Executive Summary

In recent months the news has been filled with reports of sluggish economic growth, stagnant or even falling personal income, and corporate layoffs. Workers are concerned that their wages don't seem to be growing fast enough to keep up with the cost of living and ever-increasing taxes. And both private and government forecasters predict that this sluggish economic growth will continue well into the future.

"This disappointing economy is particularly troubling since the booming economy of the 1980s is still fresh in our memory."

This disappointing economy is particularly troubling since the booming economy of the 1980s is still fresh in our memory. Finally, policy makers are beginning to discuss the need for increased economic growth, and measures to stimulate economic growth are sure to be elements of the presidential campaign.

Consider how much better things would be today had the economic trends of the 1980s continued into the 1990s:

- The average American household would have an additional $4,000 a year in income.
- 5.1 million more Americans would be working today.
- The federal budget deficit would be almost $70 billion lower this year.

In this report, economist and IPI Research Fellow Stephen Moore documents the distinct and purposeful change in fiscal policy that has taken place under Presidents Bush and Clinton. The result of this change has been an economic turn for the worse. President Bush's "kinder, gentler" government has turned out to be a bigger, fatter government, and President Clinton has expanded on Bush's lead.

In fact, Presidents Bush and Clinton have followed remarkably similar fiscal policies. The defining domestic policy events of their administrations have been the 1990 and 1993 budget deals. Both represented a departure from the supply-side policies of the 1980s. Both included record tax increases, which were justified by promised dramatic reductions in the federal budget deficit. Both used defense cuts to camouflage huge increases in domestic spending.

The result has been that in virtually every area, the supply-side policies of the 1980s outperformed the tax-and-spend policies of the 1990s.

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Consider these results from the first half of the 1990s:

- Top marginal tax rates have risen by 50 percent. The overall tax burden has risen by 1.25 percent of GDP.
- Real federal non-defense spending has risen by 30 percent. Federal spending on civilian programs now accounts for a larger share of national output than at any time in American history.
- Census Bureau data reveals that since 1990, median family income has fallen by 5 percent, or $2,100 per household. This reverses an 11 percent gain in real median income from 1981–89.
- The tax hikes have failed to deliver the promised revenues. Tax receipts have risen at a rate 20 percent slower with tax *increases* in the 1990s than they did with tax *cuts* in the 1980s.

Clearly, a return to the supply-side policies of the 1980s is in order. Barring such a return to reason, the 1990s will produce the largest budget deficits and the slowest economic growth rate of any decade in the past half century.

Broken Promises: What's Gone Wrong with the Economy in the 1990s

Introduction

America is now entering the eighth year of what may be described as "the Bush–Clinton era" of fiscal governance. The defining domestic policy events of George Bush and Bill Clinton's presidencies have been the 1990 and 1993 budget deals, respectively. Budget analysts on both sides of the political spectrum agree that the major components of these two five-year budget packages with large tax increases were nearly identical. In fact, after stripping away partisan rhetoric, the economic and fiscal policies of Presidents Bush and Clinton have been virtually indistinguishable. [below] It is therefore appropriate to examine the record of the past six years together in order to assess how their policies have performed in the 1990s.

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No doubt the Clinton administration would suggest that it is unfair to combine the Bush and Clinton records, because the economy under Clinton has outperformed the Bush years in most economic and fiscal areas;[1] in fact, the Clinton economy outclasses Bush's by almost every measure.[2] Yet the Clinton economy thus far has benefited from the fact that the Clinton presidency began in the midst of a cyclical upturn that had begun in late 1991 under Bush. The most distinguishing characteristic of the 1992–95 recovery is that it has been about half as strong as a normal economic rebound.[3] Moreover, the economy is now slowing again. While Clinton's first two years in office coincided with a mini economic boom, the story of the last two years may well be very sluggish growth.

An objective assessment of the Bush–Clinton fiscal strategy can help determine whether a change in direction in economic and budgetary policies is necessary and desirable, particularly when (at the time of this writing) the Republican-controlled Congress has endorsed a balanced budget strategy with tax cuts that represents a clear repudiation of the Bush–Clinton agenda.

Budgetary Results

The budgetary results of the Bush–Clinton era can be summarized in five trends:

1. **Tax hikes have failed to deliver the expected revenues.** The top marginal income tax rate has risen by 50 percent—from 28 percent in 1989 to 42 percent this year (including the 1.8% Medicare tax). Yet income tax receipts have risen at a 20 percent slower rate with tax increases in the 1990s than they did with tax cuts in the 1980s. *If overall tax collections had simply grown in the 1990s at the rate they did in the seven years following Reagan's 1981 tax cut, the budget deficit would be almost $70 billion lower this year*.

2. **A 30 percent build-up in real federal non-defense spending.** It is a myth that federal domestic spending has been constrained by the 1990 and 1993 budget deals. Non-defense spending now consumes 18 percent of national output. Federal spending on civilian programs now accounts for *a larger share of national output than any previous time in American history*. In 1995 dollars, federal non-defense spending has surged by $250 billion since the end of the Reagan presidency.

❸ **Medicare, Medicaid, and welfare account for most of the growth of the federal budget**. Since 1989, in constant 1995 dollars, real Medicare spending has grown by $75 billion (73 percent); Medicaid spending has grown by $47 billion (112 percent); and welfare spending has climbed by $93 billion (72 percent). *If the current pace of growth in entitlement spending continues, by 2015 entitlements alone will eat up all federal revenues*.

❹ **A one-third decline in the military budget in the post-Cold War era**. *Defense spending now constitutes a smaller share of the federal budget than at anytime in American history.* Defense cutbacks of roughly $100 billion since 1989 have helped camouflage the large domestic spending increases in the 1990s.

❺ **Record high budget deficits in the 1990s**. The average budget deficit (in 1995 dollars) under George Bush and Bill Clinton ($248 billion) has been slightly higher than even under Ronald Reagan ($242 billion) and much higher than any under any previous president. *The record high deficits in the 1990s are particularly troubling given the fact that the United States is now in a post-war era when deficit spending normally falls dramatically*. Although the budget deficit improved to $162 billion in 1995, the long term deficit forecast (assuming a continuation of the Bush–Clinton policies) remains bleak. The December 1995 Congressional Budget Office report expects the budget deficit to rise every year, climbing back to above $250 billion by 2000, and up to $350 billion by 2005 if Bush–Clinton policies remain in force.[4]

"Defense spending now constitutes a smaller share of the federal budget than at anytime in American history."

Overall Economic Performance

The nation's economic performance in the 1990s under Bush and Clinton has also been poor—especially when compared to the 1960s and 1980s. The good news is that inflation has been low (3.6 percent), and unemployment has been held in check, averaging 6.4 percent. But other measures of economic health are more discouraging:

- **Sluggish economic growth.** Using the new "chain-weighted" gross domestic product (GDP) numbers, the economic growth experienced from 1989–95 has averaged a meager 1.8 percent. This compares with a 3.2 percent growth in the 1980s and a 4.9 percent growth rate in the 1960s. Even during the cyclical recovery since the end of the 1990–91 recession, economic growth has averaged below 3 percent per year. The growth rate in 1994 and 1995 has been better, but the economy is only expected to grow at a 2–2.5 percent rate over the next several years.[5] If economic growth in the 1990s had kept pace with the growth on the 1980s, national output would be $510 billion higher today, and on average, every American household would have $4,000 a year more in income.
- **Slow job growth**. From 1989–95 civilian employment in the United States grew by 1.1 percent per year. In the 1960s, 1970s, and 1980s, civilian employment grew almost twice as fast. *If the first half of the 1990s had produced jobs at the rate of the 1980s, America would have 5.1 million more Americans working today*.
- **Declining family income**. Americans are doing worse in the pocketbook. Census Bureau data reveals that since 1990 median family income has fallen by 5 percent, or $2,100 per household. *This reverses a 11 percent gain in real median income from 1981–89*.

"If economic growth in the 1990s had kept pace with the growth on the 1980s, national output would be $510 billion higher today, and on average, every American household would have $4,000 a year more in income. "

These statistics clearly contradict Clinton administration claims of a robust economy and a return to prosperity.

The Bush–Clinton economic and fiscal policies represented a clear change in direction from the the supply-side policies of the 1980s, popularly known as Reaganomics. The results of these two policies can now be compared side-by-side. In virtually every area the supply-side policies of Reagan outperformed the tax and spend policies of Bush and Clinton. **Barring a significant change in course, the 1990s will produce the largest budget deficits and the slowest economic growth rate of any decade in the past half century.**

Reagan's Fiscal Legacy

The principal blemish on Reagan's economic record was the unprecedented large levels of peacetime deficit spending.[6] The Reagan deficits reached a high water mark of $208 billion and 6.3 percent of GDP in 1983. As a result of rapid increases in military, entitlement and interest expenditures in the 1980s, the national debt nearly tripled between 1980 and 1990, even though federal revenues doubled over that period.[7]

"At the end of the Reagan years, the budget deficit was falling sharply."

At the end of the Reagan years, however, the budget deficit was falling sharply. *Between 1985 and 1989 deficit spending fell from 5.5 percent of GDP to 2.9 percent*. In 1989 the deficit had fallen to $149 billion—its lowest level in real terms in any year between 1982 and 1994.

This deficit reduction progress was expected to continue in the 1990s. In January, 1989, George Bush assumed the presidency from Ronald Reagan. In that same month the Congressional Budget Office released its long term forecast for the economy and the budget deficit. The 1989 CBO report is useful for gauging how critical observers expected the economy and budget to perform if Reagan's policies were continued. It did not assume any budget deals or changes in tax policy.

This CBO document dispels the popular misconception that Bush inherited a fiscal crisis "baked in the cake" from Reagan. Table 1 shows the improved deficit outlook both in dollars and as a share of GDP in January, 1989.[8] The deficit was not expected to rise in the 1990s—it was expected to continue to fall gradually. By 1995 the federal deficit was projected to be $110 billion and 1.5 percent of GDP. These forecasts largely reflected a continuation of the modest fiscal progress achieved during Reagan's second term. The CBO concluded that continued deficit reduction would occur even if Bush had simply left fiscal policy on automatic pilot. Had Bush maintained his campaign promise of a "flexible spending freeze," the deficit might have been substantially lower than expected. In addition, his enforcement of the Gramm–Rudman law, which allowed spending sequestrations, might have brought the deficit lower still.

How did actual fiscal policy under Bush and Clinton compare with the CBO predictions at the start of the period? Table 1 shows that from 1990–95, the national debt was $622 billion higher than anticipated. As a share of GDP the budget deficits were nearly 2 percentage points higher than anticipated. In fact, *measured in real dollars, the 1990–94 period was the worst five year deficit performance in the post-World War II era*.

Deficits in the 1990s: Reagan Baseline vs. Actual Performance			
Year	($billions)		
	CBO 1989	Actual	Difference
1990	$141	$221	$80
1991	$140	$269	$129
1992	$135	$290	$155
1993	$129	$255	$126
1994	$122	$203	$81
1995	$110	$161	$51
Total	**$777**	**$1,399**	**$622**
Year	**Percent of GDP**		
	CBO 1989	**Actual**	**Difference**
1990	2.6%	4.0%	1.4%
1991	2.4%	4.7%	2.3%
1992	2.2%	4.9%	2.7%
1993	2.0%	4.1%	1.9%
1994	1.7%	3.1%	1.4%
1995	1.5%	2.4%	0.9%
Average	**2.1%**	**3.9%**	**1.8%**

Table 1
Deficits in the 1990s: Reagan Baseline vs. Actual Performance
Source: Congressional Budget Office, *Economic and Budget Outlook*, January 1989.

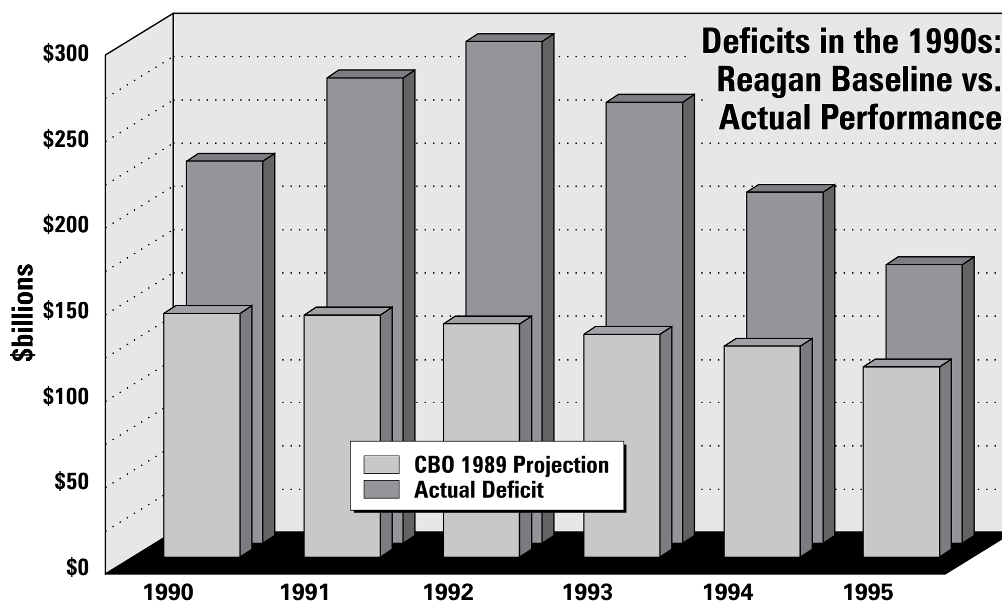

Figure 1
Deficits in the 1990s: Reagan Baseline vs. Actual Performance
Source: Congressional Budget Office, *Economic and Budget Outlook*, January 1989.

Some analysts maintain that the reason the fiscal performance of the 1990s has been so much worse than expected is not that the policies of the 1990s have failed, but rather that unforeseen events made the initial predictions unrealistic. Yet it is important to note that *up through December 1990—that is, up through the signing of the 1990 budget deal—the CBO continued to forecast declining deficits*, though each succeeding report was slightly less optimistic. It is also noteworthy that one cannot accuse the CBO of intentionally "cooking the books" to paint an unrealistic "rosy scenario." The Congressional Budget Office during this period had a record of hostility toward Reagan administration policies.

It is true that in 1990 the CBO did not predict four key events that significantly changed the fiscal outlook in Washington. These were:

"The two major reasons for the high deficits in the 1990s are dramatic and unexpected surges in domestic spending and slow revenue growth."

1. **The 1990–91 recession**. Beyond question, the 1990–91 recession contributed to a substantial increase in the budget deficit. Recessions cause higher deficits because federal revenues decline and expenditures on unemployment insurance and welfare programs rise. In 1989 neither the CBO nor most private Blue Chip forecasters saw an end to the record-long 1980s expansion.

   The real question is: What caused the recession? The evidence suggests that the 1990 tax increase and the abandonment of the fiscal restraint mechanism of Gramm–Rudman may have exacerbated the 1990–91 recession and slowed the ensuing recovery.[9] In any case, supporters of the 1990 and 1993 budget deals predicted that they would make the economy perform better—not worse.[10] However, from 1990 through 1995, annual economic growth has been half a percentage point lower on average than expected. *The recession and subsequent weak recovery account for about half the rise in the nation's deficit.*

2. **The savings and loan crisis.** All told, the federal bail-out of the thrift industry cost the federal government roughly $150 billion of additional net expenditures from 1990 to 1995. *The S&L crisis artificially raised the size of the budget deficits during the Bush years—when the failed assets were being acquired—and has artificially lowered the budget deficits during the Clinton years—as the failed assets have been sold.*

3. **The end of the Cold War.** The Congressional Budget Office predicted lower deficits in the 1990s even with continuing increases in defense spending. For example, it predicted that by 1995 the Pentagon budget would be $298 billion. In reality, it was $269 billion. *This is the first period in American history where the federal government has experienced huge budget deficits during a time of a sustained reduction in military spending.*[11]

4. **Two major tax increases.** The 1989 CBO baseline assumed no budget deals and no major enacted tax increases. *Yet over the five year period we had two of the largest tax hikes in US history*. Combined they raised the tax burden by 1.25 percent of GDP.[12] And, by the Washington way of thinking, this should have produced significant improvement in the deficit.

The combined effect of these four factors would have been expected to push the budget deficit to lower than anticipated levels. For this reason, the 1989 CBO baseline misses the fiscal deterioration caused by the policies of the 1990s. *The two major reasons for the high deficits in the 1990s are dramatic and unexpected surges in domestic spending and slow revenue growth.*

Broken Promise #1: President Bush's 1990 Budget Deal

With the end of fiscal year 1995, the book on the 1990 budget deal, when President Bush reneged on his "read my lips" pledge not to raise taxes, is now closed. That budget deficit deal promised $500 billion in deficit reduction from 1991–95. We can now objectively compare its results with its promises.[13]

Table 2 compares the deficit reduction promised by the 1990 budget deal with the actual deficits. The promised deficit levels are based on the Congressional Budget Office report published in December, 1990, one month after the budget deal was signed into law.

The 1990 Budget Deal Fails			
Budget Deficit in $Billions			
Year	**Promised Deficit**	**Actual Deficit**	**Difference**
1991	$253	$269	$16
1992	$262	$290	$28
1993	$170	$255	$85
1994	$56	$203	$147
1995	$29	$161	$132
Total	$770	$1,178	$408

Table 2
The 1990 Budget Deal Fails
Source: Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," December, 1990.

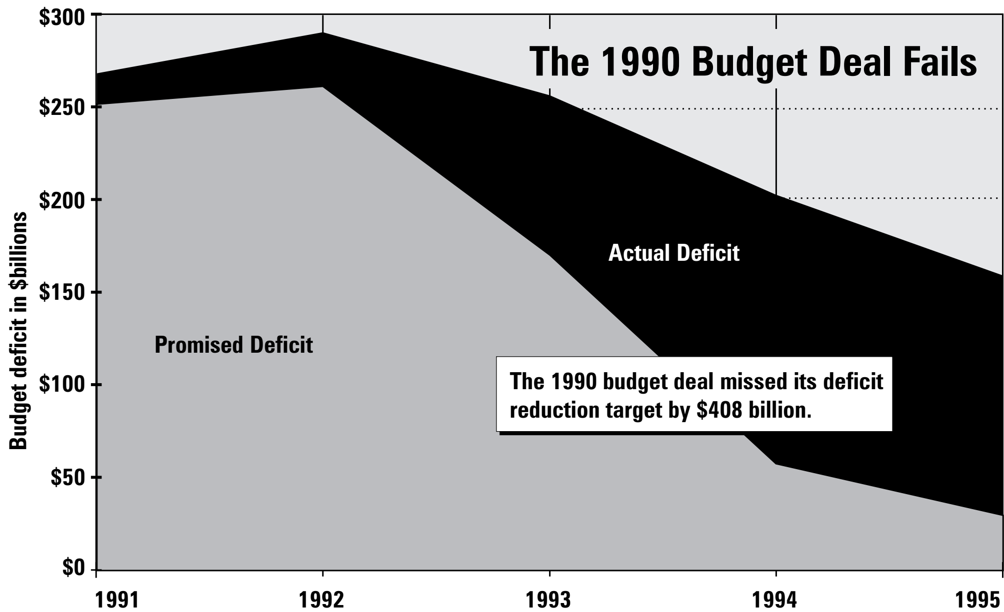

Figure 2
The 1990 Budget Deal Fails
Source: Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," December, 1990.

The figures in Table 2 indicate that the actual deficits for the past five years were $408 billion higher than the Congressional Budget Office predicted when the 1990 budget deal was enacted, and more than $1 trillion higher than if the Gramm–Rudman deficit reduction targets had been enforced.[14] The 1990 budget deal clearly did not cut the deficit; it substantially raised the deficit to levels higher than otherwise would have been achieved.

One of the selling points of the 1990 budget deal to conservatives was then-White House Chief of Staff John Sununu's claim that by 1995, federal expenditures would fall below 20 percent of GDP. This promise was broken as well. In 1995 federal spending still stood at 22 percent of GDP.

"The 1990 budget deal clearly did not cut the deficit; it substantially raised the deficit to levels higher than otherwise would have been achieved."

Some of the few remaining defenders of the 1990 budget deal maintain that the $161 billion deficit in 1995—the lowest level in six years—indicates that the Bush deal made progress by the end. But this is a far cry from the assurances that the American public were given back in October of 1990. The Bush White House and congressional Democrats pledged that the 1990 deal would lead to a balanced budget in five years. The Congressional Budget Office said that the deficit would fall to $29 billion by 1995.[15] *If the only positive result for supporters of the 1990 budget deal is that it produced a budget deficit fully five times higher than promised, this seems as thoroughly damaging an indictment as any critic might present.*

Broken Promise #2: President Clinton's 1993 Budget Package

In 1993 President Clinton won passage of another large "deficit reduction" package that was a virtual carbon copy of the 1990 budget deal. Both the 1990 deal and the Clinton 1993 package contained a record tax hike, though the Clinton tax hike was substantially larger: Bush's 1990 deal enacted $150 billion of new taxes over five years, while Clinton's 1993 package contained an additional $250 billion in taxes. Another similarity of the two packages was that both spurned specified program or agency terminations, and instead established spending ceilings with most promised savings reserved for future or "out" years.[16] Both the 1990 and 1993 deals paid lip service to entitlement reforms while taking few specific steps to slow the growth of entitlements. Finally, both the Bush and Clinton budget pacts promised deficit reduction of $500 billion from an imaginary and inflated Congressional Budget Office baseline.

Because the 1993 budget deal is only two years old, only a preliminary assessment can be made now. Because the budget deficit has fallen in the last two years, many proponents of the Clinton deal are trumpeting its accomplishments and hailing the 1993 budget package as a success.

There are two problems with this conclusion. First, the President promised that the 1993 deal would cut the deficit in half by the end of his first term. That would produce a 1997 budget deficit of $145 billion. *Instead, the 1997 deficit is expected to be $203 billion, or 40 percent higher than promised.* In fact, under Clintonomics, the red ink grows higher every year. Table 3 shows the latest CBO deficit estimates through 2005. Although the deficit in the short term has been lowered, the Clinton package certainly has not solved in any way the structural problem of federal deficit spending.

Table 3
Federal Budget Deficits Under the 1993 Budget Act

Source: Congressional Budget Office, "The Economic and Budget Outlook," December 1995.

Federal Budget Deficits Under the 1993 Budget Act		
	($ billions)	
Year	Nominal	1995 Dollars
1993	$255	$270
1994	$203	$209
1995	$161	$161
1996	$179	$174
1997	$203	$192
1998	$219	$201
1999	$242	$214
2000	$258	$222
2001	$269	$226
2002	$288	$234
2003	$307	$242
2004	$332	$255
2005	$363	$271
Total Increase in National Debt	**$3,279**	**$2,871**

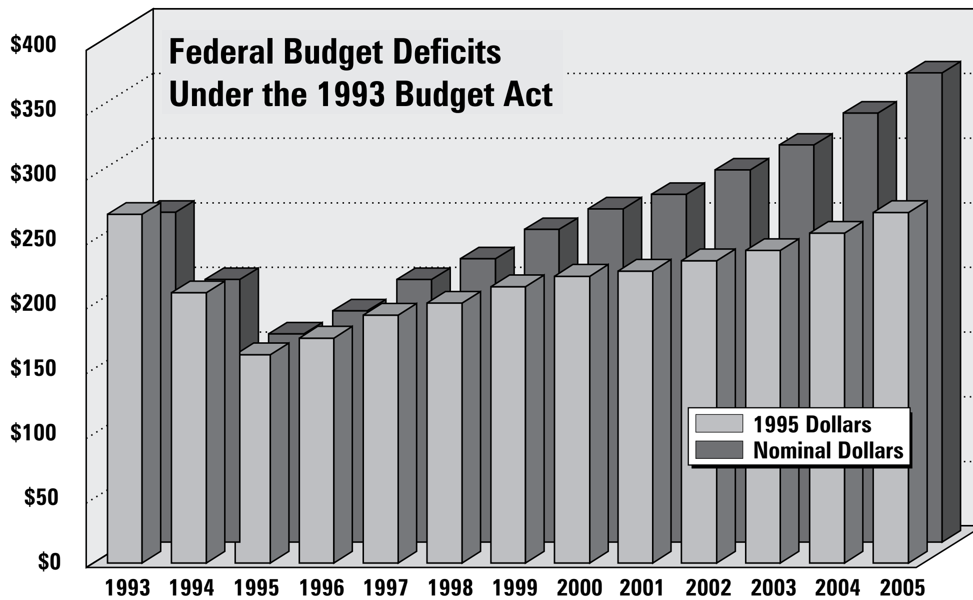

Figure 3
Federal Budget Deficits Under the 1993 Budget Act

Source: Congressional Budget Office, "The Economic and Budget Outlook," December 1995.

A second reason to be critical of the 1993 budget deal is that the deficit decline in recent years is almost entirely attributable to factors unrelated to the the 1993 budget package. The first factor behind the improvement in the deficit is that the savings and loan crisis is over. Close to $200 billion in federal outlays for the acquisition of the assets and properties of the failed savings and loans in the early 1990s has now given way to more than $50 billion in revenue collections from the sale of those assets from 1993 to 1995. *The deficit was artificially raised in the Bush years as the outlays for the S&L crisis were made, whereas the deficit has appeared artificially suppressed in the Clinton years as the asset sales have occurred on his watch*. The deficit picture has improved by about $50 billion per year in recent years compared to the early 1990s as a result of the resolution of the thrift crisis.

"The S&L bailout artificially raised the size of the budget deficits during the Bush years, whereas S&L asset sales have artificially lowered the budget deficits during the Clinton years."

A second factor behind the lowering of the deficit has been the outlay savings in the defense budget. *The real defense budget has fallen by $42 billion over the past two years alone*. The 1993 budget deal did not produce these savings; the end of the Cold War did. Table 4 shows that *defense savings account for 51 percent of the deficit reduction since 1993*. If 1996 is included in the picture, defense spending cuts account for fully two-thirds of the deficit reduction since 1993.

Deficit Reduction and the Defense Budget			
Year	Deficit Reduction Since 1993	Cutback Since 1993	
		$	%
1994	$52	$24	46%
1995	$94	$42	45%
1996	$76	$47	62%
Total	$222	$113	51%

Table 4
Deficit Reduction and the Defense Budget

*Excludes $6 billion of nondefense spending in military budget in 1994, 1995, and 1996

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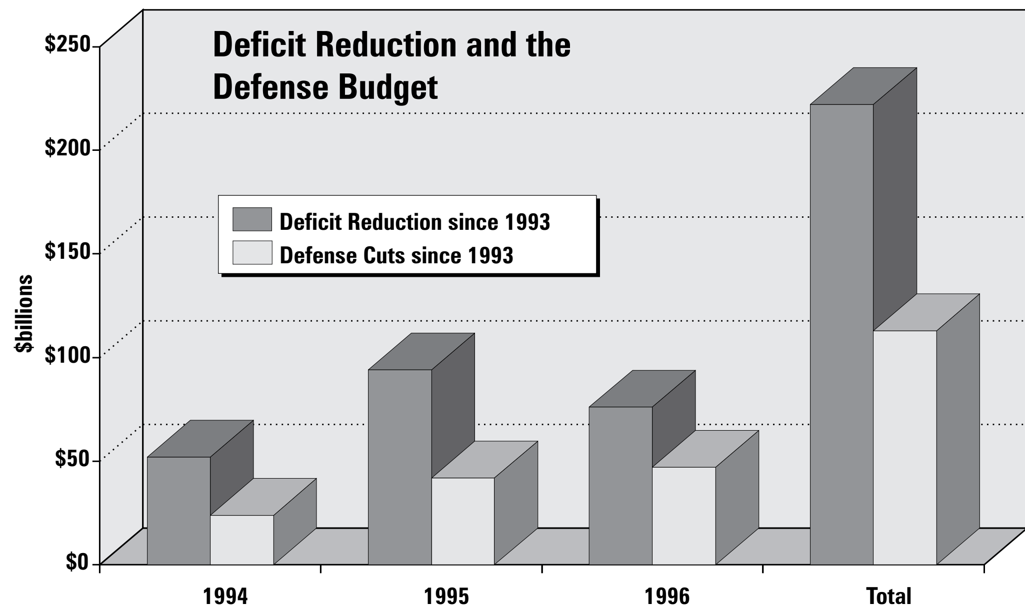


A variety of other factors unrelated to the budget deal appear to account for the remaining deficit reduction that has occurred. For example, the cyclical economic recovery has lowered the deficit by an estimated $25–30 billion per year. That recovery was well under way before the 1993 deal. Another factor has been the slowdown in the real rate of health care inflation in the 1990s. Health care inflation had been growing 4 percent faster than the CPI (Consumer Price Index) in the late 1980s, but in 1994 this rate of growth had slowed to 1.9 percent above CPI,[17] due to movements toward cost sharing and other insurance reforms in the private sector.[18] A slowdown in the overall rate of health care inflation benefits the federal government, which is the largest purchaser of health care in the United States.

Again, it would be premature at the end of the second year of a five year budget package to label it a success or failure. So far, the evidence suggests that the 1993 deal has had almost no impact on the deficit—positive or negative. The deficit will not be cut in half by 1997, despite reductions in spending enacted by the GOP Congress.[19] Most importantly, even with the 1993 budget deal, the long term deficit picture is still decidedly grim.

Do Tax Hikes Lower Deficits?

The one policy change that has certainly not contributed to deficit reduction over the past five years is the increase in taxes. *The projected combined effect of both the 1990 and 1993 tax increases was to raise static federal tax receipts by approximately $250 billion*. Despite the higher tax burden on American workers and businesses, the anticipated federal revenues have not come through.

This result is shown in Table 5. It compares the revenue growth predicted by the CBO in August, 1990—just before the 1990 budget deal. *Each year, actual federal revenues after the 1990 and 1993 tax hikes have been below the level that was expected* **before** the tax increases. In 1994, after the Clinton tax hike had taken effect, federal revenues were $79 billion lower than anticipated. In 1995 federal revenues were $60 billion lower. If the two tax hikes had any effect at all, it was to exacerbate the budget deficit problem. In fact, from 1991 to 1995, federal revenues were $412 billion lower than the pre-tax hike forecast. Even if all the

spending restraint promised by the 1990 budget deal had been delivered, the revenue losses alone wiped out $412 of the $500 billion in deficit reduction anticipated by the 1990 deal.

About 90 percent of the revenue shortfall over the past five years has been in lower than expected collections of *income* taxes. Yet higher income taxes on wealthier individuals were major components of the 1990 and 1993 budget pacts. Supply-side critics of the 1990 and 1993 tax hikes argued that the increase in taxes on the wealthy would not be paid, because of tax sheltering, lessened work effort, reduced investment in the U.S., and a lowering of reported incomes by the wealthy. The evidence suggests that, for whatever reason, the critics were largely correct.

Table 5
The 1990 and 1993 Tax Hikes Fail to Deliver Expected Revenues

Source: Congressional Budget Office, *The Economic and Budget Outlook,* August 1990.

The 1990 and 1993 Tax Hikes Fail to Deliver Expected Revenues			
Total Taxes			
Year	**Actual Revenues**	**Expected Revenues**	**Shortfall**
1991	$1,054	$1,123	($ 69)
1992	$1,090	$1,188	($ 98)
1993	$1,154	$1,260	($106)
1994	$1,258	$1,337	($ 79)
1995	$1,357	$1,417	($ 60)
Total	$5,913	$6,325	($412)
Individual Income Taxes			
Year	**Actual Income Taxes**	**Expected Income Taxes**	**Shortfall**
1991	$ 468	$ 517	($ 49)
1992	$ 476	$ 555	($ 79)
1993	$ 510	$ 595	($ 85)
1994	$ 543	$ 635	($ 92)
1995	$ 595	$ 675	($ 80)
Total	$2,592	$2,977	($385)

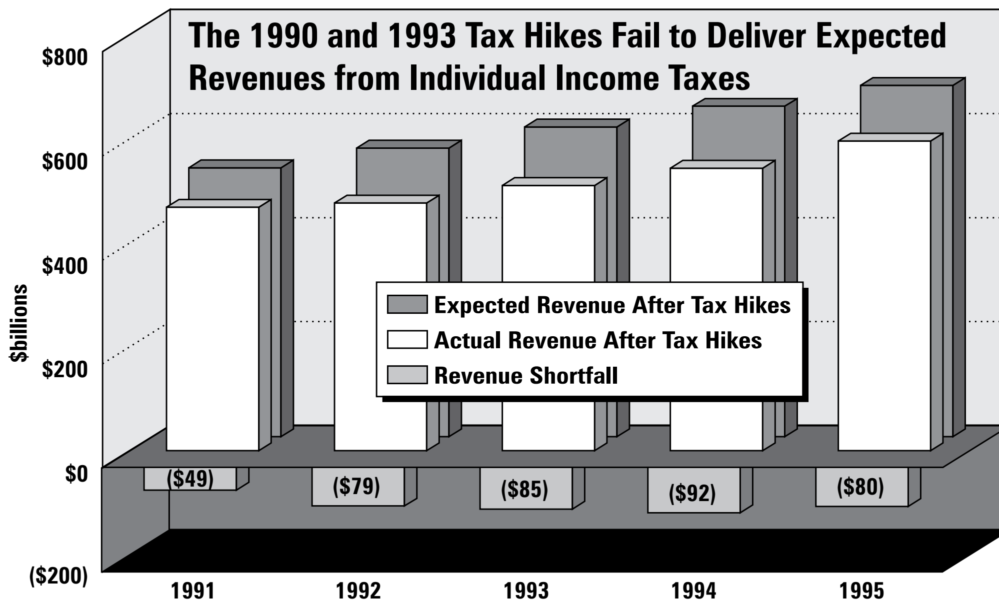


Figure 5
The 1990 and 1993 Tax Hikes Fail to Deliver Expected Revenues from Individual Income Taxes

Source: Congressional Budget Office, *The Economic and Budget Outlook,* August 1990.

How slow has revenue growth been in the 1990s? The best way to answer this question is to compare federal revenues in the seven year period after the Reagan tax cuts with the seven year period after the Clinton tax hikes. Table 6 shows that overall real federal revenues from 1982 to 1989 grew by 24 percent. But overall

federal revenue growth from 1990 through 1997 (as currently forecast by CBO) will be only 16 percent. If federal revenues had grown in the 1990s at only the same pace they did in the 1980s after the Reagan tax cuts, federal receipts in 1996 would be almost $70 billion higher and the deficit would be cut nearly in half.

"If federal revenues had grown in the 1990s at only the same pace they did in the 1980s after the Reagan tax cuts, the deficit would be cut nearly in half."

Even when individual income tax receipts are solely examined, where rates were cut by Reagan and increased by Bush and Clinton, it appears that *more tax money came in after Reagan chopped income tax rates by 25 percent than they have after Bush and Clinton raised the rates on wealthy Americans by 50 percent*. Income tax receipts after adjusting for inflation climbed by 16.3 percent in the seven years after the full Reagan tax cut. Income tax receipts will have climbed by only 12.8 percent in real terms in the seven years since 1990. Economists Martin Feldstein and Daniel Feeburg of the National Bureau of Economic Research find that the marginal income rate hikes under Clinton (to 36 percent on Americans with incomes over $140,000 and to 40 percent for those with incomes over $250,000) raised 33 percent less revenue in the first year than expected. High income individuals eluded the new higher tax rates, according to Feldstein and Feeburg, by reducing their taxable income by 8.5 percent.[20]

Table 6
Reagan Tax Cuts vs. Bush–Clinton Tax Hikes

Reagan Tax Cuts vs. Bush–Clinton Tax Hikes					
Overall Revenue Growth					
Revenue Growth After Reagan Tax Cuts			Revenue Growth After Bush–Clinton Tax Hikes		
Year	Revenue	Growth	Year	Revenue	Growth
1982	$738	-	1990	$914	-
1983	$684	-7.3%	1991	$895	-2.1%
1984	$730	6.7%	1992	$895	0.0%
1985	$777	6.4%	1993	$922	3.7%
1986	$790	1.7%	1994	$982	6.5%
1987	$854	8.1%	1995	$1,028	4.7%
1988	$877	2.7%	1996	$1,046	1.8%
1989	$916	4.4%	1997	$1,062	1.5%
Total	-	**24.1%**	Total	-	**16.2%**
Income Tax Receipts					
Income Tax Receipts After Reagan Tax Cuts			Income Tax Receipts After Bush–Clinton Tax Hikes		
Year	Revenue	Growth	Year	Revenue	Growth
1982	$355	-	1990	$413	-
1983	$328	-7.6%	1991	$397	-3.9%
1984	$327	-0.3%	1992	$390	-1.8%
1985	$353	8.0%	1993	$408	4.6%
1986	$360	2.0%	1994	$424	3.9%
1987	$393	9.2%	1995	$451	6.4%
1988	$386	-1.8%	1996	$460	2.0%
1989	$413	7.0%	1997	$466	1.3%
Total	-	**16.3%**	Total	-	**12.8%**

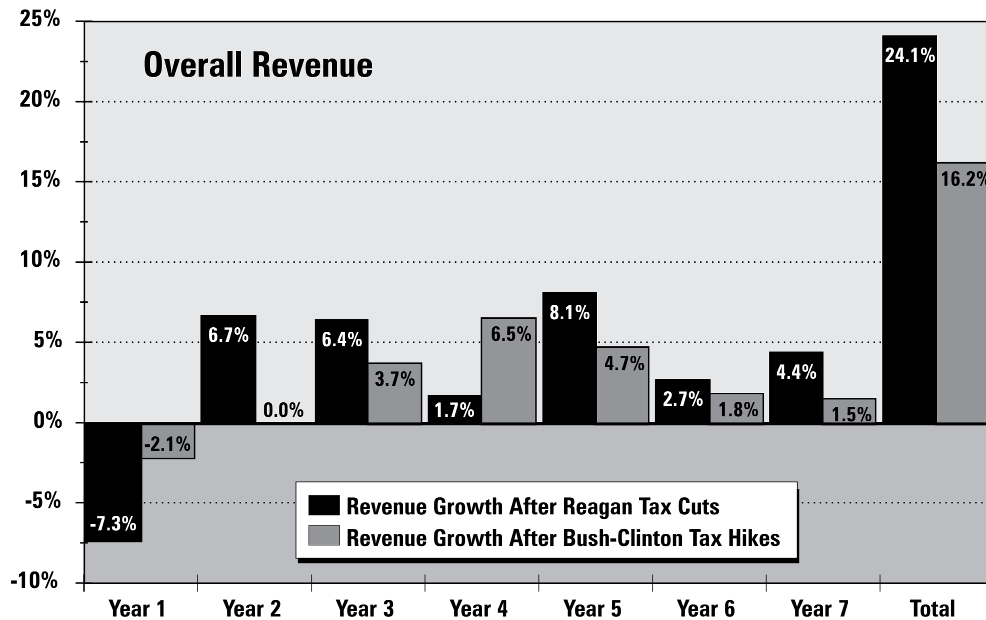


Figure 6a
Reagan Tax Cuts vs. Bush–Clinton Tax Hikes: Overall Revenue
Year 1 = first full effective year after change.

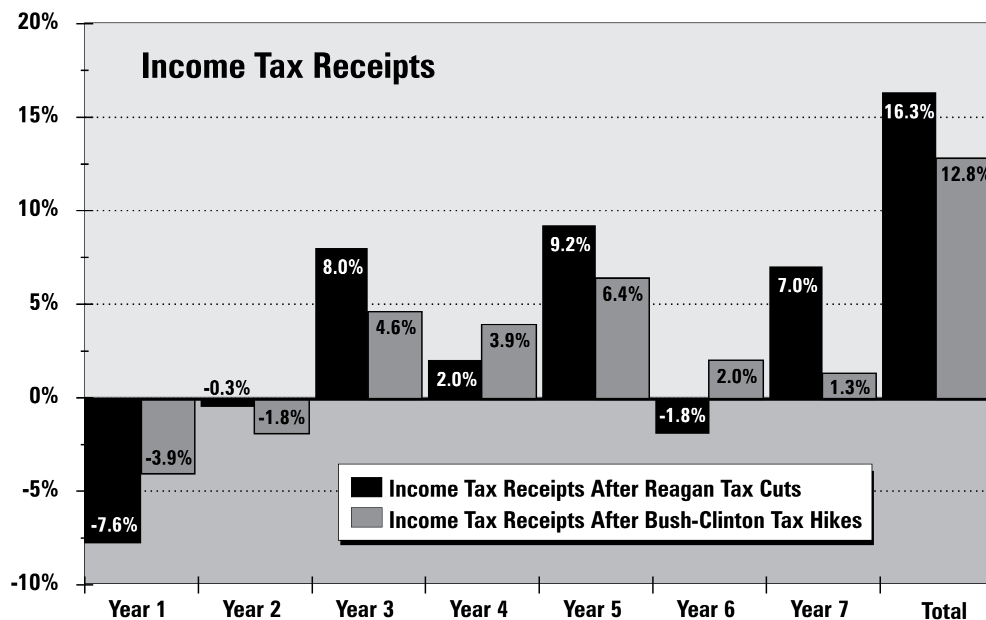


Figure 6b
Reagan Tax Cuts vs. Bush–Clinton Tax Hikes: Income Tax Receipts
Year 1 = first full effective year after change.

The Spending Record

One of the main promises of both the 1990 and 1993 budget packages was to impose “airtight lids on spending.” Both deals promised roughly one dollar in spending restraint for every one dollar of new taxes.

In examining the overall level of total federal outlays since 1989, one might be tempted to conclude that at least Congress and the White House have not allowed spending to accelerate in the 1990s. At 22 percent of GDP, total federal spending was at the same level in 1995 as it was in 1989. At least the overall federal budget has not grown faster than taxpayers’ ability to pay for it.

However, an examination of total expenditures provides a highly distorted view of fiscal developments in the 1990s. Over the past six years the composition of the budget has been dramatically altered. A large reduction in military spending

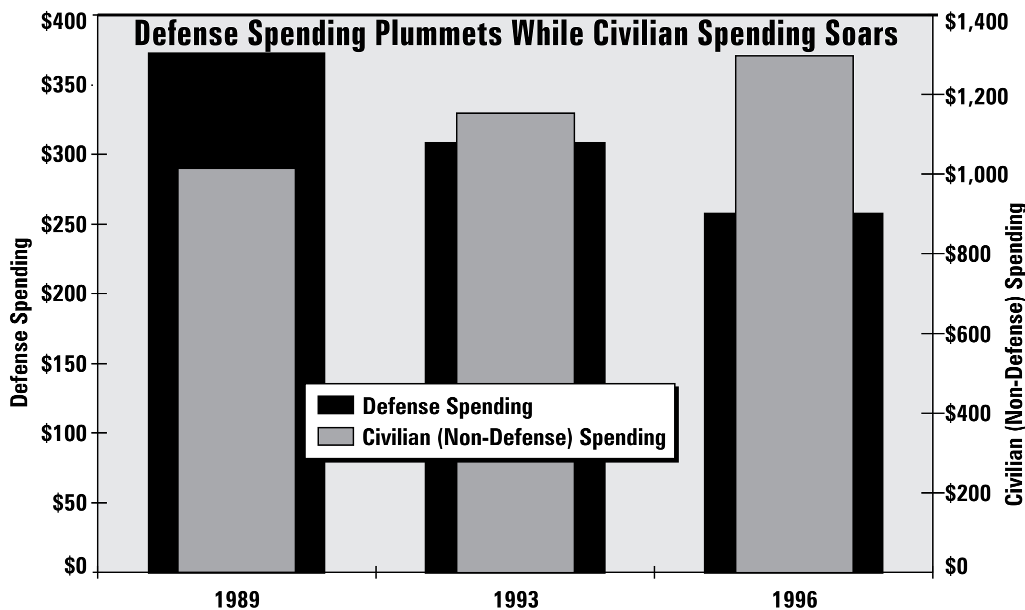
in the wake of the Cold War has helped camouflage a large and sustained rise in domestic expenditures. Table 7 shows that between 1989 and 1996 U.S. government spending (adjusted for inflation) on national defense will have fallen by roughly $115 billion. Over that same period real non-defense spending will have climbed by roughly $300 billion and almost 30 percent.

Whatever happened to the "peace dividend" American taxpayers were promised in the early 1990s after the Berlin Wall came down? It has been spent many times over on other federal programs. For every dollar of peace dividend achieved by the victory in the Cold War, Washington has spent roughly $2.75 on domestic programs.

Table 7
Defense vs. Nondefense spending

Defense vs. Nondefense spending				
($1995)				
Year	**Defense Spending**	**% Change**	**Non-Defense Spending**	**% Change**
1989	$372	-	$1,002	-
1993	$308	-14.0%	$1,156	15.0%
1996	$257	-16.0%	$1,301	13.0%
1989–96	-	-31.0%	-	30.0%

Figure 7
Defense vs. Nondefense spending



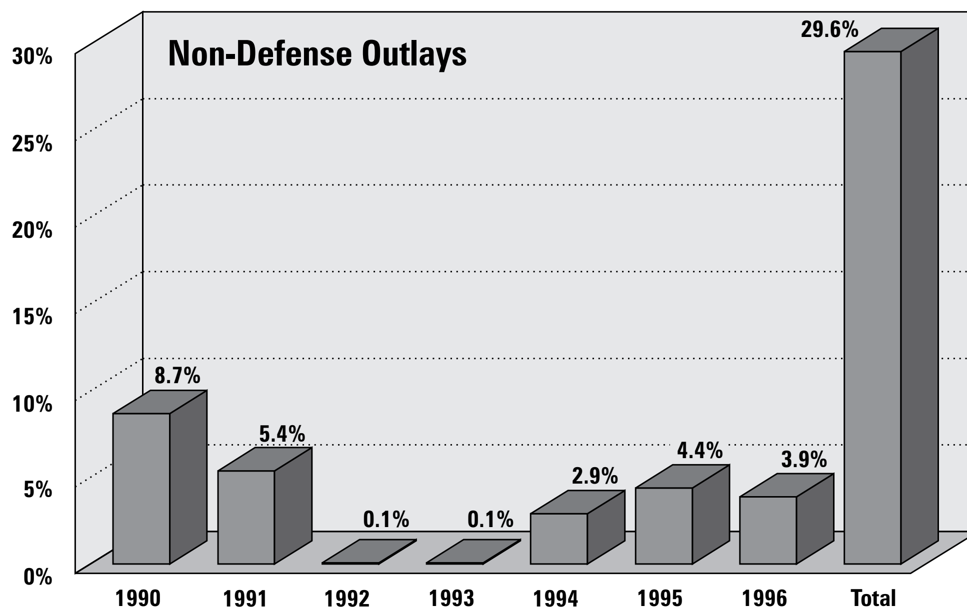
"If non-defense expenditures had grown only at the rate of inflation since 1989, this year the federal government would produce an $80 billion budget surplus, rather than a $179 billion deficit."

Under Bush and Clinton thus far, federal non-defense expenditures have grown at well over twice the rate of inflation, as shown in Table 8. If non-defense expenditures had grown only at the rate of inflation since 1989, this year the federal government would produce an $80 billion budget surplus, rather than a $179 billion deficit.

Table 8
Non-Defense Outlays

Non-Defense Outlays			
Year	**Actual**	**Actual $1995**	**Real Increase in Non-Defense Outlays**
1989	$840	$1,017	
1990	$953	$1,106	8.7%
1991	$1,050	$1,166	5.4%
1992	$1,082	$1,167	0.1%
1993	$1,123	$1,180	0.1%
1994	$1,185	$1,214	2.9%
1995	$1,268	$1,268	4.4%
1996	$1,356	$1,318	3.9%
Total	-	-	29.6%

Figure 8
Non-Defense Outlays



For all the congratulatory talk about unprecedented budget restraint in Washington, one statistic exposes the fallacy: today non-defense federal expenditures at 18.2 percent of GDP are at their highest level in American history.

Where Did All The Money Go?

Table 9 shows the budget (in 1995 dollars) for every cabinet department and major independent agency in 1981, 1989, and 1995. Under Reagan the spending areas which grew most rapidly were the traditional areas of government: defense, health care, justice, state, and spending on Congress itself. All other departments saw their budgets fall in real terms. *During the Bush–Clinton administrations the budget has risen almost universally in every domestic department*. Every domestic agency has grown in real terms. In fact, this table underscores the dramatic reversal in priorities of Reagan, versus Bush–Clinton. Every agency that was cut under Reagan in the 1980s has seen a large increase in the 1990s. The only major department that spends less today than in 1989 is the Pentagon—which was increased under Reagan. Even wholly unproductive and obsolete agencies, such as the Commerce Department and the Energy Department, have enjoyed healthy budget increases in the 1990s.

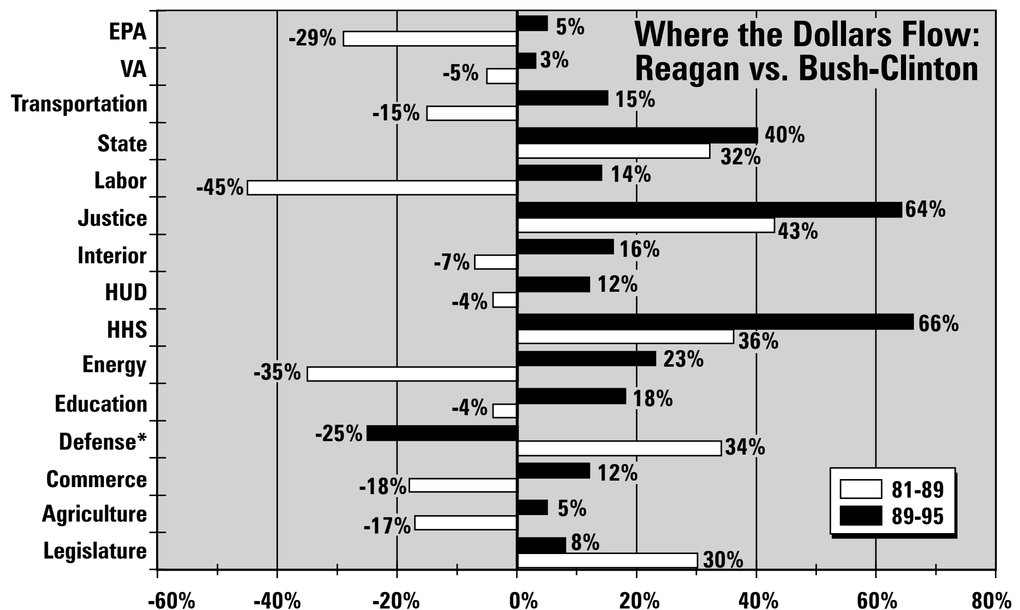
Table 9
Where the Dollars Flow: Reagan vs. Bush–Clinton

* Includes military and civilian programs.

Where the Dollars Flow: Reagan vs. Bush–Clinton					
	($1995)			%	
	1981	1989	1995	81–89	89–95
Legislature	$2.0	$2.6	$2.8	30.0%	8%
Agriculture	$71.0	$59.0	$62.0	-17.0%	5%
Commerce	$3.9	$3.2	$3.6	-18.0%	12%
Defense*	$289.0	$388.0	$291.0	34.0%	-25%
Education	$29.0	$28.0	$33.0	-4.0%	18%
Energy	$20.0	$13.0	$16.0	-35.0%	23%
HHS	$137.0	$187.0	$301.0	36.0%	66%
HUD	$25.0	$24.0	$27.0	-4.0%	12%
Interior	$6.8	$6.3	$7.3	-7.0%	16%
Justice	$5.1	$7.3	$12.0	43.0%	64%
Labor	$51.0	$28.0	$32.0	-45.0%	14%
State	$3.4	$4.5	$6.3	32.0%	40%
Transportation	$39.0	$33.0	$38.0	-15.0%	15%
VA	$39.0	$37.0	$38.0	-5.0%	3%
EPA	$8.4	$6.0	$6.3	-29.0%	5%

Figure 9
Where the Dollars Flow: Reagan vs. Bush–Clinton

* Includes military and civilian programs.



Entitlements in particular have been the main engine of spending growth in the 1990s, as was the case in the 1980s. Contrary to the myth that Reagan cut social programs, income transfer payments increased by $73 billion in real terms under Reagan, as shown in Table 10 below. This failure to restrain entitlements was one of the principal explanations for the explosion in the deficit in the 1980s. Yet in the eight post-Reagan years, 1989–97, federal entitlements will have grown by $257 billion. Real entitlement spending has grown three times faster under Bush–Clinton than under Reagan. This is despite the persistent boasts by supporters of the 1990 and 1993 budget deals that enforceable tight spending caps were being imposed on entitlements.

Entitlement Growth Under Reagan, Bush and Clinton	
Year	**Constant $1995**
1981	$520
1989	$593
1993	$744
1997	$850
Period	**Rate of Growth**
1981–89	14.0%
1989–93	26.0%
1993–97	14.0%
1989–97	43.0%

Table 10
Entitlement Growth Under Reagan, Bush, and Clinton
Source: 1996 Budget, p. 108.

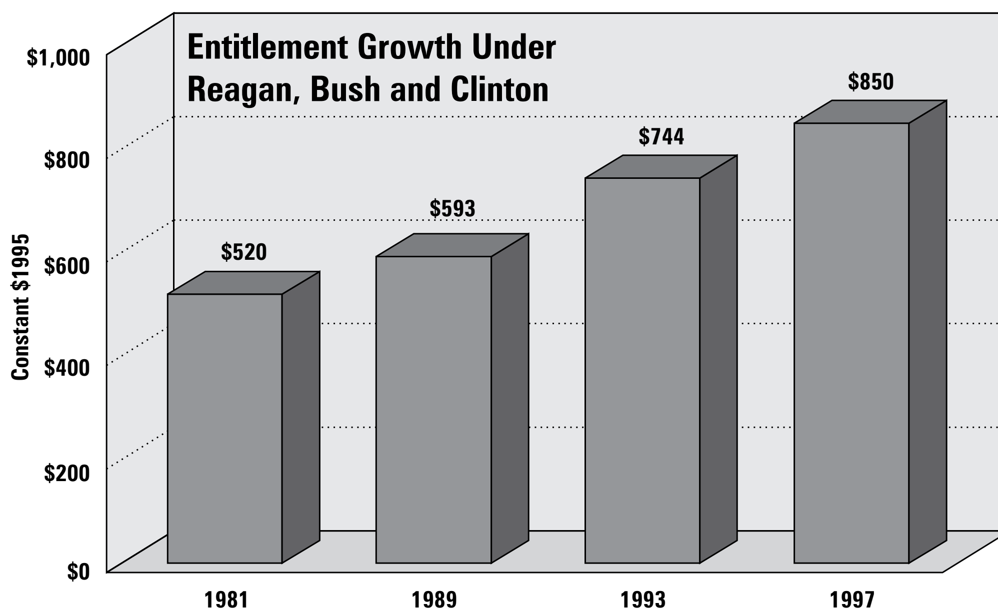


Figure 10
Entitlement Growth Under Reagan, Bush, and Clinton
Source: 1996 Budget, p. 108.

It is sometimes argued that the United States has savaged safety net programs in recent years in order to cut the budget deficit.[21] And the current congressional Republican budget has been attacked by critics for achieving most of the savings through cuts targeted at the poor.[22]

The truth is that welfare spending has been the fastest area of growth in the budget in the 1990s. Table 11 shows the totals for the eight largest income support programs. Total welfare spending grew by an enormous 72 percent from 1989–95, after adjusting for inflation. Welfare expenditures have outpaced inflation so far in the 1990s by threefold. If Medicare spending is included in the list of low-income support programs, then total safety net spending is up by $170 billion since 1989 in real dollars. Again, if Medicare is counted as an anti-poverty program, as many critics of congressional Republican budget cuts in this program have argued, then spending for low-income assistance would be just below $400 billion today—or one-quarter of the federal budget. Welfare is not an insignificant component of the federal budget; rather, it is large and growing.[23]

Moreover, even if the GOP budget were adopted in full, spending on virtually every low income program listed above would continue to outpace inflation for the rest of the decade. Medicaid would grow by 6 percent per year. AFDC (Aid for Families with Dependent Children) spending would grow by 4.5 percent per year. Food stamp spending would be up 6 percent per year. The Earned Income Tax Credit would grow by 3 percent per year. And Medicare spending would rise by 8.5 percent per year.[24]

Table 11
Spending On The Poor: 1989–1995

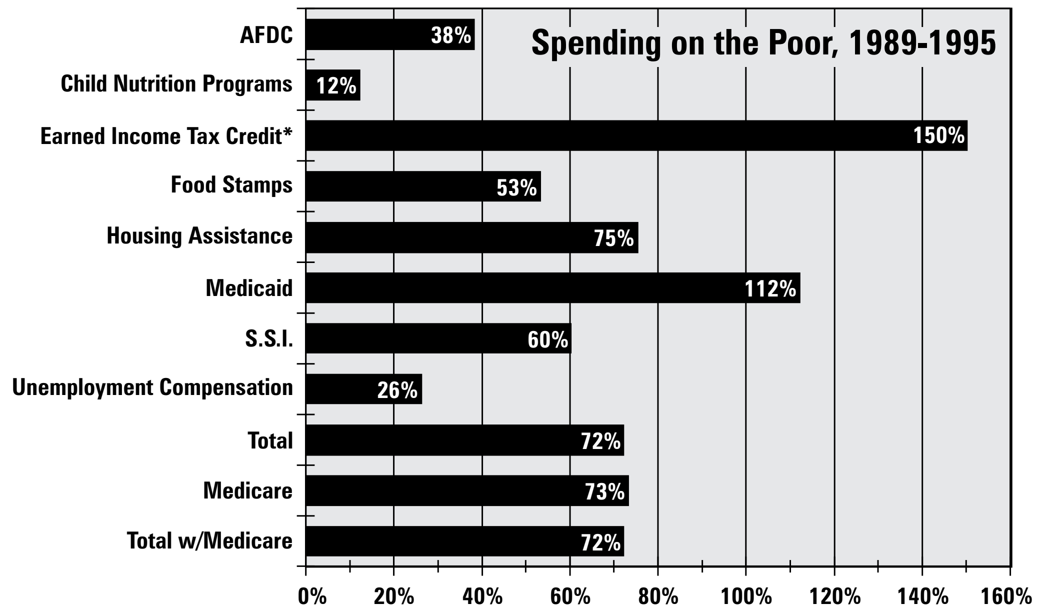
*includes only outlay portion of EITC.

Source: Based on data from Office and Management and Budget Budget of the United States Government, Fiscal Year 1996, historical tables, Table 8.6, p.108. and earlier years.

Spending on the Poor, 1989–1995			
	(Outlays in Billions of $1995)		
	1989	1995	1989–95
Total w/Medicare	$233	$401	72%
Medicare	$103	$178	73%
Total	$130	$223	72%
Unemployment Compensation	$17	$21	26%
S.S.I.	$15	$24	60%
Medicaid	$42	$89	112%
Housing Assistance	$12	$21	75%
Food Stamps	$17	$26	53%
Earned Income Tax Credit*	$6	$15	150%
Child Nutrition Programs	$8	$9	12%
AFDC	$13	$18	38%
Totals	**$596**	**$1,025**	-

Figure 11
Spending On The Poor: 1989–1995

*includes only outlay portion of EITC.



The Bush–Clinton Fiscal Record: A Comparative Analysis

This section addresses the issue of how the Bush–Clinton record on fiscal policy compares with those of previous presidencies dating back to Harry Truman's. For purposes of comparison, the two terms served by John F. Kennedy and Lyndon Johnson are combined because Kennedy did not serve a full term. Similarly, the eight years of Richard Nixon and Gerald Ford are combined because Ford serve only two and a half years as President. All of the data for these comparisons come from the historical tables of the budget of the United States government.

First is an examination of the expenditure side of the budget. Defense spending is excluded because military expenditures rise and fall substantially during times of war and peace. Including defense expenditures makes its difficult to make overall comparisons of the degree of spending restraint among presidents.

Under Bush and Clinton, real non-defense spending has risen by 4 percent per year. The good news is that this is a slower rate of spending build-up than under every president from Truman through Ford (Table 12), though it is a four times faster rate of growth of domestic spending than under Reagan. The bad news is that the annual real increase of $42 billion ties Nixon and Ford for the highest real dollar rate of increase in spending. The Bush–Clinton years have not been years of fiscal restraint.

Table 12
Domestic Spending Growth by President

Domestic Spending Growth by President		
	Annual % Increase	Annual Increase billions $1995
Truman	5.5%	$5
Eisenhower	7.5%	$12
Kennedy/Johnson	8.0%	$21
Nixon/Ford	8.5%	$42
Carter	3.5%	$34
Reagan	1.0%	$17
Bush/Clinton	4.0%	$42

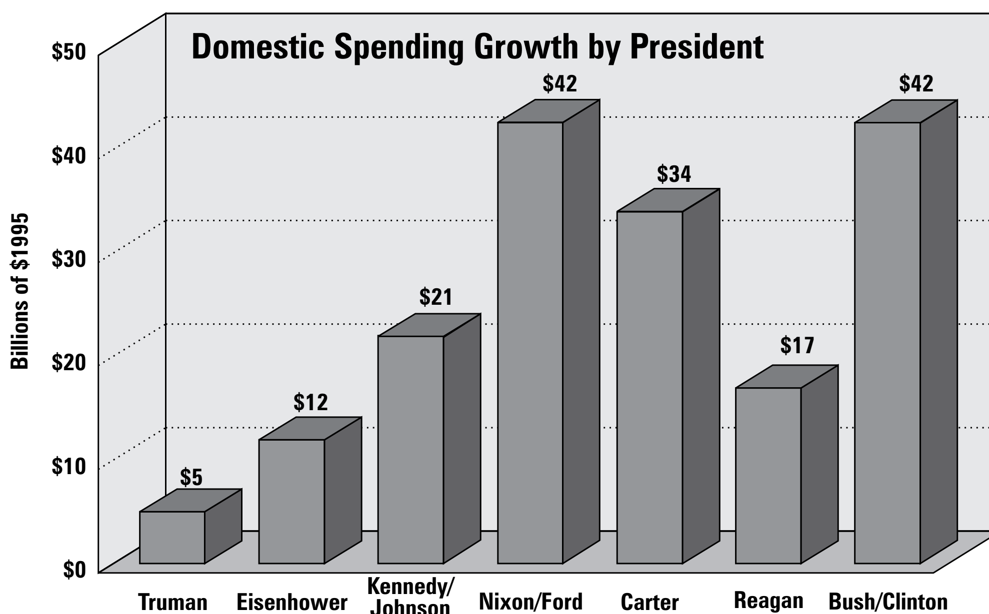


Figure 12
Domestic Spending Growth by President
*Annual increase in billions of $1995.

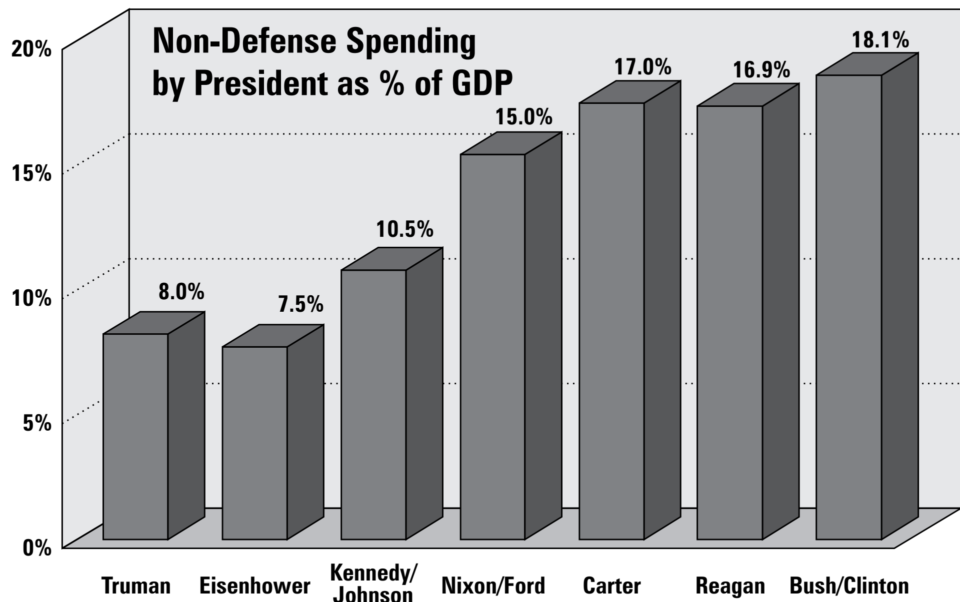
"In the 1950s, domestic federal spending was 7.5 percent of GDP compared with 18.2 percent today."

Bush–Clinton federal domestic expenditures have risen to the highest levels of total national output ever. The figure below (Table 13) shows that under Bush–Clinton, non-defense expenditures have risen to above 18 percent of GDP for the first time. These statistics underscore the dramatic rise in the cost of government over the past forty years. *In the 1950s, domestic federal spending was 7.5 percent of GDP compared with 18.2 percent today*. Government nondefense spending now consumes 10 percent more of GDP today than it did forty years ago. In 1951 the entire federal budget was $50 billion. Today the entire federal budget is $1,500 billion plus $50 billion. In the Reagan years federal domestic spending growth subsided slightly, but it has resumed its ascent in the 1990s. Contrary to President Clinton's allegation that government in Washington is smaller today than it has been in 30 years, the truth is that no other industry in America can match the growth rate of government in the past half century.[25]

Table 13
Non-Defense Spending by President as % of GDP

Non-Defense Spending by President as % of GDP	
	% of GDP
Truman	8.0%
Eisenhower	7.5%
Kennedy/Johnson	10.5%
Nixon/Ford	15.0%
Carter	17.0%
Reagan	16.9%
Bush/Clinton	18.1%

Figure 13
Non-Defense Spending by President as % of GDP



The federal tax burden in America over the past forty years has fluctuated much less dramatically than government spending. From 1950 through 1995 the tax burden has generally fluctuated between 17 and 20 percent of GDP. Several economists have noted the remarkable nonvariance in tax collections as a share of GDP over the past forty years, regardless of whether tax rates are high or low. High tax rates have had remarkably little effect on tax revenues as a share of GDP.[26]

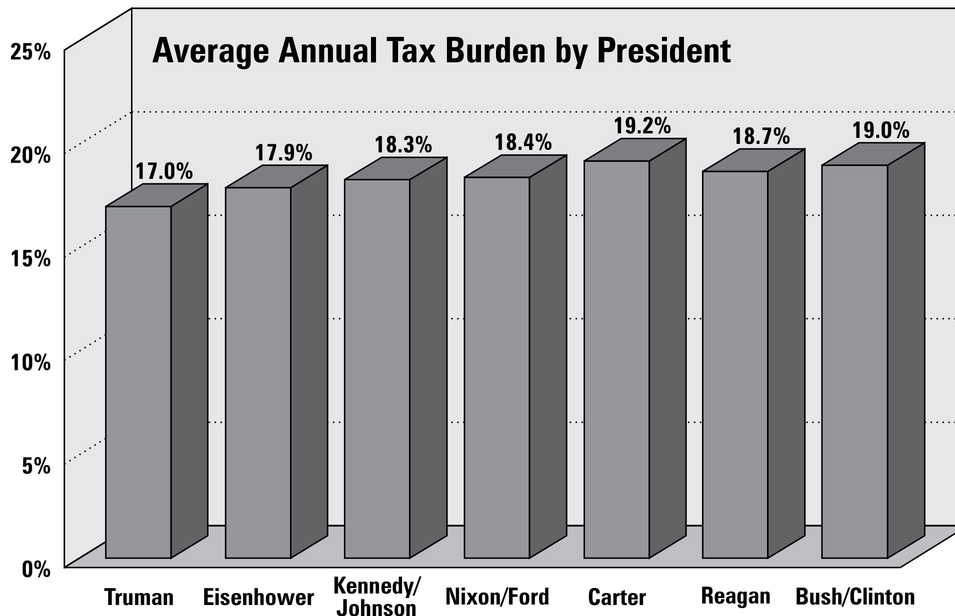
Under Bush and Clinton, higher tax rates and lower growth rates have conspired to push up the tax burden. Table 14 shows that under Reagan the

tax burden averaged 18.7 percent of GDP. By last year, taxes had climbed by half a percent of GDP, to 19.2 percent. However, as discussed earlier, tax receipts have been much lower than expected over this period, and thus higher tax rates have had minimal impact on closing the budget deficit. Over the six year period 1990–95, taxes have averaged 19 percent of GDP under Bush and Clinton. This is the highest level of any previous post-war president with the exception of Jimmy Carter.

Table 14
Average Annual Tax Burden by President

Average Annual Tax Burden by President	
	% of GDP
Truman	17.0%
Eisenhower	17.9%
Kennedy/Johnson	18.3%
Nixon/Ford	18.4%
Carter	19.2%
Reagan	18.7%
Bush/Clinton	19.0%

Figure 14
Average Annual Tax Burden by President



The Bush–Clinton Era Of Big Deficits

The stated chief aim of U.S. fiscal policy under Bush and Clinton has been to reduce the deficit and growth of the national debt from the high levels of the 1980s. Both Bush and Clinton repeatedly stated as candidates that to increase American prosperity, the federal deficit had to be conquered. Bush constantly referred to the deficit as "a cancer" on our economy.

Unfortunately if deficit reduction has been the main goal of the Bush and Clinton administrations, the policy prescriptions have generally failed. Table 15 shows the average real deficit and the deficit as a share of GDP from Truman through Bush/Clinton. In real dollars the average annual deficits under Bush–Clinton ($248 billion) have been slightly higher than under Reagan ($242 billion). As a share of GDP, Reagan's deficits have been half a percentage point of GDP higher. Reagan, Bush and Clinton have produced significantly higher deficits during their terms than previous presidents.

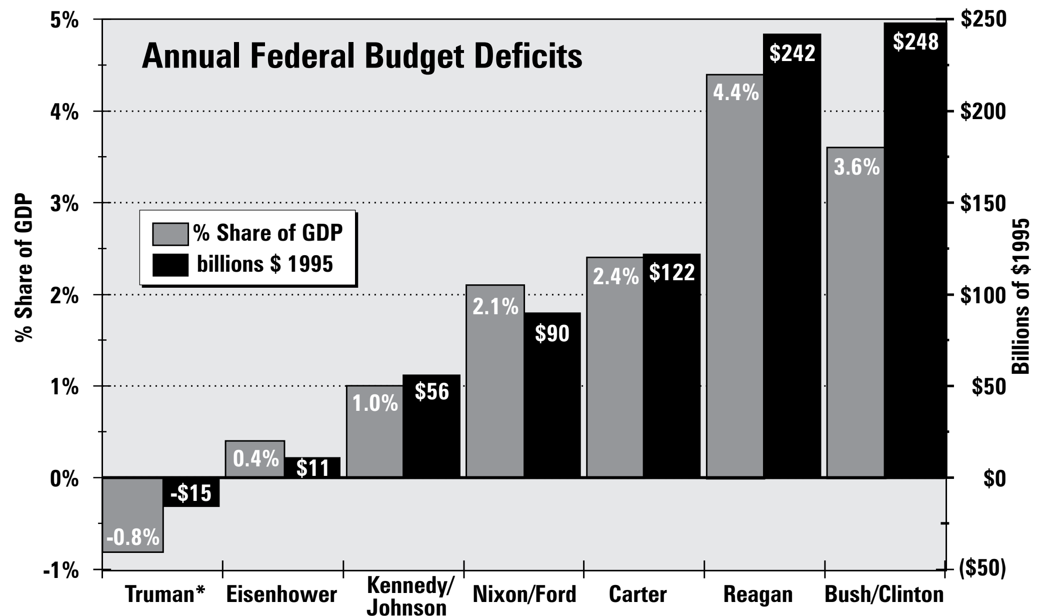
Table 15
Annual Federal Budget Deficits

*Truman recorded net budget surpluses during his post-World War II years as president, FY 1947–53.

Annual Federal Budget Deficits		
	Share of GDP	Billions $1995
Truman*	-0.8%	-15
Eisenhower	0.4%	11
Kennedy/Johnson	1.0%	56
Nixon/Ford	2.1%	90
Carter	2.4%	122
Reagan	4.4%	242
Bush/Clinton	3.6%	248

Figure 15
Annual Federal Budget Deficits

*Truman recorded net budget surpluses during his post-World War II years as president, FY 1947–53.



What is unique in American history about the big deficits under Bush and Clinton is that, unlike the Reagan years, when very high deficits corresponded with high and growing Cold War expenditures, the Bush–Clinton deficit spending binge has occurred despite a shrinking defense budget. Normally at the end of a war period, the deficit falls sharply or even turns into a surplus as wartime expenditures fall. But as discussed earlier, under Bush/Clinton, reductions in wartime expenditures have given way to large increases in the budgets of most all other civilian programs.

A final indication of the failure of the Bush–Clinton policies to tame the red ink in Washington has been the growth of the national debt. David Broder of the *Washington Post* has noted the soaring levels of debt in recent years. Countering the White House's claim that Clinton's fiscal performance has been successful, Broder wrote:

> "Under Bush, the debt increased $371 billion a year. Clinton's projected average is only slightly better at $326 billion a year. Ronald Reagan, blamed by Democrats for starting the fiscal blow-out, averaged "only" $234 billion a year of red ink. Because of the debt Clinton is adding, the annual net interest is projected to climb from $198 billion in 1993 to $270 billion in 1997—when it will for the first time be larger than the projected defense budget.

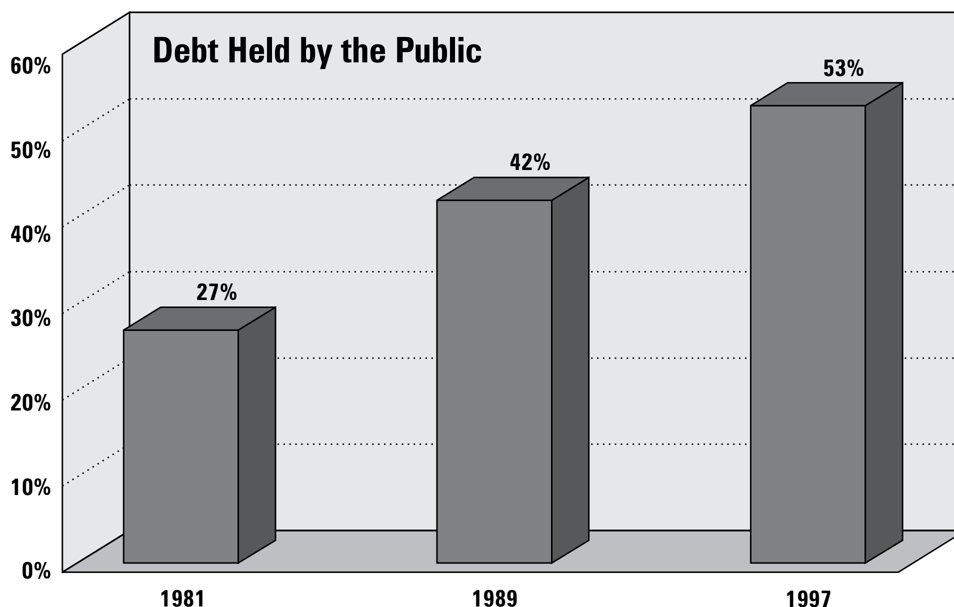
"Democratic claims to the contrary, the projected ratio of the national debt to the size of the economy will be 3 percentage points higher at the end of Clinton's term than at the beginning, and will be the highest in forty years. So much for the White House boast that the budget is "under control."[27]

The statistics confirm Broder's grim assessment. When Reagan left the White House, the national debt stood at a towering level of 42 percent of GDP. By 1997 the debt to GDP level is expected to reach 53 percent of GDP, as shown in Table 16 below.

Table 16
Debt Held By Public

Debt Held by the Public	
Year	**% of GDP**
1981	27.0%
1989	42.0%
1993	52.0%
1997	53.0%

Figure 16
Debt Held By Public



On balance, then, the best that can be said of the Bush–Clinton era in controlling red ink in the 1990s is that their record has been as poor as the Reagan administration's track record in building up the deficit (although the statistics below show that Reagan's overall economic performance was far superior to Bush and Clinton). With government forecasts showing the deficit rising again this year and in every future year for the next ten years, only by resorting to distorted statistics can the White House suggest that there has been any fiscal progress in the 1990s.

Failing Marks: The Bush–Clinton Economic Record

At the end of the 1980s the United States was still enjoying the longest uninterrupted peacetime economic expansion in the twentieth century. A record 16 million new jobs had been created since the end of the 1981–82 recession. Incomes at all quintiles had risen with average family income up 11 percent in real terms during the boom.[28] The American economy was nearly one-third larger in 1990 than it was in 1980.[29] Moreover, the expansion was expected to continue. The Congressional Budget Office did not foresee any recession on the horizon in January, 1989—the beginning of the Bush–Clinton era.

Starting in mid-1990, about the time when George Bush renounced his "no new taxes pledge," the economy fell into a recession which lasted through the end of 1991. The United States is now in the fifth year of an economic recovery from that recession—though economic growth shows signs of slowing considerably again this year. Many analysts have noted the shallowness of the post-1990–91 recovery. Job and economic growth have only been about half as strong as a normal rebound.[30] This set of events have combined to make the 1990s a very slow growth decade so far.

Table 17
Presidential Economic Records

[1]Figures used for 1994 are preliminary.

[2]Figures used for 1995 are projections.

Sources:

Real GDP: *Economic Report of the President, February 1995,* Table B-2, p. 276 (1959–94); and CBO, "Economic and Budget Outlook," August 1995, p. xiv (1995–97).

Real Chain-Weighted GDP: Dept. of Commerce, Bureau of Economic Analysis, Doc. #BEA96-02, January 1995 (1959–95) (note that 1995 is average of numbers for first three quarters).

Civilian Employment: ERP, 1995, Table B-34, p. 314 (1947–94); and BLS (1995 used average of seasonally-adjusted monthly figures for January through October 1995).

Nonagricultural Employees: ERP, 1995, Table B-44, p 324.

Real Personal Income: BEA, Survey of Current Business, November 1994, p. C-33.

Industrial Production Index: ERP, 1995, Table B-49, p. 330.

Real Gross Private Domestic Investment: ERP, 1995, Table B-18, p. 295.

Inflation Rate: ERP, 1995, Table B-63, p. 346 (1946–94), and CBO, E&BO, August 1995, p. xiv (1995).

Unemployment Rate: ERP, 1995, Table B-33, pp. 312–13 (1946–94).

Presidential Economic Records

	Truman 1945–53	Eisen-hower 1953–61	Kennedy/ Johnson 1961–69	Nixon/ Ford 1969–77	Carter 1977–81	Reagan 1981–89	Bush/ Clinton 1989–94[1]	Bush/ Clinton 1989–95[2]
Real GDP	1.07%	2.29%	4.48%	2.65%	2.14%	2.94%	2.02%	2.11%
Real GDP Chain-Weighted	-	-	4.91%	3.00%	2.52%	3.19%	1.75%	1.76%
Civilian Employment	-	1.06%	2.14%	2.12%	2.21%	1.98%	0.96%	1.06%
Non-agricultural Employees	-	1.13%	3.37%	2.02%	2.55%	2.15%	1.01%	-
Real Personal Income	2.14%	3.25%	5.00%	3.10%	3.05%	2.63%	1.94%	2.00%
Real Per Capita Personal Income	0.42%	1.50%	3.71%	2.03%	1.94%	1.70%	0.85%	-
Real Industrial Production Index	-	2.67%	6.52%	2.85%	2.35%	2.76%	2.22%	-
Real Gross Private Domestic Investment	20.80%	2.88%	6.10%	4.20%	1.60%	3.31%	4.49%	-
Annual Inflation Rate (CPI-U)	5.20%	1.40%	2.60%	6.50%	10.70%	4.00%	3.60%	3.60%
Unemployment Rate	4.00%	5.40%	4.50%	6.30%	6.70%	7.30%	6.50%	-

How slow? Table 17 above provides an economic growth scorecard for the Bush–Clinton era, comparing the economic results on a series of key statistics with those of other presidents. The first line shows real GDP growth from 1989–95. The Bush–Clinton growth rate of 2.1 percent has been the lowest of any previous post World War II president. That growth rate is also a full percentage point below the level produced under Reagan. In fact, economists have calculated the size of the "growth deficit"—the difference between the normal economic growth rate in the post World War II era, and the 1990s growth rate. GDP would be roughly $310 billion higher today than it is, if economic growth had been average in the 1990s. On a per family basis this is the equivalent of a loss of more than $2,500 in annual income.

When George Bush won the Republican nomination for president he announced that "we will be able to produce 30 million jobs in the next eight years."[31] But job growth has been anemic in the 1990s. Nowhere near 30 million jobs will be created by 1997. Employment growth has increased by a tiny one percent per

year since 1989. This represents 7.6 million new jobs created. Job creation during the Bush–Clinton era has been half the level achieved under Reagan and the lowest since the Eisenhower administration.

The unemployment rate has averaged 6 percent in the 1990s, which is not especially high. But this has been largely the result of a very slow increase in the labor force participation rate, not a steady gain in employment.[32] For example, the labor force participation rate for single working-age women climbed from 64 to 68 percent in the 1980s, but had fallen back to 66 percent by 1993. Hudson Institute economist Alan Reynolds reports that the labor force grew by 1.7% between 1981 and 1989, but growth slowed to less than 1 percent between 1990 and 1994.[33]

"Job creation during the Bush–Clinton era has been half the level achieved under Reagan and the lowest since the Eisenhower administration."

Real family income growth under Bush–Clinton has been negative. Americans have lost purchasing power over the past five years. In fact, every income group has lost ground in the Bush–Clinton era with the exception of those in the top income quintile, whose incomes have grown slightly. [See Figure 17] The figure shows that the policies of the 1980s created an economic environment where the rich grew richer, the middle class grew richer, and the poor grew richer. By contrast, in the 1990s, despite intended income redistribution policies, the rich have grown richer, while the middle and lower income groups have grown poorer.[34]

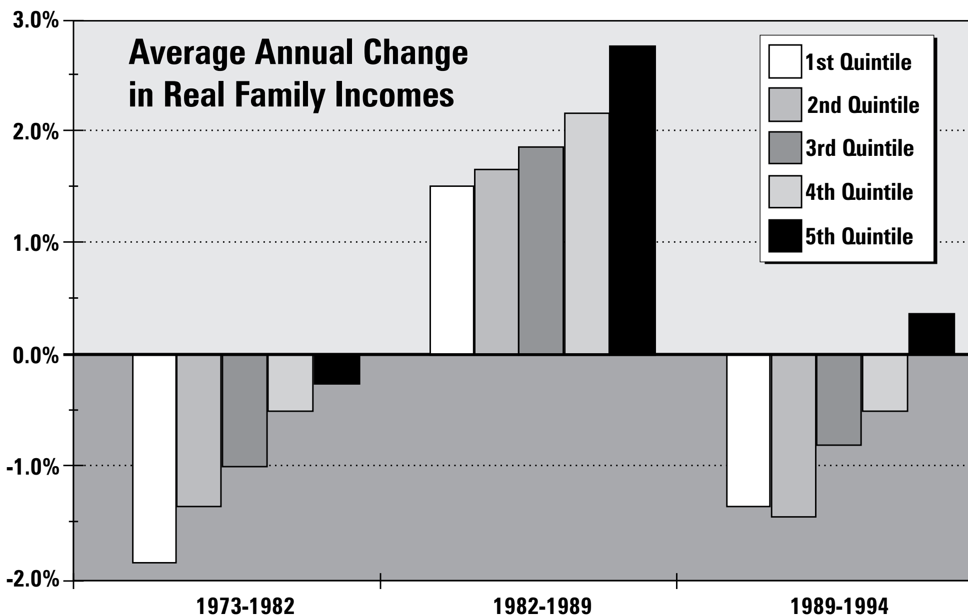


Figure 17
Average Annual Change in Real Family Incomes
(by upper limit of each quintile)
Source: John Silvia, *Middle Class Blues*, Kemper Financial Services, Chicago, IL, 1995, based on Census Bureau data.

Real per capita income growth in the 1990s has been 0.85 percent. This was half the rate of growth in the Reagan years and the lowest level since the Depression. Industrial production has also been the lowest under Bush and Clinton since the Depression.

In a few areas the economy has performed well in the 1990s. Real private domestic investment has been higher under Bush–Clinton than any President since Ford. Perhaps the most encouraging feature of the economy has been low inflation. The inflation rate has averaged 3.6 percent—the lowest level since Lyndon Johnson was in office. The steady defeat of inflation that began in the early Reagan years has continued through the 1990s.

"The figure shows that the policies of the 1980s created an economic environment where the rich grew richer, the middle class grew richer, and the poor grew richer."

There is no question that the economy has performed far better in the first two full Clinton years than in the four Bush years. Bush's four years were anemic in almost every category. But for almost every economic statistic that Clinton outperforms Bush, the improvement was underway in 1992 before the Clinton presidency began. In fact, as poor as the Bush record was, it should be noted that in the fourth quarter of 1992, the last of the Bush years, the economy surged by nearly 5 percent. After the third year of Clinton, almost every measure of the economy has worsened from the economy he inherited from Bush. For example, a *Wall Street Journal* survey of 65 economists found the average expected growth rate for 1996 to be 1.9 percent.[35]

This is another reason for treating the Bush and Clinton terms together. These years include a complete recession/recovery cycle under similiar fiscal policies, just as do Reagan's 1981–82 recession and the recovery.

On balance, the Bush–Clinton years receive failing marks with respect to the economy's performance in the 1990s. The most troubling statistic of all is that even in the recovery phase of the economic cycle (1992–1994) family income is continuing to fall. This is perhaps an unprecedented event: Americans are losing ground in an "economic expansion."

Conclusion

Both Presidents Bush and Clinton came into office promising to out-perform Reagan on the economy and the budget. Both made deficit reduction a top priority of their administrations, even promising to balance the budget in four years. The fiscal and economic policies pursued by Bush and Clinton have been similar in almost every respect. Both have passed major new tax hikes, achieved large reductions in defense spending, contributed to the re-regulation of America,[36] and allowed domestic expenditures, particularly entitlements, to accelerate.

The result of this repudiation of Reaganomics has been perhaps the poorest eight year economic record since the Depression. The growth rate of GDP, employment, and median family income has been weak. Overall economic growth has been half the 1980s level, and well below the level of the 1960s.

The budget deficit crisis has shown no improvement in the 1990s. Average real deficits have been higher under Bush–Clinton than even under Reagan, though as a share of GDP they have been lower. And recent progress on the deficit front has been shortlived. If the Bush and Clinton policies were left on automatic pilot the deficit would climb over the next decade.

The 104th Congress has offered a change in direction, including lower taxes, block granting of entitlements, cuts in low-priority domestic programs, and a balanced budget in seven years. No one can say whether that plan, if adopted, will work, but clearly a departure from the policies of Presidents Bush and Clinton would be a move in the right direction. And the success of the policies of the 1980s suggests a route.

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Endnotes

1. For an independent assessment of George Bush's record see: Stephen Moore, "Crisis? What Crisis? George Bush's Never-Ending Domestic Spending Build-Up," Cato Institute, *Policy Analysis* No. 173, June, 1992.
2. See: Joint Economic Committee of Congress, "1995 Economic Report," Minority Views, pp. 49–82.
3. For example, "Between 1962 and 1969, the economy produced almost 1.7 million new full-time jobs a year. Annual job creation averaged 2.6 million between 1976 and 1979 and 2.1 million from 1983 through 1989. In the wake of the 1990–91 recession, however, new full-time jobs have averaged only 758,000 per year." See: Gary and Aldonna Robbins, **Economic Scorecard**, Institute for Policy Innovation, Lewisville, TX, Third Quarter, 1995.
4. Congressional Budget Office, December, 1995.
5. Congressional Budget Office, December, 1995.
6. For two outstanding discussions of the origins and consequences of those deficits see: David Stockman, *The Triumph of Politics*; and William Niskanen, *Reaganomics*.
7. One often under-reported contributing factor for the soaring deficits of the early 1980s was that the Reagan administration had to refinance debt at very high interest rates—a fiscal penalty, as it were, for the surge of inflation in the 1970s.
8. Congressional Budget Office, *The Economic and Budget Outlook,* January, 1989.
9. John Skorburg and William Dunkelberg, "How Rising Tax Burdens Can Produce Recession," Cato Institute *Policy Analysis* No. 148, February 21, 1991.
10. See, for example: David Gergen, "Lip Balm for Bush," *U.S. News and World Report*, July 9, 1990, p. 84.
11. This is not to say that defense spending has been cutback too much. In fact, a strong case could be made that the Pentagon budget has been cut too little. See: Ted Carpenter, *Cato Handbook for Congress.*
12. See: Daniel Mitchell, "How Congress's $245 Billion Tax Cut Repeals Just One–Third of the 1990 and 1993 Tax Hikes," The Heritage Foundation *Committee Brief*, October 9, 1995.
13. An initial assessment of the 1990 budget deal is contained in: Stephen Moore, "Crime of the Century: The 1990 Budget Deal After Two Years," Cato Institute *Policy Analysis* No. 182, October 15, 1992.
14. Moore, 1992, p. 4.
15. Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," December, 1990.
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17. Larry Kudlow and Stephen Moore, "The Late, Great Health Care Crisis," *National Review*, 1994.
18. James K. Glassman, "Is the Government's Health Care Cure Really Needed," *Washington Post*, 1994, p. G–1.
19. Note that the reported deficit for 1996 will be low, as low as $125 billion, due to the provisions of continuing resolutions and multiple government shutdowns. These savings are the result of Congressional pressure, and are not attributable to Administration policy.
20. See: Gene Koprowski, "President's Mea Culpa Still Taxing," *Insight,* December 18, 1995, p. 13; and *The Economist*, "A Marginal Error," April 1, 1994; and Joint Economic Committee of Congress, *Annual Report*, Minority Views, May, 1994, pp. 112–4.
21. See, for example: Lisa Myers, NBC Nightly News, May 7, 1992. Myers said: "It was often said that Ronald Reagan's big budget cuts declared war on the poor. The best that can be said of George Bush is that he declared a cease-fire."
22. Center on Budget Priorities, January, 1995 quoted in *Washington Post.*)
23. The benefits from these various programs are also very high. See: Michael Tanner and Stephen Moore, "Work Versus Welfare," Cato Institute *Policy Analysis*, November 1995.
24. Senate Republican Policy Committee, "The Balanced Budget Reconciliation Bill," November 7, 1995.
25. Stephen Moore, *Government: America's Number 1 Growth Industry* (Lewisville, TX: Institute for Policy Innovation, 1995).
26. These statistics suggest that a single low rate flat tax system, as advocated by House Majority Leader Dick Armey, may be the optimal tax structure.
27. David Broder, "Clinton's Budget: Symbol of His Failed Leadership," *Washington Post,* February 13, 1995.

28. See: Richard McKenzie, *America: What Went Right in the 1980s*, 1993; and Robert Bartley, *The Seven Fat Years*, 1992.
29. Richard McKenzie, *America: What Went Right in the 1980s*, 1993.
30. Gary and Aldonna Robbins, TaxAction Analysis, Institute for Policy Innovation, Lewisville, TX..
31. For an assessment of the economic performance of the Bush years, see: "Bush Economic Forecast Shows He Will Set New Records for Post-War Era," Democratic Study Group, U.S. House of Representatives, Special Report, April 21, 1991.
32. Alan Reynolds, "The Incredible Shrinking Labor Force," Hudson Institute Briefing Paper, Indianapolis, IN, September, 1994.
33. Alan Reynolds, Testimony before the House Committee on Ways and Means on "Work Penalties," January 17, 1995.
34. John Silvia, "Middle Class Blues," Kemper Financial Services report, Chicago, Illinois, December, 1995.
35. Joint Economic Committee, *Fact Sheet on the Economy*, December, 1995.
36. *Regulation* magazine.

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