudolph Penner, former head of the Congressional Budget Office, says of the 1990 budget agreement: "The new process treats discretionary spending generously. . . . Consequently appropriators for civilian discretionary programs will have more flexibility to spend than at any time since the 1970s."(10)

Spending on entitlements is projected to increase by roughly $40 billion per year over the next five years under the new law.(11) The one virtue of the 1990 budget agreement is that the pay-as-you-go system for new mandatory spending programs should have a considerable deterrent effect on Congress's creation of new entitlements. Unfortunately, that may turn out to be a case of closing the barn door after the cows have escaped. In the final days of the 101st Congress, lawmakers approved a new $12 billion child-care entitlement program and a $500 million annual outlay to cover expansion in eligibility for the Medicaid program; only afterward did they consent to impose penalties on future new spending.

On balance, the 1990 deficit-reduction act will not appreciably alter the spending patterns of the first two Bush years. Almost certainly, a president with a greater commitment to smaller government could have more effectively restrained spending by vetoing excessive spending bills and pulling the Gramm-Rudman-Hollings trigger of across-the- board spending cuts.

Breach of Faith: The Bush Record on Taxes

In two years George Bush has gone from being the president elected on a platform of "no new taxes" to the president who imposed the highest tax burden ever on American workers. Despite his campaign pledge, Bush was persuaded by his advisers that Americans are undertaxed and that the federal government cannot run its operations on just $1 trillion in income each year. The major impetus for the new taxes was the argument by the Democrats in Congress that the deficit is a product of Reagan's 1981 tax cuts. Their argument, however, has no validity: Americans paid $600 billion in taxes in 1980, whereas next year they will pay twice that amount, or $1.2 trillion.

Last year's $158 billion tax package will raise federal taxes to 19.5 percent of GNP next year and an average of 19.4 percent over the 1990-93 period. As Figure 5 shows, that percentage represents a higher average tax burden than the people have shouldered under any previous post-World War II president.

Bush has proved to be not only a champion of new taxes but also a consistent and effective opponent of measures that would offer tax relief. The following are some examples of the Bush philosophy of taxation:

* Last year Bush rallied Republican opposition to Sen. Daniel Patrick Moynihan's (D-N.Y.) proposal to cut the Social Security payroll tax by calling it "unaffordable." The proposed $55 billion tax cut would have constituted the largest federal tax reduction for working Americans since the 1981 Reagan supply-side tax cuts.

* The 1990 budget agreement not only raises taxes but institutionalizes congressional restraints on future tax cuts. The new law requires that any tax reduction be paid for by a tax increase in another area. According to Rep. Dick Armey (R-Tex.), "Had such a provision existed in 1981, congressional liberals probably could have blocked the Reagan tax cuts."(12)

* The principal, and perhaps the only, pro-growth item on the Bush agenda was the capital gains tax cut. In two consecutive years the Bush administration pulled defeat out of the jaws of victory on the capital gains initiative--both times to secure congressional support for pro-spending budget deals. This year Bush and Treasury secretary Nicholas F. Brady have announced they may not even push for a capital gains cut, although it is expected to be included in the president's budget proposal.(13)

$300 Billion Deficits As Far As the Eye Can See

George Bush frequently likens the federal budget deficit to a cancer eating away at the nation's future economic health. His preoccupation with the deficit is what eventually led him down the slippery slope of new taxes.

The irony of the Bush fiscal policy record is that an administration presumably committed to fighting the deficit has been completely impotent in preventing its growth. Despite Bush's $150 billion tax hike and $350 billion in other purported budget reforms enacted last year, the OMB now concedes that the 1991 deficit will be a record $325 billion, while CBO projects a $253 billion deficit. Such deficit levels contrast with the Gramm-Rudman-Hollings deficit-reduction timetable, which required a 1991 deficit of $64 billion, a 1992 deficit of $28 billion, and a balanced budget in 1993 (Figure 6). Worse yet, a study by the Dallas-based National Center for Policy Analysis predicts that the government forecasters are too optimistic; it places the Bush budget deficit at $335 billion in 1991 and more than $300 billion in 1992.(14)

Figure 5
Federal tax Burden from Truman to Bush
Source: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990; OMB, Historical Tables of the United States Budget: Fiscal Year 1990.
(Graph Omitted)

Figure 6
Bush Budget Deficits Compared with Gramm-Rudman-Hollings Requirements.
Source: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990.
(Graph Omitted)

To fully understand the root causes of the growth of the budget deficit it is critical to emphasize that the explosion of debt is not a carryover from the Reagan years; it represents the Bush White House's reversal of the Reagan budget strategy and progress. At $325 billion, the deficit next year will be twice the $152 billion it was when Reagan left office in 1989. Figure 7 illustrates the path of the deficit as a percentage of GNP from 1982 through 1992. The figure shows that the deficit peaked in 1983 at 6.3 percent of GNP and gradually fell over the next six years to a trough of 2.9 percent in 1989. Under the Bush administration's handling of the budget, the deficit has reversed course and next year (FY 1992) will climb to 4.6 percent of GNP.

The magnitude of Bush's mishandling of the budget is heightened by the fact that the deficit was not expected to rise in the early 1990s. Indeed, most economic forecasters predicted that Reagan's tenure would be followed by a continued decline in the budget deficit on a current services baseline--that is, even if Bush took no positive initiative of his own to reduce the deficit. Table 5 shows that the deficit was calculated to fall to 2.2 percent of GNP by the CBO and 0.5 percent of GNP by the Reagan forecasters in 1992. The Bush administration itself originally predicted that the deficit would fall to 0.4 percent of GNP by that year.(15)

Table 5
The Deficit Outlook in 1989 versus Bush's Actual Performance

	1989 CBO Forecast	1989 Reagan Forecast	CBO Latest Estimate
Dollars (Billion)			
1989	155	152	152
1990	141	93	220
1991	140	67	253
1992	135	32	277
Percentage of GNP			
1989	2.9	2.9	2.9
1990	2.6	1.7	4.1
1991	2.4	1.1	4.5
1992	2.2	0.5	4.6

Sources: CBO, "The Economic and Budget Outlook: Fiscal Years 1990-1994," January 1989, p. xv; OMB, Budget of the United States Government: Fiscal Year 1990; CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990, p. 4.

The dramatic reversal of the nation's fiscal condition in just two years is attributable to two factors: (1) the domestic spending patterns of the Bush administration and (2) an economic slump that has turned into a recession. The duration and severity of the recession will ultimately determine how high deficits will rise over the next two years.(16) Recessions inevitably generate huge deficits because tax revenues decline when corporate profits and workers' incomes fall, and expenditures for entitlements rise when more Americans are out of work. CBO, which forecasts a short recession, predicts that in 1993 the deficit will start to decline again;(17) the National Center for Policy Analysis's study anticipates that through 1993 annual deficits as a percentage of GNP will be higher than they were under Reagan(18) (Figure 8).

The results of George Bush's fiscal policy performance, through the midpoint of his term, are summarized in Table 6. It shows that, by virtually every criterion, the Bush White House is failing to manage the budget. Among post-World War II presidents, Bush ranks as the highest spender on domestic programs, as the highest in average tax burden on workers, and as the highest in national debt accumulation.

Were the Bush Deficits Avoidable?

Perhaps the first and most serious of a series of Bush administration tactical budgetary blunders was abandonment of the "flexible freeze" deficit-reduction strategy. Under that strategy, which was the centerpiece of the Bush budget plan during the 1988 presidential campaign, Bush pledged to enforce a 3 percent annual ceiling on growth of total federal expenditure for four years. The plan provided "flexibility" in staying beneath the ceiling by permitting some high-priority programs to expand faster than 3 percent a year as long as other lower priority programs were cut by an offsetting amount. Bush correctly proclaimed that if he could defend the Treasury against spending raids of more than 3 percent each year, the budget would be balanced by 1993 without new taxes.

That budget reduction strategy, however, was roundly criticized by the spending coalitions in Congress, and within a few months of taking office Bush surrendered the fiscal policy offensive by scrapping the flexible freeze. By doing so, he immediately unleashed a pro-spending juggernaut that sought and won subsequent double-digit spending increases for domestic programs, thus laying the political groundwork for the tax increase of 1990.

Figure 7
Reemergence of Large Budget Deficits
Source: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990; OMB, Historical Tables of the United States Budget: Fiscal Year 1990.
(Graph Omitted)

Figure 8
Average Budget Deficit by President
Source: Aldona and Gary Robbins, "Latest Budget Package as Bad As Recession," National Center for Policy Analysis, January 1991; OMB, Historical Tables of the United States Budget: Fiscal Year: 1990.
(Graph Omitted)

Table 6
Taxes, Spending, and Deficits by President: FY Annual Averages

	Domestic Spending (Anuall Real Growth)	All Taxes (% of GNP)	Deficits (% of GNP)
1990-91 Bush	10.0	19.4	4.6*
1982-89 Reagan	1.0	18.8	4.4
1978-81 Carter	3.5	19.2	2.4
1976-77 Ford	5.0	18.1	3.5
1970-75 Nixon	8.5	18.4	1.6
1965-69 Johnson	5.5	18.4	1.0
1962-64 Kennedy	9.0	18.0	1.0
1954-61 Eisenhower	7.5	17.8	0.4
1946-53 Truman	5.5	16.9	-0.8

Source: Aldona and Gary Robbins, "Latest Budget Package As Bad As Recession," National Center for Policy Analysis, January 1991. Bush spending and tax data from CBO, "The Economic and Budget Outlook: Fiscal Years 1990-1994"; all other data from OBM, Historical Tables of the United States Budget: Fiscal Year 1990.

* Deficit estimate for Bush covers 1990-93.

It is instructive to compare the deficits that would have been produced by following two alternative fiscal policy paths that were available to Bush two years ago. The first was the budget strategy of a flexible freeze and "no new taxes." The second was the budget summit and "taxes on the table" deficit reduction option. Bush chose the second path. Table 7 shows that he chose poorly. The deficit would have fallen to $97 billion next year if Bush had not raised taxes and had enforced the flexible freeze.(19) In contrast, the budget agreement and the $150 billion in new taxes over five years will produce a 1992 deficit of $277 billion (using CBO estimates). In sum, although Congress and the media routinely belittled the budget strategy of a flexible freeze and no new taxes as unworkable and almost unanimously congratulated Bush on his 1990 bipartisan budget agreement, Bush's choice will produce a budget deficit three times larger than the freeze.

Table 7 The Flexible Freeze versus the Budget Summit Option (Billion Dollars)				
	Outlays		Deficits	
	Budget Summit	3% Freeze (No New Taxes)	Budget Summit	3% Freeze (No New Taxes)
1990	1,252	1,177	220	145
1991	1,363	1,212	253	130
1992	1,462	1,249	277	97

Source: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990, p. 4.

Note: Calculations of the deficit under the freeze option are the author's.

Conclusion

In January 1991 the New York Times reviewed George Bush's performance after two years in office and praised his "instincts for prudence and compromise." Added the Times, "These instincts are laudable. Mr. Bush's conciliatory and practical mode of governance has been a refreshing change from eight years of relentless political of combat under Mr. Reagan."(20)

But what of the results of Bush's mode of governance? He has led the nation into an era reminiscent of the late 1970s: accelerating rates of growth in domestic spending, record federal tax burdens on U.S. workers, and now an economic slump. To combat the current recession, his advisers have no meaningful program except for the failed economic prescriptions of the 1970s: even more spending and easy money.

In short, George Bush has repudiated both Reaganomics in its entirety and the campaign promises--"stay the course," "no new taxes," and "the flexible freeze"--that sent him to the Oval Office.

Bush has less than two years in which to remedy the fiscal crisis he has created. To succeed, he must immediately cancel the new taxes and higher spending totals sched uled under the 1990 budget deal. In light of the impending recession and the losses associated with the Persian Gulf War, he should reverse his course on domestic spending and introduce an emergency budget that calls for deep acrossthe-board spending cuts and, in many cases, for the termination of particularly unneeded civilian programs. If, instead, he stays his current course, he will go down in history as one of the biggest spenders in U.S. history, and his legacy will be $300 billion deficits for as far as the eye can see.

Notes

(1) Operation Desert Storm is estimated to cost between $500 million and $1 billion each day.

(2) All of the budget dates in this paper refer to fiscal years, rather than calendar years, unless otherwise indicated.

(3) The spending data for presidents Truman through Reagan are from Office of Management and Budget, Historical Tables of the United States Budget, various years. The spending estimates for Bush's term are based on Congressional Budget Office estimates. See Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," December 1990.

(4) Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1990-1994," January 1989.

(5) See Office of the President, "Building a Better Ameri ca," February 9, 1990, pp. 23-27.

(6) The budget record of each president analyzed in this paper is based on figures from the first fiscal year for which the president submitted a budget through the last year for which Congress completed appropriations while each was in

the White House. That means, for instance, that fiscal 1989 is a Reagan year, not a Bush year.

(7) Fred Barnes of the New Republic has coined a new phrase for those big spenders: "Big Government Conservatives." See Fred Barnes, "Bush's Big Government Conservatives," American Spectator, April 1990, pp. 14-15.

(8) Richard Darman, "Neo-Neo-ism: Reflections of Humble-ism, Rationalism, and the Pursuit of Excellence," speech before the Council for Excellence in Government, November 16, 1990.

(9) Stephen Moore, "OMB's Failing Record on Budget Reform: A Mid-Term Report Card," Citizens Against Government Waste, 1991.

(10) Rudolph Penner, "Where Next for the Federal Budget?" Urban Institute Policy Bites no. 4, December 1990.

(11) Daniel J. Mitchell, "The Budget Summit Agreement: The Myth of Entitlement Reform," Background Update, Heritage Foundation, October 3, 1990.

(12) Dick Armey, "Our Kingdom for a Deal," American Spectator, December 1990, pp. 34-35.

(13) Roland Evans and Robert Novak, "Reviving Capital Gains," Washington Post, January 23, 1991, p. A17.

(14) Aldona and Gary Robbins, "Latest Budget Package As Bad As Recession," National Center for Policy Analysis, January 1991.

(15) Office of Management and Budget, Budget of the United States Government: Fiscal Year 1991.

(16) The Bush tax policies have contributed directly to this recession, thus worsening the deficit. See John Skorburg and William Dunkelberg, "Rising Taxes Produce Recession," Cato Institute Policy Analysis, forthcoming.

(17) CBO, "The 1990 Budget Agreement."

(18) Robbins and Robbins.

(19) Calculations by author assuming same revenue growth except no new taxes for the flexible freeze option.

(20) "The Bully Pulpit, Half Empty," New York Times, January 2, 1991, p. A16.