Deficit-Spending in Modern America: President Obama's First Budget

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Abstract

Deficit-spending has long been a staple of American budgeting, at the national level of government. Whereas states are constitutionally prohibited from overspending in a given fiscal year (i.e., a state must submit a balanced budget each year, even though the local units of government, in most states, are free to overspend through the issuance of bonds), no such requirement restrains the federal government. In fact, it is rare whenever Congress and the president agree on a budget that does not include a projected deficit. President Bill Clinton submitted three balanced budgets in the late 1990s, but for thirty years prior to that no balanced federal budget was passed.

The federal government has an easy time overspending. Not only is it not constitutionally or otherwise legally required to balance its books, the political pressure to overspend is enormous. That is, it is much easier to garner a congressional majority by giving in to spending projects than by agreeing to cut projects.

Deficit-spending became a hot political topic in the United States immediately after Ronald Reagan became president, in 1981. During his eight years in office federal revenues soared, but so did spending, resulting in a doubling of the national debt (i.e., the accumulated deficits). Politically, this was the path of least resistance in Congress: Reagan, a conservative Republican, succeeded in securing very large tax cuts, in exchange for the large spending increases sought by liberal Democrats in Congress.

The fiscal-year 2009 budget as revised by President Barack Obama and the newly-elected Congress includes unprecedented levels of deficit-spending—levels more than three times as great as any budget of the past. The argument used to pass such a budget is tied to the economic recession and, more specifically, the financial crisis, unearthed in September 2008, involving bank failures, gigantic derivatives problems, and systemwide credit problems.

In this article I attempt to place the Obama budgets for FY 2009 and FY 2010 (and, to a small extent, Obama's budgetary projections over a ten-year period, beginning with FY 2009) in perspective, by examining their departure from earlier budgets and considering whether these budgets constitute a permanent change in popular and political attitudes toward overspending by the federal government.

Is federal deficit-spending a bad thing?

Economists and political scientists offer a range of differing views on the desirability of deficit-spending. Critics of deficits argue that large and small companies, states, localities and families have to balance their budgets regularly, so it stands to reason that the federal government should be held to the same expectation. Moreover, many insist, the federal government has a much easier time raising revenues than do the states and their local units of government, so Congress and the president should more easily be able to balance their books by adjusting taxing and spending patterns as required.

Some critics believe that deficit-spending is undesirable because of its effects, which they say include inflation, economic slowdowns, and restrictions on available credit for investment purposes. And they point out that deficits are very expensive, as the yearly cost of servicing the debt (i.e., the interest paid on federal securities) now constitutes a substantial portion of overall federal spending.

One problem presented by deficits involves budget-making. When deficit-spending begins, budgetary choices are, necessarily, reduced (Rubin, p. 120). And as the federal budget grows larger, more and more budgetary items will be squeezed out of consideration.