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WHY WE HAVE FEDERAL DEFICITS: THE POLICY DECISIONS THAT CREATED THEM

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ABSTRACT

THIS STUDY EXAMINES the causes of federal deficits from three vantage points. Over three-fourths of the projected long-term federal fiscal imbalance derives from policies enacted between 1965 and 1972. The long-term imbalance is driven primarily by growth in Medicare, Medicaid, Social Security, and the new health-insurance exchanges established as part of the 2010 Affordable Care Act. Most Medicare and Medicaid costs derive from the programs' initial enactment in 1965 during the Lyndon B. Johnson administration. They, along with Social Security, were the objects of significant benefit expansions in 1972 during the Nixon administration. Responsibility for the federal deficit in 2013 (the second vantage point) is more diffuse. The current deficit exists largely because of growth in Social Security, Medicare, and Medicaid spending, in combination with recent expansions of income security programs and lower-than-typical revenue collections. A third vantage point assigns responsibility for federal deficits according to their absolute levels during elected officials' terms of office. These deficits have been substantially higher during the current presidential administration than in any other period studied. Each of these perspectives represents a legitimate way of understanding the federal budget.

JEL codes: H62, H610

Keywords: Deficit, federal deficit, debt, fiscal imbalance, Social Security, Medicare, Medicaid, Affordable Care Act, federal budget, Lyndon Johnson, Congress, president

INTRODUCTION

THIS STUDY EXAMINES the causes of federal deficits from three vantage points, based on comparisons of the components of the current fiscal imbalance with historical budget norms established over the last 40 years. This method finds that the vast majority—over three-fourths—of the projected long-term federal fiscal imbalance derives from policies enacted in the years spanning from 1965 to 1972. The long-term imbalance is driven primarily by growth in Medicare, Medicaid, Social Security, and the new health-insurance exchanges established as part of the 2010 Affordable Care Act. Most current and projected Medicare and Medicaid costs derive from the programs' initial enactment in 1965 during the administration of President Lyndon B. Johnson. They along with Social Security were also the objects of significant benefit expansions in 1972 during the Nixon administration. Responsibility for the federal deficit in the current fiscal year for the purposes of this study, FY2013 (the second vantage point), is more diffuse. The current deficit exists largely because of growth in Social Security, Medicare, and Medicaid spending, in combination with recent expansions of income security programs and lower-than-typical revenue collections. A third vantage point assigns responsibility for federal deficits according to their absolute levels during elected officials' terms of office. These deficits have been substantially higher during the current presidential administration than in any other period studied. None of these three perspectives is inherently superior, and each represents a legitimate way of understanding the federal budget. Viewed together they reveal much about the policy choices that created the federal fiscal imbalance.

POLEMICS VS. ANALYSIS

THE CAUSES OF US federal budget deficits are frequently debated. Such discussions serve a variety of purposes. Among the most constructive of these is to identify which current policies must be altered if the outlook for federal finances is to be meaningfully improved. Alternatively, discussion can serve primarily political or polemical ends, providing a vehicle for representatives of opposing political parties to assign responsibility for existing or projected deficits to each other.

The method chosen to analyze federal fiscal policy is often closely connected to the purpose for which the analysis is intended. It is relatively straightforward to develop a framework that is certain to assign blame for existing deficits to targeted policies or to individuals associated with an opposing political party. All that is required is to adopt a time frame and a method of allocating responsibility that lead inevitably to this result. For example, a study that purported to examine the reasons behind an increase in total federal debt from 1977 through 1980, which assigned responsibility for all fiscal policy decisions solely to the president, and which ignored the effects of all policies enacted prior to 1977, would inevitably conclude that President James E. Carter was solely responsible for all debt accumulation. In recent years, similarly distorting polemical tactics have been employed by various political advocates to assign primary responsibility for current federal indebtedness to President George W. Bush.[1]

If instead the purpose of analysis is to illuminate the policies that have led to the federal government's current fiscal condition, one must take a different approach, constructed to provide a more objective picture of the federal budget and the policy decisions that most contributed to its imbalance. Even so, constructing an analytical framework pursuant to this informational end requires various subjective judgments, as explained in the following sections.

Federal budget deficits matter for a number of reasons, not the least of which is that over the long run they make Americans poorer than they otherwise would be. While there is persistent attention to the ongoing policy debate over whether and how much Keynesian fiscal stimulus can increase economic output in the short run, the general consensus is that the long-run effects of federal dissaving are substantially negative upon economic growth.[2] Our failure to contain our deficit

1. Glenn Kessler, "Obama's Claim That '90 Percent' of the Current Deficit Is Due to Bush Policies," *Washington Post*, September 26, 2012, http://www.washingtonpost.com/blogs/fact-checker/post/obamas-claim-that-90-percent-of-the-current-deficit-is-due-to-bush-policies/2012/09/26/e9bfbcd0-077e-11e2-a10c-fa5a255a9258_blog.html. The Kessler article discusses a graph released by the Obama administration attributing 90 percent of recent deficit increases to policies enacted by President George W. Bush. The graph in question excludes the effects of all policies enacted prior to January 2001 when President Bush took office. Similar methods are employed by Bruce Bartlett in "The Fiscal Legacy of George W. Bush," *Economix* (blog), *New York Times*, June 12, 2012, http://economix.blogs.nytimes.com/2012/06/12/the-fiscal-legacy-of-george-w-bush/, which ignores deficit-driving policies enacted prior to President Bush's inauguration. Calculations by the Center for American Progress (CAP), published in Michael Ettlinger and Michael Linden, "Who's to Blame for the Deficit Numbers?," August 25, 2009, http://www.americanprogress.org/issues/economy/report/2009/08/25/6594/whos-to-blame-for-the-deficit-numbers/, also achieve similar results by exploring only policy changes made since 2001, thereby overweighting the policy decisions made by President George W. Bush relative to other federal office-holders. As with the other examples, the CAP article does not consider the role of Congress in shaping the federal budget.

2. One example of this consensus is reflected in Congressional Budget Office (CBO), *Economic Effects of Reducing the Fiscal Restraint That Is Scheduled to Occur in 2013*, May 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf. Excerpt: "Rising debt would cause a growing

spending is thus a threat to the economic well-being of our children and grandchildren. For this reason alone it is worth understanding the causes and potentially effective corrections of federal deficit spending.

While it is a worthy subject of debate whether and how much a given amount of deficit spending contributes positively to economic growth over a short-term period, this study does not seek to make a value judgment about whether specific instances of deficit spending represent good or bad policy. Instead the goal is simply to quantify the drivers of deficit spending based on the analyses and estimates of federal budget scorekeeping agencies.

FRAMING THE QUESTION: CURRENT VS. PROJECTED DEFICITS

There are at least two important contexts for evaluating responsibility for federal deficits: one must determine whether one is referencing *current* federal deficit levels, or *projected* federal deficit levels.

Discussions of the policy challenge of correcting the course of federal finances often refer to projected deficits and debt. The federal government's projected long-term fiscal imbalance represents an important public policy problem to be understood, confronted, and solved. Under current Congressional Budget Office (CBO) projections, federal deficits and debt will ultimately reach untenable levels.[3] Usefully approaching this problem requires an understanding of the adopted policies that give rise to these concerning projections, and of the extent to which alteration of these policies can improve the fiscal outlook.

Much ongoing discussion, however, concerns the question of which (and whose) policies are responsible for current levels of federal deficits and debt. This discussion often aims to answer the specific questions of "How did we get to where we now are, and who is responsible for it?" Discussions of current deficit levels naturally tend toward blame-laying and away from problem-solving, in part because only the future can be changed, not the past, and in part because current levels of debt, while problematic, are not nearly as intractable as those that would arise as a result of projected deficits. As a general rule, discussions of future deficits are more likely

portion of people's savings to go to purchase government debt rather than to finance investments in productive capital, such as factories and computers. For example, under the alternative fiscal scenario (in which debt is higher), gross national product (GNP) would be 2.5 percent lower in 2022 than it would be under current law, according to CBO's estimates."

3. CBO, *The 2012 Long-Term Budget Outlook*, June 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-05-Long-Term_Budget_Outlook_2.pdf. Under the CBO's 2012 projections, federal deficits grow uncontrollably over the long term under the alternative fiscal scenario though not under the extended baseline scenario. The CBO's updated projections in *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf, show federal debt levels rising at the end of the 10-year budget window. Over the long term the February 2013 projections more closely resemble the projections in the 2012 alternative fiscal scenario than the 2012 extended baseline.

to tend toward consideration of policies that might usefully be changed, whereas discussions of current deficits are more susceptible to mutual scapegoating for the perceived mistakes of the past.[4]

That being said, there is no neat divide between the rhetorical purposes of analyzing current versus future deficits. Just as many want to attribute responsibility for the current federal fiscal position, others may wish to know whose policy decisions have done the most to form the problematic future fiscal outlook. And just as we may want to know which policies most need to be changed to repair the long-term budget outlook, we may also find it informative to understand precisely how past policy choices led to the current fiscal position.

Conclusions about which individuals, and which policies, have contributed most to federal deficits depend enormously on whether we are referencing current or future deficits. For example, to date the Social Security program has generated more in tax revenue than it has paid out in benefits, whereas in the future its scheduled benefit payments far exceed the tax revenue it is projected to generate, as shown in figure 1.

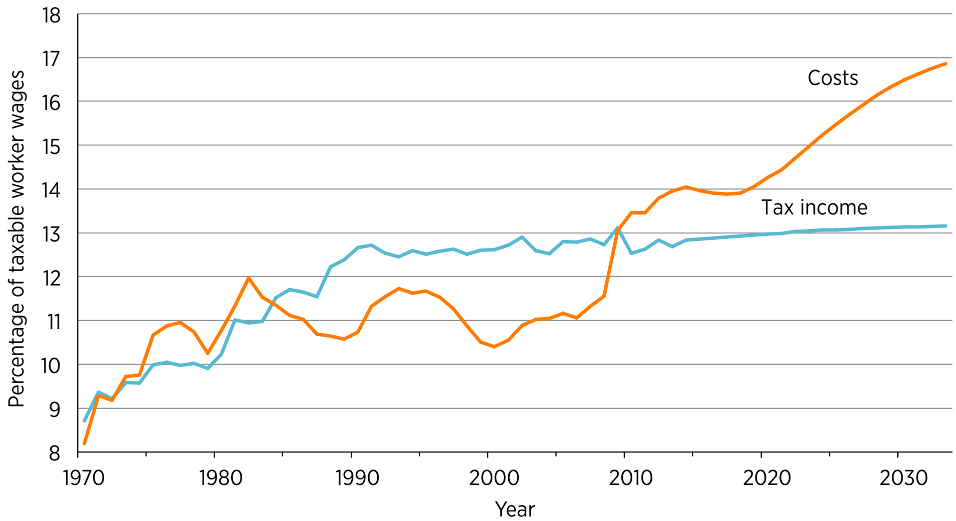
Likewise, subsidies for the new health-insurance exchanges under the Affordable Care Act have not contributed significantly to federal deficits to date, but these subsidies, along with Medicare, Medicaid, and Social Security, are one of the four largest drivers of federal deficit-spending growth going forward, as shown in figure 4 in the "Results and Discussion" section of this paper.[5] Thus, how much a particular policy or elected official has added to federal deficits is a question that can only be answered if we define which deficits, present or future, are being referenced.

To achieve an accurate understanding of federal finances, it is important to avoid the mistake of conflating these different reference frames of current and future deficits. One elected official's policy decisions might add significantly to the current annual deficit but not qualitatively influence the long-term fiscal picture. Alternatively, an official's policy decisions might have little or no costs during the current year, but could be projected to have significant long-term costs. Because

4. This study focuses on quantifying the contributors to annual federal deficits rather than on accumulated debt, for a number of reasons. Debt is in effect the consequence of sustaining deficits over time and includes the cumulative effects of interest payments. Policies enacted by later officeholders may add significantly to annual deficits going forward but will initially have a relatively smaller effect on accumulated debt simply by virtue of less time having passed for interest payment effects to compound. Focusing on debt rather than deficits could therefore have the effect of magnifying the contributions of earlier officeholders to the structural fiscal imbalance relative to later ones. In addition, there are vigorous analytical disagreements over which definition of federal debt (e.g., publicly held debt, gross debt, and debt subject to statutory limit) is most meaningful economically; it would exceed the scope of this paper to delve into these controversies.

5. CBO, *2012 Long-Term Budget Outlook*, box 1-1, p. 14. "The growth of noninterest spending as a share of gross domestic product results entirely from projected increases in spending on several large programs: Social Security, Medicare, Medicaid and (to a lesser extent) the insurance subsidies that will be provided through the health insurance exchanges established by the Affordable Care Act (ACA)."

FIGURE 1. PAST AND PROJECTED SOCIAL SECURITY TAXES AND COSTS AS A PERCENTAGE OF SOCIAL SECURITY'S TAX BASE



Source: 2013 Annual Report of the Board of Trustees of the Federal Old-Age Survivors Insurance and Federal Disability Insurance Trust Funds, *May 31, 2013, http://www.ssa.gov/oact/tr/2013/tr2013.pdf.*

both the current and long-term budget contexts are commonly discussed and are reasonably of concern, this study will examine the effects of policy choices as seen from both frames of reference.[6]

ASSIGNING RESPONSIBILITY: CONGRESS AND THE PRESIDENT

Assigning responsibility for federal fiscal policy choices is inherently a subjective, inexact process. While the US constitution is often interpreted as granting the "power of the purse" to Congress (based on various factors including its requirement that all revenue measures must originate in the House of Representatives), the president also plays a critical role in federal fiscal management.[7] Legislation to appropriate funds, to amend tax law, or to alter or establish mandatory spending programs can only be enacted either with the president's signature or if Congress is

6. See CBO, *2012 Long-Term Budget Outlook*, for a discussion of future deficits, and CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, for a presentation of the near-term fiscal outlook. The CBO publishes reports on the long-term outlook annually, publishing updated reports on the short-term outlook typically three times a year.

7. U.S. Const. art. I, § 7, available at http://www.archives.gov/exhibits/charters/constitution_transcript.html. There are countless examples of the attribution of the "power of the purse" to the US Congress. One is from former congressman Lee Hamilton, "Congress and the Power of the Purse" (The Center on Congress at Indiana University, November 18, 2001), http://congress.indiana.edu/congress-and-the-power-the-purse.

able to override a presidential veto.[8] It is clear that neither Congress nor the president is solely responsible for fiscal policy. But it is far from clear how responsibility should be apportioned between them.

It could be argued that Congress has greater control over the US budget than does the president. The president cannot create budgetary legislation without action by Congress. Moreover, some parts of the current budgetary process, such as the congressional budget resolution, do not require the president's participation or signature. Even if the president vetoes legislation that affects the budget, it may still become law if both chambers of Congress override that veto with a two-thirds vote.

On the other hand, the president enjoys substantial power over federal finances as well. The president is the sole individual at the helm of the executive branch, and thus can command a unity of decision and action that Congress may be unable to match. The federal government's annual "budget season" is usually thought of as beginning when the president submits his proposed budget to Congress.[9] A vast array of regulatory and administrative decisions by the executive branch can affect how much is spent from federal programs. And as a single individual speaking with an undivided voice, the president may enjoy a communications advantage in persuading the public as to the rightness of his views; throughout most recent polling history, US presidents have routinely enjoyed higher public-approval ratings than Congress as a whole.[10] One could reasonably argue that in recent decades, enacted federal budgets have reflected the president's policy views as much as or even more than those of Congress.

For these reasons, and lacking an obviously better method of apportioning responsibility for fiscal decisions, this study will assign 50 percent of the responsibility to the president and 50 percent to Congress.[11]

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8. The CBO defines mandatory spending as "spending for *entitlement* programs and certain other payments to people, businesses, and state and local governments. Mandatory spending is generally governed by statutory criteria; it is not normally set by annual appropriation acts." CBO, "Frequently Asked Questions about CBO Cost Estimates," accessed October 31, 2013, http://www.cbo.gov/about/our-products/ce-faq.
9. The standard process is for the president's budget to be submitted by the first Monday in February, just after his delivery of the annual State of the Union address. The year 2013 is an exception to this general rule. President Obama did not submit his proposed budget for FY2014 to Congress until April 10, 2013. See "White House: President Obama on FY 2014 Budget Request," C-SPAN Video Library, April 10, 2013, http://www.c-spanvideo.org/event/216825.
10. Frank Newport, "Congress Approval Ties All-Time Low at 10%," Gallup Politics, August 14, 2012, http://www.gallup.com/poll/156662/congress-approval-ties-time-low.aspx; The American Presidency Project, "Presidential Job Approval F. Roosevelt (1941)–Obama," accessed November 1, 2013, http://www.presidency.ucsb.edu/data/popularity.php. It should perhaps be mentioned that in a representative government, ultimate responsibility for the overall condition of federal finances lies generally with the voters who determine those who hold office in both the executive and legislative branches. The focus of this paper is instead on analyzing the specific policy decisions made at specific times by specific officeholders.
11. If a law were enacted over a presidential veto, it would seem appropriate to assign 100 percent of the responsibility to Congress and none to the president. However, all the legislation analyzed in this study received a presidential signature.

Within Congress, the two chambers of the House of Representatives and the Senate can fairly be thought of as coequal branches. Each will thus be assigned 25 percent responsibility for fiscal policy.

The House of Representatives is essentially a majoritarian body; a voting majority there can generally pass bills as long as it stays united, and can even rewrite the chamber's rules and procedures for the consideration of that legislation along the way.[12] There is little that a minority of the House can to do stop the passage of legislation favored by the majority. For this reason, all 25 percentage points of responsibility allocated to the House of Representatives will be assigned to the majority party.

The Senate majority, however, commands less than total control of its chamber. Its majority leader can determine what legislation comes to the floor; the leader also enjoys certain rights of recognition by the presiding officer that effectively allow him to determine certain rules by which amendments to pending legislation can be considered.[13]

The primary countervailing power of the Senate minority consists of its ability to force a prolongation of debate on pending legislation unless 60 votes are received to terminate discussion, or until the minority is otherwise satisfied.[14] The Senate minority cannot enable legislation to get through the Senate, though it can often interfere with the passage of bills favored by the majority. Again, lacking an obviously superior way of allocating responsibility, 20 of the Senate's 25 responsibility percentage points will be assigned to the Senate majority and 5 to the minority.

In summary, this study will apportion responsibility for fiscal decision-making as shown in table 1. This apportionment reflects the author's subjective judgments as just described. The "Results and Discussion" section of this paper includes brief discussions of how a different apportionment might lead to different results.

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12. The primary source for this statement is the author's observations based on several years of experience as a staff participant in the legislative process. This viewpoint, however, is echoed in many other places, including "Basic Training: Senate Rules from a House Perspective," accessed November 1, 2013, http://rules-republicans.house.gov/Educational/Read.aspx?ID=8, where House Rules Committee Republicans say that the House is "designed as a majoritarian institution," and Kevin A. Roust, "Minority Rights in Majoritarian Institutions" (PhD dissertation, California Institute of Technology, Pasadena, CA, 2005), http://thesis.library.caltech.edu/1970/, which begins by asserting, "The House of Representatives is, fundamentally, a majoritarian institution." Many other examples could be found.

13. "Majority and Minority Leaders and Party Whips," US Senate, accessed November 1, 2013, http://www.senate.gov/artandhistory/history/common/briefing/Majority_Minority_Leaders.htm. The majority leader's "right of first recognition enables the majority leader to offer amendments, substitutes, and motions to reconsider before any other senator."

14. Walter J. Oleszek, *Cloture: Its Effects on Senate Proceedings*, May 19, 2008, http://www.senate.gov/CRSReports/crs-publish.cfm?pid=%26%2A2%3C4Q%3C%3B%3B%0A. Measures that move as part of the budget reconciliation process cannot be filibustered, the implications of which will be further discussed later in this study.

TABLE 1. APPORTIONMENT OF RESPONSIBILITY FOR US FISCAL POLICY

Agent	Percentage of responsibility
US president	50
Majority party, US House of Representatives	25
Majority party, US Senate	20
Minority party, US Senate	5

CONTEXT: ABSOLUTE VS. INCREMENTAL FISCAL POLICY MANAGEMENT

In discussions about how to allocate responsibility for fiscal policy practices, two views of responsibility are often invoked and sometimes conflated: one involves the *absolute* changes in the fiscal picture transpiring during a particular elected official's tenure, and the other involves *incremental* changes made to fiscal policy relative to prior law. Both are legitimate prisms through which to view issues of fiscal responsibility, but they are not the same: an internally consistent analysis cannot confuse them.[15]

To a significant extent, federal elected officials bear responsibility for all flows of federal funds during their terms of office—that is, for the absolute levels of all revenues and expenditures as well as the differences between them. However, analyses of responsibility for current fiscal conditions must often also consider policy decisions made during the terms of office of prior officeholders. Particularly salient examples might involve mandatory entitlement spending enacted during one presidential administration and Congress that grows significantly during a later term.

15. It is perhaps worth noting that others might suggest a third method of evaluating responsibility: specifically, to attempt to evaluate the policy decisions made by elected officials relative to competing proposals or in reference to an estimate of the most likely alternative outcome. This method would incorporate guesses of what otherwise would have happened had the studied deficit-increasing legislation not been passed. Such a method would for example spread responsibility for the enactment of Medicare among other political figures deemed likely to have passed a similar law if the elected officials of 1965 had not, thus assigning less-than-total responsibility for the costs associated with the original enactment of Medicare to the Congress and president in office in 1965. This analytical approach is, however, impracticable for a number of reasons. First, the counterfactual scenario is unknowable and impossible to quantify; there is no way to know for certain how much more or less expensive Medicare would have been if signed by President Truman at an earlier date or by President Nixon at a later one. More pertinently, however, the possibility that others might have made similar policy decisions in no way lessens the responsibility of elected officials for the decisions that they did in fact make. While others might have made similar choices, there also exist others who would not have. Moreover, the elected officials who made these policy choices could have chosen not to make them. The current condition of federal finances was not preordained (nor, obviously, was any other); responsibility for real-world fiscal outcomes thus resides fully with those who exercised their power to determine the amounts of spending and revenue collections in which the federal government engages.

For example, suppose that a new presidential administration enters office in the midst of a recession, during which spending on unemployment compensation, Medicaid benefits, and Social Security disability awards all spike upward pursuant to the parameters of previously enacted legislation. These spending increases in turn cause total federal spending and deficits to increase. Suppose too that the incoming administration had advocated spending *reductions* in all these programs, but had yet been unable to persuade a Congress under the control of the opposition party to agree. It would strike many as unfair to blame the new administration for deficit spending that it actually opposed, instead of assigning responsibility to the previous administration and Congress that had enacted it.

This phenomenon is why it has become routine to invoke the policy decisions made during *previous* administrations and legislative sessions even when responsibility for *current* deficits is discussed. If instead all responsibility for current fiscal practices were to be assigned to the current administration and Congress, regardless of who had enacted the laws that gave rise to these practices, there would be no need for a discussion of who had originated the policies.

A view of the budget that assigns responsibility to the originators of current fiscal policies could be described as analyzing *incremental* fiscal policy management. In this view, the analyst asks how much each officeholder's incremental changes to fiscal policy changed the federal fiscal outlook relative to prior law. This is one legitimate way to evaluate fiscal policy decisions.

The incremental view is not, however, the only legitimate way of viewing the federal budget and suffers from some limitations. Elected officials bear final responsibility for controlling the absolute levels of spending and revenues that take place during their terms, regardless of the state of the law when they assume office. Moreover, context is important: for example, it is comparatively more responsible to enact a new spending program when the government is in surplus, spending is at historically low levels, and fiscal projections are optimistic than it would be at a time of record deficits when spending is already exceeding historical highs. The same can be said with respect to tax policy: it is clearly more responsible to enact a tax cut when the government is in surplus and taxes are at an all-time high than it would be in several other contexts. Analyzing only incremental changes to fiscal policy overlooks these important factors confronting elected officials.

Also in support of taking an *absolute* view, it should be noted that lawmakers can never exactly know the future. A mandatory spending program may become far more expensive than originally envisioned due to subsequent macroeconomic circumstances that the enacting lawmakers could not fully anticipate.[16] The fact that

16. Particularly salient examples might include the cost growth in health entitlements such as Medicare and Medicaid. From a technical perspective these programs' cost overruns are primarily consequences of their original enactment rather than deriving from subsequent legislation, as documented later in this study; on the other hand, later officeholders possessed more information about these programs' rising

a law was enacted a long time ago does not absolve later officeholders, who possess updated information with respect to the federal budget and the broader economy, of responsibility for enacting necessary changes to it. If the inherited policies are known to be problematic, current officeholders are responsible for correcting them.

For these and other reasons, it is also important to examine the absolute fiscal policy records of officeholders—specifically, the sizes of federal deficits during their tenures of office, irrespective of when contributing policies were enacted.

This study will therefore examine fiscal policy track records according to both views: *absolute* as well as *incremental* fiscal policy management. Taken together, the views provide a fuller picture of fiscal management practices than either view can provide separately.

The distinction between an absolute and an incremental framework for fiscal policy analysis is most important when evaluating policies, such as tax law or mandatory spending programs, that carry over from one officeholder's term to the next. This distinction is less important with respect to appropriated spending.[17] Under both an absolute and an incremental view of fiscal policy management, current officeholders bear responsibility for current appropriated spending, which generally must be enacted anew each year or else expire.[18]

Identifying those responsible for incremental policy choices is relatively straightforward. Responsibility for changes in the direction of fiscal policy is shared by the Congress and president in office when those changes are enacted. But assigning responsibility for *absolute* fiscal policy management involves some subjective judgments. Are a newly elected president and Congress fully responsible for fiscal imbalances during their first few months of office, even when taking an absolute view of fiscal stewardship, given that spending and revenue patterns during these periods largely reflect decisions made by their predecessors? Even an

costs than original enactors could have and may bear additional responsibility on that basis. It is difficult to generate a complete picture of elected officials' relative responsibilities for the growth of these programs without consulting both budget views—on the one hand noting that the programs' long-run cost growth is rooted primarily in their original enacting legislation, while on the other noting that later elected officials had a stronger basis for confronting the programs' financial difficulties.

17. Appropriations provide authority for federal programs and agencies to make payments from the US Treasury. Unlike mandatory spending, appropriations can only occur if Congress has enacted legislation authorizing such appropriations for a specific period of time. It is typical for Congress to enact appropriations laws on an annual fiscal year basis. Appropriations spending cannot take place beyond the period of authority granted in periodic legislation, an important factor when analyzing responsibility for federal spending decisions.

18. It should be acknowledged that in some instances one year's particular appropriated spending may make it very difficult for subsequent officeholders to make any policy choice but to largely continue it. If, for example, the nation has entered a war that lasts beyond the term of the current Congress or administration, subsequent officeholders may find it difficult to immediately reduce spending associated with that conflict without jeopardizing American lives, general national security, or the success of the specific mission. Nevertheless, as a general rule, appropriations decisions are made annually by Congress and the president, and thus responsibility for current appropriations levels is properly assigned to current officeholders.

absolute view of fiscal management, which holds officeholders fully responsible for fiscal practices "during" their terms of office, might properly take into account a lag time between elected officials' assumption of office and the implementation of their chosen policies.

An important factor in this context is the concept of the federal fiscal year; federal government fiscal years begin in October and end at the conclusion of the following September.[19] A newly elected president and Congress will generally enter office four months into the current fiscal year. The first budget submitted by the incoming president will be for the following fiscal year. For example, the first budget submitted by President Obama after his inauguration in 2009 was for FY2010.[20] President George W. Bush submitted budgets for fiscal years 2002 through 2009.

Given this context it appears that the generally fairest choice when taking the *absolute* fiscal policy view is to assign responsibility for practices during a fiscal year spanning a change of officeholders to the outgoing official instead of the incoming one. Applying this rule would assign fiscal responsibility to President George W. Bush for FY2009 despite his having left office in January of that year, to President Clinton for FY2001, and so forth.

This rule would obviously fail to capture instances of fiscal policy changes with significant effects during the current fiscal year, whenever these are enacted within the first few months of a new administration and Congress. Accordingly, this paper will briefly comment on instances where such misattributions may significantly affect the results.

The absolute and incremental views of fiscal policy cannot be applied equally easily to current and projected deficits. With respect to deficits already experienced to date it is possible to answer the questions of which officeholders ran larger deficits and which ran smaller ones (the absolute view), as well as which officeholders enacted the policies that most contributed to current fiscal conditions (the incremental view). Looking to the future, it is possible to evaluate whose enacted policies contribute the most to projected future deficits (the incremental view), but it is not yet possible to grade the absolute fiscal stewardship of unidentified public officials who have yet to take office.

Accordingly, this study will evaluate policies that gave rise to current and projected future deficits according to the views outlined in table 2. The fact that two views of current deficits will be taken, but only one view of future deficits, should not be interpreted as signifying that current deficits are of greater concern than projected ones. To the contrary, untenable projected future deficits reflect a substantial public policy problem of yet uncertain solution; however, it is simply not

19. *Senate Glossary Online*, s.v. "fiscal year," accessed November 1, 2013, http://www.senate.gov/reference/glossary_term/fiscal_year.htm.

20. "Remarks by the President on the Fiscal Year 2010 Budget," transcript, The White House, February 26, 2009.

possible to evaluate responsibility for future deficits from an absolute fiscal policy stewardship perspective. All that can be done at this time is to assess the policies that contribute the most to future deficits as they are currently projected.

TABLE 2. THREE VIEWS OF FEDERAL FISCAL POLICY RESPONSIBILITY

Imbalances examined	Allocation of responsibility
Projected future imbalances	Incremental
Current imbalance	Incremental
Current imbalance	Absolute

A TECHNICAL COMPLICATION: CURRENT LAW VS. CURRENT POLICY

In quantifying the contributions of various policies to the federal fiscal imbalance, analysts face a complicating problem also routinely grappled with by federal government scorekeepers including the CBO, the Office of Management and Budget (OMB), and the Social Security and Medicare trustees. The complication pertains to the distinction between "current law" and "current policy."

Federal law often encompasses significant changes to current policies that are scheduled to occur on prescribed dates. Sometimes the change involves a substantial modification of an existing policy; in other instances an outright termination is scheduled. For example, under current law, payments to Medicare physicians are scheduled to be reduced by roughly one-quarter at the beginning of 2014. This sudden payment reduction would occur under the Sustainable Growth Rate (SGR) formula enacted as part of the 1997 Balanced Budget Act.[21] From 2003 to the present, Congress has enacted repeated overrides of the SGR formula to prevent similar scheduled physician payment cuts from taking place.[22] Lawmakers are widely expected to continue the practice of overriding the cuts currently in law, so that the sudden payment cuts now scheduled for 2014 are not expected to occur.

Similarly, until "fiscal cliff" legislation establishing permanent income tax rates was enacted earlier this year in the American Taxpayer Relief Act (ATRA), a significant gap between literal current law and what was widely expected to happen had long rendered tax projections problematic.[23]

21. Centers for Medicare & Medicaid Services, *Estimated Sustainable Growth Rate and Conversion Factor, for Medicare Payments to Physicians in 2010*, March 2009, http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SustainableGRatesConFact/downloads/sgr2010p.pdf.
22. *2013 Annual Report of the Board of Trustees of the Federal Old-Age Survivors Insurance and Federal Disability Insurance Trust Funds*, May 31, 2013, http://www.ssa.gov/oact/tr/2013/tr2013.pdf.
23. Until the ATRA was passed, the alternative minimum tax (AMT) income thresholds were not generally indexed for inflation, though it had become routine for lawmakers to enact periodic inflation adjustments to the thresholds. In addition, income tax rates established in 2001 were initially set to expire after 10 years; later as that expiration approached they were extended to continue through 2011–12. Despite

How should federal scorekeepers treat such situations? Should they project future federal finances according to literal current law, even where few believe that it will play out as written? Or should scoring agencies publish projections that incorporate what are regarded as more likely scenarios, for example the continuation of the historical pattern of legislative overrides of the SGR formula? Either approach has downsides; to show only current-law projections would be to project an outcome that few believe will actually occur and would also cause the federal fiscal outlook to appear significantly more benign than is likely to be the case. On the other hand, to assume continued overrides of the SGR (or any other law) puts the scorekeeper in the position of making a political prediction of how exactly this override will be constructed, in addition to positing a future federal outlook not reflected in existing law.

The CBO handles this dilemma by showing two projection scenarios. One is an "extended baseline" scenario that reflects current law as written in most (but not all) respects. The other is an "alternative fiscal scenario" representing the CBO's good-faith attempt to model the continuation of current policy, involving in some instances expected modifications and in others further extensions of existing law. By showing two baselines, the CBO informs readers of both the fiscal consequences

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the fact that these pending tax rate changes and income threshold specifications were a matter of explicit law, for many years few political observers had expected lawmakers either to allow the income tax rate expirations to take place, or to permit the AMT to suddenly capture millions of additional taxpayers. Thus a literal "current law" projection of tax revenue was widely regarded as significantly underestimating the magnitude of future deficits relative to reasonably plausible outcomes. Committee for a Responsible Federal Budget, "CRFB's New Realistic Baseline," CBO, February 1, 2012, http://crfb.org/blogs/crfbs-new-realistic-baseline. Also see Richard Kogan, "$2 Trillion in Deficit Savings Would Achieve Key Goal: Stabilizing the Debt over the Next Decade," Center on Budget and Policy Priorities, November 1, 2012, http://www.cbpp.org/cms/?fa=view&id=3856, which states, "In general, we assume the continuation of all expiring tax provisions except the 2010 temporary payroll tax cut. This is also the approach to expiring tax provisions taken by CBO in its alternative fiscal scenario and by the Tax Policy Center in its current-policy baseline." Because most of these relevant aspects of tax law have since been made permanent in the ATRA, a great deal of this scorekeeping problem has since been removed. There still exist various pending expirations of temporary tax provisions, but generally the tax revenue projections that arise under both views of the future budget are now much closer together than before the ATRA was enacted. For example, the continuation of current income tax rates is now a feature of CBO baseline projections intended to represent both "current law" and "current policy." CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, 33nj: "In *The Budget and Economic Outlook: Fiscal Years 2012 to 2022* (January 2012), www.cbo.gov/publication/42905, and the update to that report in August 2012, CBO presented an alternative fiscal scenario that incorporated the assumptions that all expiring tax provisions (other than the payroll tax reduction in effect in calendar years 2011 and 2012) were extended; the alternative minimum tax was indexed for inflation after 2011; Medicare's payment rates for physicians' services were held constant at the 2012 level; and the automatic spending reductions required by the Budget Control Act, which were set to take effect in January 2013, would not occur. The American Taxpayer Relief Act permanently extended many provisions slated to expire at the end of December 2012 and indexed the alternative minimum tax for inflation; therefore, the remaining components of the alternative fiscal scenario consist of holding constant the Medicare payment rates (which are now scheduled to fall in January 2014), undoing the automatic spending reductions (which were reduced by $24 billion and postponed until March 1, 2013), and extending certain tax provisions."

of implementing the law as currently written, as well as those expected if certain patterns of Congress's tax and spending behavior continue roughly as they have in the past.

This conceptual distinction between current law and current policy is potentially an issue when assigning responsibility for projected federal deficits. As a general rule, it seems most appropriate to evaluate responsibility for projected deficits on a current law basis. For example, the cost of overriding Medicare physician payment cuts that would occur under the SGR formula is appropriately assigned to the Congresses and presidents who chose to override the formula, not to those who originally enacted the lower payment schedule of the SGR. Future lawmakers will have the choice whether to continue to override the SGR, and will bear responsibility for that choice.[24]

A related complication is introduced by the idiosyncrasies of existing scorekeeping rules with respect to the operations of the Social Security and Medicare Hospital Insurance (HI) trust funds. Under law, Social Security and Medicare are only permitted to spend from the resources in their respective trust funds. If the balances of these trust funds were to be depleted, the programs' authorities to spend on benefits would be curtailed until sufficient tax, premium, or other revenue arrived to finance those benefit payments.[25]

Fiscal projections that conform exactly to current law would show Social Security and Medicare payments being cut on the projected dates of their trust funds' depletion. Under current trustees' projections this would mean sudden reductions in Social Security disability benefit payments in 2016, in Medicare HI payments in

24. Similarly, the Congress of 2001 and President George W. Bush share incremental responsibility for the fiscal effects of the income tax rates they established for the following 10 years. The first subsequent two-year extension of these rates for 2011–2012, however, is instead the responsibility of President Obama and the lame duck Congress of 2010. Moreover, the more recent permanent extension of the vast majority of these income tax rates is the responsibility of President Obama and the Congress sitting at the start of this year. It would clearly be inappropriate to hold previous lawmakers responsible for the subsequent extensions of policies that they deliberately chose not to extend; responsibility for such extensions belongs to those in office when the extensions were enacted.

25. Social Security Act, 42 U.S.C. § 401. "Benefit payments . . . shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund." Similar language in the Social Security Act limits payments of disability benefits. Also see the Social Security and Medicare Boards of Trustees, *Summary of the Status of the Social Security and Medicare Programs*, 2012: "Current law precludes payment of any benefits beyond the amount that can be financed by the trust funds." Historically lawmakers have generally taken trust fund financing restrictions seriously. Despite the political difficulties associated with raising Social Security and Medicare taxes and slowing the growth of benefit payments, lawmakers have repeatedly done both rather than to permit either program to spend in excess of the resources in its trust funds. Examples include the 1983 Social Security reforms, which delayed annual cost-of-living adjustments, raised the retirement age, introduced new benefit taxation, and accelerated an increase in the payroll tax, among other politically difficult measures. Another example is the 2010 Affordable Care Act, which postponed the projected insolvency of the Medicare Hospital Insurance Trust Fund by enacting aggressive reductions in the growth of payments to most categories of providers.

2026, and in Social Security old-age and survivors' benefit payments in 2035.[26] As with certain other aspects of current law, few believe these sudden and dramatic benefit cuts (roughly one-quarter in the case of Social Security) are likely to take place in the particular manner now scheduled. This uncertainty once again raises the question of whether projections should reflect literal current law—that is, large benefit reductions at the point of trust fund depletion—or current Social Security and Medicare benefit *policies*—which under law could not be maintained past the point of trust fund depletion. Adding to the complications here is that current congressional scorekeeping conventions do not reflect actual law with respect to these limitations of trust fund financing.[27]

These trust fund financing issues do not pose a problem for analyses that aim only to determine which policies have led to federal deficits to date, because historically these trust funds have never been allowed to be depleted and we now know how any previously projected financing imbalances in these programs were resolved. The issue matters when analyzing projected future federal deficits, however, because we do not yet know how currently projected imbalances between Social Security/Medicare benefits and taxes will be addressed. In the long-term context, there are significant disadvantages to both the current law and "scheduled benefits/taxes" approaches when it comes to projecting future Social Security and Medicare operations.[28]

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26. *2013 Annual Report of the Board of Trustees*.

27. The CBO is directed to ignore these limitations when scoring legislation. Instead, it is told to project current Social Security tax and benefit payment schedules even though the financial resources and statutory authority for the benefit payments would not exist under current law. CBO, *The 2012 Long-Term Budget Outlook*: "Once the HI trust fund was exhausted, it appears that total payments to health plans and providers for services covered under Part A of Medicare would be limited to the amount of revenues subsequently credited to the trust fund . . . However, projections in this report are consistent with a statutory requirement that CBO, in its baseline projections, assume that benefit payments will continue to be made after trust funds have been exhausted, even if there is no legal authority to make such payments."

28. A literal "current law" projection would assume these programs' projected imbalances will be resolved by benefit reductions at the point of trust fund depletion—or, implicitly, by other yet-unspecified but fiscally equivalent legislative changes. To an extent, this assumption makes sense: the former is indeed what would happen under law, and the latter is what would happen if historical legislative practices continue. But this analytical approach has the drawback of denying credit for lawmakers' actions to reduce or eliminate imbalances in the programs' tax and benefit schedules, just as it fails to attribute responsibility for problematic legislation that creates or exacerbates such imbalances. For example, it would assign no long-term penalty if lawmakers dramatically increased Social Security benefits without raising taxes to pay for them. Such an analytical approach is tantamount to assuming that the programs will always automatically remain in financial balance, thereby mooting any evaluation of lawmakers' actions to increase or decrease program benefits or taxes. Moreover, while this approach would be consistent with a literal "current law" reading, it would be inconsistent with the CBO's projection scenarios. On the other hand, adopting the congressional scorekeeping convention of projecting Social Security and Medicare benefit and tax schedules irrespective of trust fund financing limitations also has downsides. The most obvious drawback is that such a scenario departs significantly both from actual law and from prior legislative practice. Lawmakers have for the most part taken trust fund financing restrictions seriously. They have never permitted Social Security and Medicare to spend in excess of their trust fund resources, let alone by the trillions of dollars

Because the CBO's "extended baseline scenario" is the scorekeeping body's closest published approximation to current law, it will be used as the primary basis for this paper's analysis of responsibility for fiscal policy. However, because this extended baseline differs from literal law in critical ways with respect to the largest federal entitlement programs, this paper will also briefly mention how the results would differ if literal current law projections for these programs had been used instead.[29]

CHOOSING A BASIS FOR COMPARISON

Though any analysis of policy responsibility for federal deficits involves subjective judgments, the appropriate goal of such analysis is to even-handedly treat the decisions made by different elected officials in different contexts and at different times, without employing metrics that tilt the findings in a particular direction.[30]

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projected under such a scenario. In addition, referencing only the congressional scorekeeping framework would give a free pass to other fiscally irresponsible behavior. As noted, it assigns no penalty if lawmakers chose to ignore all previously observed trust fund financing discipline and for the first time to permit Social Security and Medicare to pay scheduled benefits in excess of program revenues without limitation. It also assigns no penalty to fiscally equivalent actions, such as enacting reductions in Medicare's payment schedules while doubly crediting these savings both to extend Medicare's authority to pay full benefits and to finance a new spending program, as was done with the 2010 Affordable Care Act. A framework for grading responsibility for projected deficits cannot be complete if it fails to account for such actions that worsen the federal fiscal outlook relative to prior law.

29. Trust fund-financed programs are not the only examples of instances where existing scorekeeping conventions analyze scenarios that differ from actual law. Two other examples are the statutory ceiling on federal debt and future appropriations levels. A picture very different from the CBO baseline would be produced if it were assumed that the federal debt ceiling were never raised further from its current level, or that no future appropriations bills would ever be enacted—both of which technically remain the status quo until there is further legislation. Once again this issue does not complicate an analysis of current deficits, which have been permitted under the existing debt limit and reflect appropriations bills enacted to date. The issue pertains only to analyses of projected deficits. Lacking a better alternative, this study will adopt the CBO convention of assuming that the future debt ceiling will not be allowed to bind, and that annual appropriations will continue at the levels the CBO projects. This choice implicitly reflects an assumption that certain legislative practicalities will be allowed to continue—that the federal debt ceiling will continue to be raised as needed, and that there will be no sudden ceasing of all federal appropriations.

30. Toward that end, one choice made in this study is to describe the components of federal finances as percentages of the underlying economy (the gross domestic product or GDP). A number of other measures, such as current dollars or inflation-adjusted dollars, tend inevitably to rise over time as both the American economy and size of the federal government grow faster than consumer price inflation. Thus, describing deficits and debt in terms of current or real dollars tends to attribute a disproportionate share of responsibility to later officeholders relative to earlier ones. See for example Jim Hoft, "Deficit President Barack Obama Spends Campaign Cash Like Taxpayer Dollars," *Gateway Pundit* (blog), March 16, 2012, http://www.thegatewaypundit.com/2012/03/deficit-president-barack-obama-spends-campaign-cash-like-taxpayer-dollars/. Though expressing figures as a percentage of GDP is by no means the only objective choice, it addresses the important question of whether federal deficits and debt are growing faster than the economy's ability to keep pace. Percentages of GDP are a widely accepted method of expressing the size of federal operations relative to the economy that must support them, and will generally be used throughout this study. The CBO for example tends to describe long-term federal deficits and debt as percentages of GDP. See CBO, *2012 Long-Term Budget Outlook*, as well as many other publications at www.cbo.gov.

Inevitably, however, subjective choices must be made with respect to how the calculations are performed. As mentioned earlier, in one important sense it is appropriate to hold current officeholders fully responsible for current appropriations levels, because appropriations must be reenacted every year; no previous Congress can force a subsequent one to appropriate. It does not necessarily follow, however, that all appropriations are most fairly regarded as an addition by current officeholders to federal *deficits*, as they would be considered in comparison with a baseline in which no appropriations are assumed. Practical considerations argue against such an approach. In the first place it represents a certain degree of unrealism to compare practices against a standard of suddenly reducing all appropriations levels to zero; moreover, in a typical year incoming tax revenues will permit a certain amount of appropriating without causing a unified federal deficit. Simply treating all appropriations as being added by current officeholders to the deficit would also produce certain other unsatisfying results: It would automatically lay a large portion of responsibility for current deficits at the door of current officeholders, regardless of practical constraints arising from the decisions of prior officials.[31]

The problem perhaps becomes even more obvious with respect to analyzing the causes of projected future deficits. If all appropriations are deemed to add to the federal deficit and are the full responsibility of those in office at the time, then a large portion of future projected deficits must be attributed to elected officials who have not yet taken office, and the degree of responsibility assigned to them is entirely a function of assumptions we make today about future appropriations. It seems illogical to hold unnamed future officeholders responsible for our own assumptions about future fiscal behavior.

To avoid producing such trivial, distorted, and in some cases bizarre results, another basis of comparison is needed. One reasonable way to avoid these problems is to adopt a framework of budget "norming." Toward this end, this study will grade the policy decisions of officeholders against long-standing *norms* of federal budgeting.

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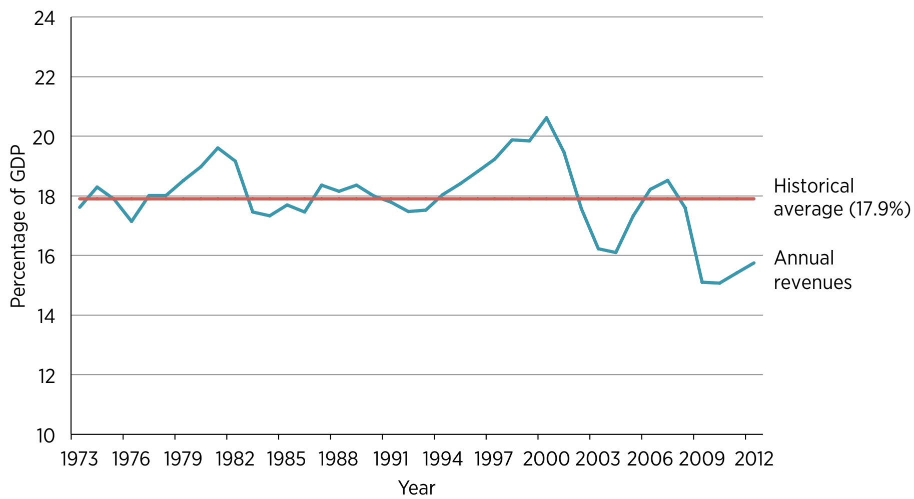
31. Imagine for example that an incoming administration and Congress had moved to sharply cut appropriations spending from a previous level of 8 percent of GDP down to 6 percent of GDP, necessitating sudden reductions in federal government employment as well as curtailing many prior federal operations. It would strike many as unfair to charge this hypothetical administration and Congress with adding 6 percent of GDP to the deficit given this context. Moreover, any such study would be likely to produce trivially useless results, always finding the current administration and Congress primarily responsible for any ongoing deficits, almost irrespective of whether current officeholders were succeeding in changing the fiscal policy course for the better. Readers may have different reactions to this conundrum. Some readers might find it acceptable to assume that all appropriating adds to the deficit (as indeed it does, relative to not appropriating) and would be comfortable with always concluding that current officeholders are overwhelmingly responsible for current deficits. While it is reasonable for different readers to have different views on this question, it should be acknowledged that the conundrum exists and bears certain implications. Given the aims described in the introduction to this paper, to avoid adopting a metric that predetermines the results, it seems inappropriate to choose metrics that preferentially steer readers to the conclusion that current officeholders have caused current deficits largely by themselves.

FIGURE 2. FEDERAL REVENUES AS A PERCENTAGE OF GDP, 1973–2012



Sources: CBO, "Historical Budget Data, February 2013 Baseline Projections," February 5, 2013, http://www.cbo.gov/publication/43904.

Specifically, this study will evaluate incremental changes to federal fiscal policy against historical averages from the last 40 years—1973–2012. There are several reasons for this choice of time period. One is that it covers a sufficiently long period of time to prevent any temporary trend in federal fiscal management from distorting the results. A second is that spending levels for the major categories of federal spending throughout this time period are readily available through the CBO.[32] And third, this 40-year period shows remarkable consistency in federal tax collections as a percentage of the economy, as figure 2 shows; it provides strong evidence of a clear long-term trend with respect to the tax levels the American public is willing to support for extended periods. In 35 of the 40 years from 1973 through 2012, for example, federal taxes were within two percentage points of the 40-year average of 17.9 percent of GDP.[33] That this 40-year period is fairly representative of long-term tax trends is further substantiated by the nearly identical historical tax bite determined by averaging over the most recent 50-year period of 1962–2012 (17.9 percent) or throughout the postwar era of 1947–2012 (17.7 percent).[34]

This established federal revenue trend enables the construction of long-term norms for federal budgeting to which current and projected deficit-spending behavior can be compared. To the extent that federal spending exceeds 17.9 percent of

32. CBO, "Historical Budget Data, February 2013 Baseline Projections," February 5, 2013, http://www.cbo.gov/publication/43904.
33. Ibid.
34. Although World War II ended in 1945, the 1946 federal budget remains atypical of postwar budgeting norms due largely to costs incurred while winding down the war effort. Totals for pre-1973 fiscal years are taken from OMB historical tables.

GDP, it can reasonably be said to add to expected federal deficits. To the extent that annual federal revenues either surpass 17.9 percent of GDP or fall short of it, they also either reduce or increase expected deficits.

To analyze the most significant policy choices leading to federal deficits we must be more specific, breaking the budget down into major spending categories and quantifying the extent to which spending on each exceeds the historical average amount that could be spent within it while maintaining a balanced budget. This specificity allows us to assess the particular spending and revenue policy decisions that have contributed the most to the current and projected federal fiscal imbalances. We can then assign political responsibility for those incremental policy decisions according to the formula described earlier in this paper.

While the choice of the starting point year for long-term historical averaging is of comparatively little significance on the tax side, it is more critical and subjective on the spending side. The choice of a starting point year for spending averaging has a significant impact on one's picture of long-standing norms. One reason is that throughout the Cold War period, the federal government routinely spent a much higher percentage of GDP on defense than has been the case in recent decades. A study based on averages over the 50 years of 1962–2012 would conclude that spending 5.4 percent of GDP on national defense was the long-standing norm, whereas a study that was based instead on averages over the last 20 years of 1992–2012 would consider defense spending equal to 3.9 percent of GDP as the long-term norm.[35] The two contexts give opposite impressions of current defense spending levels, causing them to be considered alternatively as an increase or a decrease over historical practice.

For entitlement spending the reverse is true; federal mandatory outlays (net of receipts) averaged 8.0 percent of GDP over the 50 years of 1962–2012, but 9.5 percent of GDP over the 20-year period of 1992–2012.[36] Current entitlement spending levels represent a substantial increase over historical practice in either context, but how much of an increase depends greatly on the length of the period over which historical practice is defined.

Thus, any analysis based on comparing spending to long-standing budget norms must make a subjective judgment as to what constitutes a reasonable and fair definition of historical practice. If one considers too long of a historical period as the frame of reference, one is comparing today's budgetary practices with those of long-distant years of limited relevance. But if one only considers too short and recent a historical context, one is engaged in the comparatively meaningless exercise of comparing current budget practices to themselves.

While one must make some allowance for modern trends in determining what represents a long-standing historical norm, one must take care not to adjust recent

35. OMB, President's Budget for FY2014, Historical Table hist08z4; CBO, "Historical Budget Data, February 2013 Baseline Projections."
36. OMB, President's Budget for FY2014, Historical Table hist08z4.

policy decisions into invisibility by essentially defining them as the "new normal." A salient budgetary fact is that over time federal entitlement spending has risen as a share of the economy while defense spending has dropped; an analysis would not be meaningful if it failed to recognize that the policy decisions leading to increased entitlement spending have been a principal driver of current federal deficits.

Taking all these factors into account, the 40 years of data covering the years 1973–2012 published by the CBO appear to provide a reasonable context for analysis: long enough to place recent trends in spending within a meaningful long-term context, but not so long as to cause the data to be dominated by budgetary practices employed under starkly different historical circumstances.

To sum up: deficits consist of the excess of spending over revenues. We can assign responsibility for any excess according to how much legislative policy decisions have caused deviations from long-standing (1973–2012) historical norms. To the extent that current revenues fall short of these norms, this shortfall is treated as adding to the deficit. To the extent that current spending exceeds the amount that could be financed from normal tax collections, this spending is treated as adding to the deficit. Spending in each budget category is then compared with the amount that could be financed within a balanced budget, assuming that the relative proportion spent within each category had remained unchanged from the average of the past 40 years. By identifying the categories in which current spending has increased relative to the sustainable historical norms shown in table 3, we can identify which spending policy decisions have contributed to current federal deficits.[37]

When analyzing the causes of projected future deficits, there is another subjective decision to make: the length of the timespan that constitutes the "future." This study will analyze the drivers of future federal deficits as defined by 2037, a year chosen for a number of reasons. One is that the CBO's most recently published long-term outlook provides analyses of projected spending from various important vantage points in that specific year but not others near it in time.[38] Another is that 2037 is clearly a year in which the fiscal situation is projected to have become critical.[39] It is also a year by which most of the baby boom generation will have entered the ranks

37. All data come from CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023, February 2013*.
38. CBO, *The 2012 Long-Term Budget Outlook*. See for example box 1-1, which breaks down the contributions of population aging and excess health inflation to spending growth through the specific year of 2037.
39. CBO, *The 2012 Long-Term Budget Outlook*. Under the "alternative fiscal scenario" baseline in that report, which assumed the continuation of various then-current policies including income tax rates, federal indebtedness was projected to grow at uncontrolled rates well before 2037. Since the 2012 report was issued, the ATRA made most of the relevant provisions of income tax law permanent, bringing the CBO's 2013 "extended baseline" revenue projection closer to its 2012 "alternative fiscal scenario" projection than to its 2012 "extended baseline" projection. As a result, updated long-term projections for the current extended baseline, the primary basis for this study, would show federal debt climbing to unsustainable levels well before 2037. The CBO's February projections for the 10-year budget outlook show federal debt climbing through 2023 as a share of the economy and poised to accelerate upward after that date. See CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*.

of beneficiaries of federal retirement programs, a critical and predictable factor driving long-term deficits. By any reasonable standard, 2037 embodies a year that fairly represents the general contours of the federal government's future long-term fiscal imbalance.

TABLE 3. FEDERAL SPENDING BY MAJOR BUDGET CATEGORIES, 1973–2012, AS A PERCENTAGE OF GDP

Category	Average spending level, 1973–2012	"Affordable" Spending Level under Balanced Budget
Discretionary programs	8.6	7.3
Defense	*4.7*	*4.0*
Nondefense	*4.0*	*3.4*
Mandatory programs	10.2	8.7
Social Security	*4.4*	*3.8*
Medicare[(a)]	*2.1*	*1.8*
Income Security[(b)]	*1.6*	*1.4*
Other retirement, disability	*1.2*	*1.0*
Medicaid	*1.0*	*0.9*
Other programs	*1.0*	*0.9*
Offsetting receipts	*–1.1*	*–0.9*
Net interest	2.2	1.9
TOTAL[(c)]	21.0	17.9

Notes: (a) Gross Medicare outlays. (b) "Includes unemployment compensation, Supplemental Security Income, the refundable portion of the earned income and child tax credits, the Supplemental Nutrition Assistance Program, family support, child nutrition, and foster care." CBO, The Budget and Economic Outlook: Fiscal Years 2013 to 2023. *(c) Totals may not add due to rounding.*

All the above information explains this study's analysis of "incremental" fiscal policy management. For the analysis of "absolute" fiscal stewardship, the analytical task is much easier. All that we must do is to quantify federal fiscal imbalances during each officeholder's term of office, and to assign "responsibility shares" according to the earlier formula. This nomenclature of responsibility shares is not intended to label one policymaker as more responsible or irresponsible than another; indeed, a particular officeholder or group might be found to be more accountable for federal deficits simply by virtue of being in office for more years, or by having a greater degree of influence over economic policy during specific years. The discussion section of this paper will disentangle the extent to which the factors of longevity of service, degree of policy influence, and the size of annual deficits all contribute to the extent that particular actors are deemed responsible for fiscal imbalances.

RESULTS AND DISCUSSION

THE SOURCES OF federal fiscal imbalances as seen from the three aforementioned vantage points are analyzed and quantified in the following sections.

View #1: The Incremental Policy Decisions Underlying the Projected Fiscal Imbalance

It is readily apparent that the long-term federal fiscal imbalance is driven exclusively by spending growth in Social Security, Medicare, Medicaid, the new health-insurance exchanges established under the 2010 Affordable Care Act, and net interest payments.[40] Spending in all other budget categories is projected to decline significantly while federal tax collections are projected to well exceed historical norms, when all are expressed as a percentage of GDP, as shown in table 4.[41] Though growth in the aforementioned spending categories clearly embodies the entirety of the projected fiscal imbalance, allocating responsibility between the categories is an inexact process.

The essential reason a long-term federal fiscal imbalance exists is that the federal government is poised to spend far more on future health benefits, retirement benefits, and interest payments than has historically been the case. That said, those who enacted the benefit expansions giving rise to this result could reasonably argue that to an extent they embody a reallocation of national priorities rather than a pure addition to federal deficits. Specifically, it could be argued that much of the planned increase in health and retirement benefit expenditures will be financed by paring back other spending and by collecting higher taxes rather than by adding the entire cost of these higher health and retirement benefit expenditures to the deficit.

It remains to be seen whether the body politic will support the projected relative reductions in defense, domestic appropriations, and all other federal government spending, as well as the higher taxes required over the long term to produce the fiscal outcomes projected in the CBO's extended baseline. Nevertheless, the CBO's projections do implicitly assume that part of the scheduled retirement and health benefit increases will be financed in this manner. Based on this assumption, table 5 and figure 3 allocate the contributions of the aforementioned entitlement programs to the remaining projected future fiscal imbalance.

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40. This statement is generally true under most interpretations of the long-term federal fiscal imbalance, but the specific meaning intended in this sentence refers to the CBO extended baseline scenario continued through 2037.

41. CBO, *2012 Long-Term Budget Outlook, Budget and Economic Outlook: Fiscal Years 2013 to 2023*. The statement is true whether spending in these budget categories is measured as gross spending or as a net of offsetting mandatory program receipts. On the point that the projected fiscal imbalance consists entirely of an excess of projected spending over sustainable historical norms, Jason Fichtner has noted based on CBO data that tax rates "would need to more than double to fund projected spending increases." See Jason Fichtner, "The 1 Percent Solution" (Working Paper No. 11-05, Mercatus Center at George Mason University, Arlington, VA, February 2011), http://mercatus.org/publication/1-percent-solution.

TABLE 4. SPENDING BY BUDGET CATEGORY IN COMPARISON WITH HISTORICAL NORMS

Category	1973–2012 avg. (percentage of GDP)	1973–2012 "affordable" level	2013 level (percentage of GDP)	2037 projection (percentage of GDP)
Social Security	4.4	3.8	5.1	6.2
Medicare[(a)]	2.1	1.8	3.7	6.0
Medicaid and exchanges	1.0	0.9	1.7	3.6
Net interest	2.2	1.9	1.4	6.1[(b)]
All other spending[(c)]	11.3	9.5	10.3	6.9
Revenues	17.9	17.9	16.9	19.6[(d)]

Notes: (a) Gross Medicare outlays. (b) This estimate can be produced in either of two ways: by interpolating between the net interest calculations for the two budget scenarios presented in the CBO's 2012 Long-Term Budget Outlook *(proportioning the interpolation according to the effects of the subsequently enacted ATRA), or by extrapolating the trend line for net interest payments published with the CBO's* Budget and Economic Outlook: Fiscal Years 2013 to 2023. *(c) Includes effects of offsetting mandatory program receipts. (d) This estimate can also be produced in either of two ways: by interpolating between the tax revenue estimates for the two budget scenarios presented in CBO,* 2012 Long-Term Budget Outlook *(proportioning the interpolation according to the effects of the subsequently enacted ATRA), or by extrapolating the trend line for tax collections published in* CBO, Budget and Economic Outlook: Fiscal Years 2013 to 2023.

Sources: CBO, The 2012 Long-Term Budget Outlook, *June 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-05-Long-Term_Budget_Outlook_2.pdf; CBO,* The Budget and Economic Outlook: Fiscal Years 2013 to 2023, *February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf (particularly column 4 numbers).*

TABLE 5. SOURCES OF SPENDING GROWTH RESULTING IN PROJECTED 2037 DEFICIT

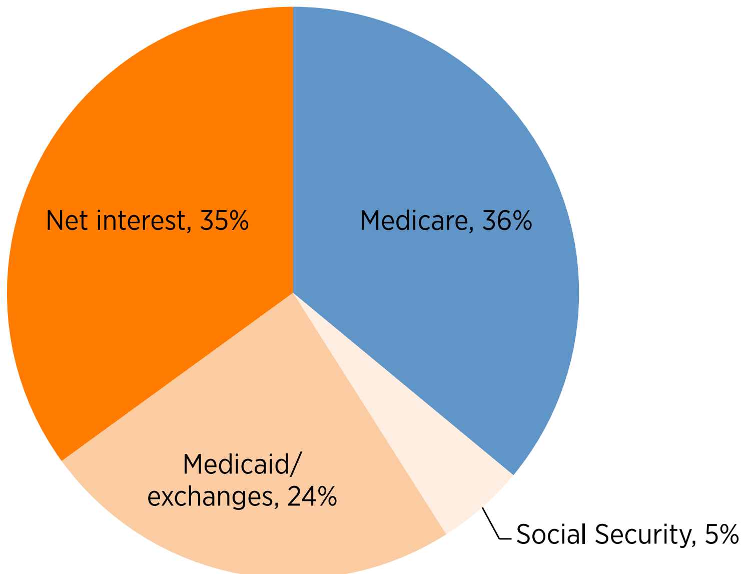
Category	1973–2012 "affordable" (percentage of GDP)	2037 projection (percentage of GDP)	2037 "affordable" with other cuts, higher taxes (percentage of GDP)	2037 excess over "affordable" (percentage of GDP)	Percentage share of responsibility for 2037 deficit
Social Security	3.8	6.2	5.7	0.5	5
Medicare[(a)]	1.8	6.0	2.7	3.3	36
Medicaid and exchanges[(b)]	0.9	3.6	1.4	2.2	24
Net interest	1.9	6.1	2.9	3.2	35

Notes: (a) Gross Medicare outlays. (b) Medicaid and health-insurance exchange subsidies are grouped into a single category in the CBO's long-term budget projections. It is appropriate to list both of them in this table because Medicaid and the exchanges are each projected to grow faster than GDP over the long run.

Sources: CBO, The 2012 Long-Term Budget Outlook, *June 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-05-Long-Term_Budget_Outlook_2.pdf; CBO,* The Budget and Economic Outlook: Fiscal Years 2013 to 2023, *February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf.*

A brief note is in order with respect to Social Security's apparently small contribution to the 2037 deficit as calculated by this method. From a unified budget perspective and holding all other policies constant, making scheduled Social Security benefit payments as assumed in the CBO's extended baseline scenario would add far more to the federal deficit than the 0.5 percent of GDP shown in table 5. The 2012 Social Security Trustees' report, for example, calculates the projected excess of scheduled Social Security benefit payments over incoming tax collections as

FIGURE 3. RELATIVE CONTRIBUTIONS TO THE LONG-TERM FISCAL IMBALANCE, AS DETERMINED BY PROJECTED SPENDING RELATIVE TO HISTORICAL NORMS



1.51 percent of GDP in 2037.[42] The relatively small number in table 5 is an artifact of the assumptions underlying it: specifically that under current projections other federal spending will be cut and taxes allowed to increase to create savings in other budget accounts that would partially offset the substantial deficits operating in the Social Security accounts. In effect table 5 shows these programs' shares of responsibility for the total unified deficits expected in 2037 *if* other spending and revenues evolve to offset much of their growth, as the CBO now projects.

Though different methods of calculation would produce different quantitative results, the qualitative conclusion is unavoidable: the federal government's projected fiscal imbalance is entirely a result of projected growth in the federal health entitlements and Social Security. No other federal budget category, on net, contributes significantly to the projected imbalance.

Allocating political responsibility for Social Security's contribution to the projected deficit is relatively straightforward.[43] Social Security's currently projected

42. US Social Security Administration, table VI.F4., "OASDI and HI Annual Income, Cost, and Balance as a Percentage of GDP, Calendar Years 2012–90," accessed November 1, 2013, http://www.ssa.gov/OACT/TR/2012/lr6f4.html.

43. Throughout this study the same methodology will be employed to allocate responsibility for spending increases. First a determination will be made of the extent to which spending in a particular category exceeds "affordable" levels within a balanced budget. Then a determination will be made as to whether the original design of the program would have produced costs in excess of these affordable levels. If not,

cost growth is due essentially to the 1972 program amendments that increased benefits 20 percent across the board, introduced annual cost-of-living adjustments, and inadvertently doubly indexed the initial Social Security benefit formula for both wage and price inflation simultaneously.[44] Taking all the relevant factors into consideration, responsibility for Social Security's current imbalance is most fairly allocated to President Richard M. Nixon and the Congress of 1972.

Allocating responsibility for projected Medicare expenditures is much more complex, admitting only rough estimates. However, a review of Medicare history establishes that most of the program's projected cost growth can be traced back to its original creation in 1965 rather than deriving primarily from subsequent benefit expansions. Indeed, Medicare legislation in recent decades has generally tended to scale back rather than to expand on fiscal pressures created under prior law.[45]

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responsibility for the entire excess will be attributed to the subsequent expansions that increased program costs. Alternatively, if the original design of the program would have led to costs exceeding affordable levels, the totality of current costs in the category will be allocated between costs arising under the program's original design, and those arising as a result of specific subsequent expansions. Further details about this methodology are provided in footnote 60.

44. Charles Blahous, *Social Security: The Unfinished Work* (Stanford, CA: Hoover Institution Press, 2010), 33–34. If Social Security's benefit formulas were today still as they existed from the time of President Franklin D. Roosevelt until the 1972 amendments, the program would not now face projected spending growth relative to historical norms as a percentage of GDP. US Social Security Administration, table V.C7.: "Annual Scheduled Benefit Amounts for Retired Workers with Various Pre-retirement Earnings Patterns Based on Intermediate Assumptions, Calendar Years 1940–2090," http://www.ssa.gov/OACT/TR/2012/lr5c7.html, shows that retirement benefits for a medium-wage retiree in 1972 were $12,000–$13,000 in today's dollars; these would have declined further in real terms had not inflation indexation been introduced in the 1972 amendments. Even in real terms benefit levels paid in 1972 before the benefit expansion were more than 30 percent lower than those paid today, and more than 50 percent lower than benefits now scheduled in 2050. Reductions of this magnitude (i.e., reversion to pre-1972 benefit formulas) would be more than sufficient to bring future Social Security spending well within historically affordable norms as a percentage of GDP. The financial imbalances created by the 1972 Social Security amendments were partially corrected by subsequent amendments in 1977 and 1983; to the extent that the program still faces a substantial imbalance today it is due to the remaining effects of policy decisions made in 1972. While some of the more recent deterioration in Social Security finances has been attributed to the Social Security Disability Benefits Reform Act of 1984, the 1984 act worsened the program's financial outlook by less than the 1983 Social Security amendments improved it. See David Autor and Mark Duggan, "The Growth in the Social Security Disability Rolls: A Crisis in the Making," *Journal of Economic Perspectives* 20, no. 3 (2006): 71–96. Cross reference with Social Security and Medicare Boards of Trustees, *Summary of the Status of the Social Security and Medicare Programs*, 2012, 158. Also see John Sabelhaus, comments on "Have the Social Security Trustees Been Too Conservative?," CBO, http://www.aei.org/files/2007/09/07/20070910_Sabelhausppt.pdf, slide 3. Accordingly, none of the program's current imbalance can fairly be attributed to the net actions of President Reagan and the Congress of 1983–84 when considered as a whole.

45. Whereas Social Security was the object of sporadic benefit expansions up to and including the 1972 amendments, Medicare history has from the outset been primarily one of unanticipated escalation in the costs of previously enacted benefits; subsequent legislation has generally attempted to rein in the growth of program expenditures. The Congressional Research Service notes in its "Medicare Primer," July 1, 2010, that over the last several decades "a number of laws were enacted that included provisions designed to further stem the rapid increase in program spending." Even the first significant expansion of

Thus, the vast majority of responsibility for the currently projected Medicare cost explosion is attributable to the original policy decision of President Johnson and the Congress in office in 1965 to establish parts A and B of the Medicare program.[46]

Based on CBO and OMB estimates, this study assigns 66 percent of the responsibility for Medicare's projected costs to those who enacted the original law.[47] Another 16 percent is assigned to President George W. Bush and the Congress of 2003, who enacted Medicare's Part D prescription drug benefit program.[48] A further 18 percent

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Medicare eligibility in 1972 "began to place some limitations on the definitions of reasonable costs and charges in order to gain some control over program spending which, even initially, exceeded original projections." Accurately quantifying how past legislation affected Medicare's long-term costs is a forbiddingly difficult task, especially given that past evaluations by the program's trustees, the CBO, and the OMB were conducted on the basis of varying methodologies for projecting future health-care cost growth. To take but one example, long-term Medicare cost growth as estimated in the 2001 trustees' report was substantially higher than in the 2000 report, due primarily to a change in the methodology for projecting the long-term rate of national health-care cost growth. Compare Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs*, March 2001, http://www.ssa.gov/history/pdf/tr01summary.pdf to Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs*, April 2000, http://www.ssa.gov/history/pdf/tr00summary.pdf. As noted by the public trustees in 2001, "By 2075, the cost of Medicare is projected this year to be about 60 percent higher than that projected last year." This apparent worsening was not because of intervening legislation but rather because long-term health-care cost growth was projected to grow one percentage point faster than per capita GDP, a significant increase over previous projections. Thus, not only do the projection methodologies of the trustees, the CBO, and the OMB differ from one another, the methodologies of each individual forecaster have often varied significantly from one year to the next. It is nevertheless clear that most of the currently projected Medicare cost explosion was visible to policymakers decades ago based on the state of Medicare law at that time. In 1994, for example, Medicare's trustees projected that program costs would exceed 8 percent of GDP by 2037, substantially higher than the current projection of between 5.5 and 6 percent. See *Social Security and Medicare Boards of Trustees, Summary of the Status of the Social Security and Medicare Programs, 2012*, in comparison with the summary of the 1994 annual report, http://www.ssa.gov/history/pdf/1994.pdf. The net cumulative effect of subsequent Medicare legislation has been to reduce projected program costs rather than increase them, despite the fact that the trustees' estimates of future general health-care cost inflation have increased since the earlier Medicare trustees' reports. See Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs*, March 2001, as well as Social Security and Medicare Boards of Trustees, *Summary of the Status of the Social Security and Medicare Programs*, 2012, 186–93.

46. US Social Security Administration, "History of SSA during the Johnson Administration 1963–1968," http://www.ssa.gov/history/ssa/lbjmedicare1.html.

47. This is the percentage that results after incorporating the derivations explained in footnotes 48 and 49.

48. This estimate is derived as follows. Roughly 15–17 percent of the long-term costs of Medicare are attributable to the Part D program, depending on the projection scenario consulted. Examples include the intermediate scenario in the 2012 annual report of the Medicare trustees, the illustrative alternative scenario in the same report, and the CBO's long-term projections. *Social Security and Medicare Boards of Trustees, Summary of the Status of the Social Security and Medicare Programs, 2012*; CBO, *2012 Long-Term Budget Outlook*. Most but not all of the projected cost of Part D derives from the 2003 legislation. President Obama and the Congress of 2010 expanded Part D benefits in the Affordable Care Act beyond what had been enacted in 2003. However, this study does not charge President Obama and the 2010 Congress with any net costs associated with expanding Part D, because other provisions of the ACA lowered projected Part D expenditures so that the ACA's net addition equals roughly 2 percent of Part D costs. See Memorandum from Richard Foster, Estimated Financial Effects of the Affordable Care Act, as Amended,

will be assigned to President Nixon and the Congress of 1972, who enacted the "first major adjustment to Medicare after its enactment," expanding eligibility to include those under 65 with long-term disabilities and to individuals with end-stage renal disease.[49] These figures have been rounded to acknowledge the inevitable imprecision of this exercise, but they qualitatively reflect the largest contributors to these components of projected federal expenditure increases.

The remaining driver of future noninterest spending growth consists of Medicaid and the new health-insurance exchange subsidies established under the 2010 Affordable Care Act (ACA), grouped together as a single budget category in the CBO's long-term budget projections.[50] The CBO projects that over the long term roughly 17 percent of the combined cost of these two programs will be attributable to the health-insurance exchange subsidies established under the ACA.[51] These subsidies were enacted by President Obama and the Congress of 2010.

The remainder of the projected costs in this spending category is for Medicaid. Much of the currently projected Medicaid expenditure increase is due to a substantial expansion enacted as part of the 2010 ACA. According to CBO estimates, the ACA's Medicaid expansion accounts for 16 percent of the total amount of projected Medicaid costs.[52] This 16 percent is in turn approximately 13 percent of the

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April 22, 2010, http://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/downloads/PPACA_Medicare_2010-04-22.pdf, cross-referencing with the 2012 annual report of the Medicare trustees. The 2 percent of Part D's cost added during the Obama administration represents less than one-half of 1 percent of the cost of Medicare as a whole and is a small enough percentage to be considered negligible in this study.

49. "Appendices," in the Medicare Chart book, 3rd ed. (Henry J. Kaiser Family Foundation, Summer 2005), http://kaiserfamilyfoundation.files.wordpress.com/2013/01/medicare-chart-book-3rd-edition-summer-2005-appendices.pdf. This approximation is arrived at via a combination of methods. The 2012 trustees' report contains data suggesting that roughly 20 percent of certain federal Medicare contributions are for benefits for disabled enrollees under age 65 (see Social Security and Medicare Boards of Trustees, *Summary of the Status of the Social Security and Medicare Programs*, 2012, 90). Comparing the projected Medicare outlays in the 1974 Budget of the US Government to those that would have resulted from extrapolating trends of benefit expenditures prior to the 1972 amendments also results in an estimate of 20 percent, though this would be 20 percent of expenditures excluding the subsequently enacted Part D program, or slightly less than 17 percent of the whole of Medicare. See Federal Reserve Bank of St. Louis, *The Budget of the United States Government, Fiscal Year 1974* (Washington, DC: US Government Printing Office, 1973), http://fraser.stlouisfed.org/docs/publications/usbudget/bus_1974.pdf. Interpolating between the two estimation methods and taking into account current projection trends produces a rough estimate of 18 percent.

50. CBO, *2012 Long-Term Budget Outlook*.

51. The CBO currently projects that through 2023, 18.9 percent of the combined cost will be attributed to the exchanges, though the percentage would slightly decline through 2037 because total exchange subsidies are capped and indexed to grow at a slower rate than other health program spending. The 17 percent figure is produced by extrapolating the trend in the CBO's 2013 economic budget outlook from 2023 through 2037. CBO, *Budget and Economic Outlook: Fiscal Years 2013 to 2023*.

52. This estimate is produced by cross-referencing the CBO's 2013 Medicaid baseline with its February 2013 estimates of the fiscal effects of the Medicaid coverage expansion. See estimates for FY2023 at *Spending and Enrollment Detail for CBO's February 2013 Baseline: Medicaid*, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43885-Medicaid.pdf, and *CBO's February 2013 Estimate of the Effects*

combined projected cost of Medicaid and the new health-insurance exchanges, so summing together with the 17 percent attributable to health-insurance exchange subsidies, 30 percent of the cost of this combined category of deficit drivers is attributable to legislation enacted by the 2010 Congress and signed by President Obama.

As with Medicare, Medicaid history has been one of intermittent benefit expansions coupled with persistent efforts to rein in the rising cost of per-capita program expenditures. Approximately 9 percent of the combined projected cost of Medicaid, CHIP, and the exchanges is assigned to a series of Medicaid benefit expansions enacted in the years of 1985 through 1990.[53] An earlier set of major Medicaid benefit expansions occurred in late 1971 and 1972; 5 percent of total projected Medicaid and exchange costs are attributed to the 1972 legislation.[54] The remaining 56 percent of

of the Affordable Care Act on Health Insurance Coverage, http://www.cbo.gov/sites/default/files/cbo files/attachments/43900_ACAInsuranceCoverageEffects.pdf.

53. The first of these expansions increased the number of those who could optionally be covered under Medicaid by states; later expansions increased requirements for state Medicaid programs to cover certain low-income pregnant women and children. Of the nine percentage points of growth attributed to this set of expansions as a whole, six points will be assigned to President George H. W. Bush and the Congress of 1989–90, and three points to President Reagan and the Congress of 1987–88. The CBO estimated in *The Economic and Budget Outlook: Fiscal Years 1991–1995*, http://www.cbo.gov/sites/default /files/cbofiles/ftpdocs/77xx/doc7740/90-cbo-006.pdf, that the amendments enacted in the years 1986–89 would eventually account for 11 percent of annual Medicaid outlays. The 1989 amendments required that Medicaid cover pregnant women and children up to age 6 with incomes up to 133 percent of the federal poverty level (FPL). Kaiser Commission on Medicaid and the Uninsured, "A Historical Review of How States Have Responded to the Availability of Federal Funds for Health Coverage," August 2012, http://kff.org/health-reform/issue-brief/a-historical-review-of-how-states-have/. The 1990 amendments further required that states cover children ages 6–18 under 100 percent of the FPL, gradually phasing in the requirement through 2002. In its *Economic and Budget Outlook: Fiscal Years 1992–96*, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/76xx/doc7664/91-cbo-002.pdf, the CBO estimated that most of the net costs of the 1990 expansion would appear in later years and that costs in the early years had been roughly offset by Medicaid savings accruing from other provisions of the legislation. Relative gross costs of the various 1985–90 expansions were estimated with the assistance of census data in Lindsay M. Howden and Julie A. Meyer, *Age and Sex Composition: 2010*, 2010 Census Briefs, US Census Bureau, May 2011, http://www.census.gov/prod/cen2010/briefs/c2010br-03.pdf, as well as with Medicaid expenditure data from Kaiser Family Foundation, "Medicaid Payments per Enrollee, FY2010," accessed November 1, 2013, http://www.statehealthfacts.org/comparemaptable.jsp?ind=183&cat=4. Taken together, these methods produced findings that the net effect of the 1985–90 amendments was to account for roughly 13 percent of pre-ACA Medicaid spending projections, or roughly 9 percent of currently projected Medicaid, CHIP, and exchange expenditures. Of these increases, the largest effects were attributed to the 1990, 1989, and 1988 expansions that increased mandatory eligibility requirements, in contrast with the 1985–87 amendments that simply expanded state coverage options.

54. These amendments established the Supplemental Security Income (SSI) program, through which Medicaid eligibility was expanded. The "implementation of SSI resulted in significant increases in enrollment among the aged and disabled in Medicaid, averaging nearly 8 percent per year during the period." See John Klemm, "Medicaid Spending: A Brief History," *Health Care Financing Review* 22, no. 1 (2000): 105–112, http://www.cms.gov/Research-Statistics-Data-and-Systems/Research/HealthCare FinancingReview/downloads/00fallpg105.pdf. The enrollment increases arising after the 1971–72 amendments were not quite as dramatic as those that occurred after the 1985–90 laws; the estimate of 5 percent of category spending is produced by comparing budget projections subsequent to the adoption of

responsibility for projected Medicaid, CHIP, and exchange costs will be allocated to President Johnson and the enacting Congress of 1965.

The final component of projected deficits to be analyzed is federal net interest costs, which under the CBO's estimates would far exceed historical levels due to the projected accumulation of federal debt. Responsibility for these net interest costs is most fairly prorated between the aforementioned drivers of federal deficits in proportion to their contributions to the projected spending excess. Although a wider variety of government policies have contributed to federal deficits and interest costs to date, this is not the case with respect to the excess of projected future net interest costs over historical averages. If Social Security, Medicare, Medicaid, and the ACA's health-insurance exchange subsidies simply remained at "affordable" levels as percentages of GDP—whether defined as "affordable" by historical standards or taking into account projected 2037 levels of federal revenues and spending in other categories—projected federal net interest costs would be well within affordable historical norms over the long term.[55]

A final word on the substantive drivers of projected deficits is appropriate before summarizing the allocation of political responsibility. Political parties' opposing views on such issues as tax burdens, defense outlays, and appropriated stimulus spending often cause each to blame the other for the assumed contributions such policy decisions have made to a daunting fiscal outlook. But when the projected federal fiscal imbalance is apportioned between its leading contributors, it becomes overwhelmingly clear that these other recent political battles have little to do with the primary causes of projected deficits, which exist predominantly because of long-past policy decisions. Those seminal policy decisions were the creations of Medicare, Medicaid, and Social Security, and the subsequent expansions of these programs.

Figure 4 illustrates how spending on Medicare, Medicaid, Social Security, and the ACA's new health-insurance exchanges is projected to grow faster than the economy can sustain while all other federal spending is projected to shrink in relative terms.

In sum, the policy decisions contributing the most to our currently projected fiscal imbalance were those by President Johnson and the Congress of 1965 to create the Medicare and Medicaid programs. Moreover, after their initial creation, both

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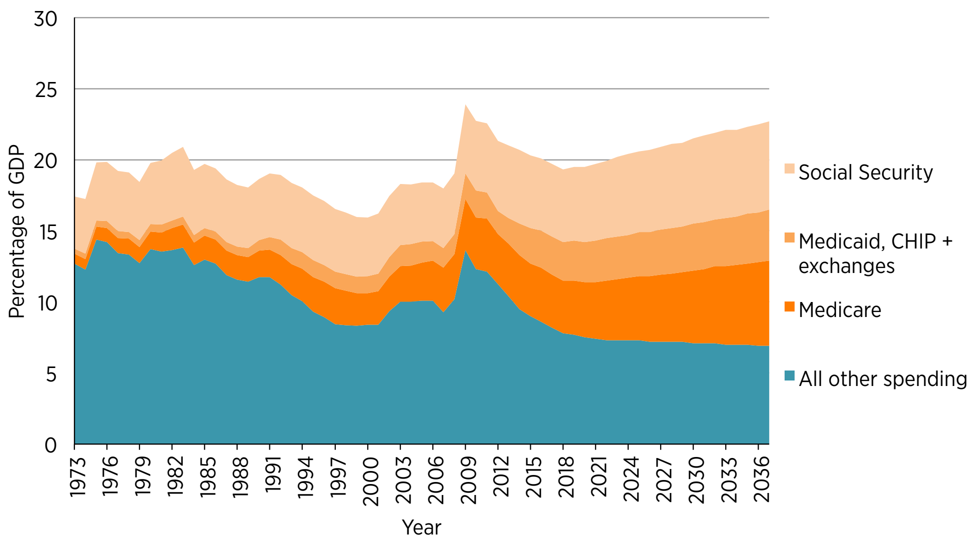
the 1971–72 amendments with those that would be produced by extrapolating trends prior to their enactment. This comparison produces an estimate that expected Medicaid costs were raised by approximately 8 percent by the 1971–72 amendments, or roughly 5 percent of the total of all spending in the combined budget category. Data in Klemm, "Medicaid Spending: A Brief History," also suggest that the 1971–72 amendments had a smaller impact in increasing projected Medicaid spending than the combined effects of the repeated expansions of Medicaid undertaken from 1985–90. Klemm also notes that "there were no significant expansions of Medicaid eligibility or services during" the years in between these two expansions, even as costs continued to rise due to medical price inflation.

55. Author's calculations based on data published in CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, and CBO, *2012 Long-Term Budget Outlook*.

FIGURE 4. GROWTH OF FEDERAL NONINTEREST SPENDING CATEGORIES, HISTORICAL AND PROJECTED



Sources: CBO, The 2012 Long-Term Budget Outlook, *June 2012, http://www.cbo.gov/sites/default/files/cbofiles /attachments/06-05-Long-Term_Budget_Outlook_2.pdf; CBO,* The Budget and Economic Outlook: Fiscal Years 2013 to 2023, *February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf.*

TABLE 6. RESPONSIBILITY SHARES FOR DRIVERS OF PROJECTED FEDERAL DEFICITS (INCREMENTAL POLICY VIEW)

	Soc. Sec.	Medicare (1965)	Medicare (1972)	Medicare (2003)	Medicaid (1965)	Medicaid (1972)	Medicaid (1986–90)	Medicaid (2010)	Exchanges	Interest	TOTAL
L. B. Johnson		11.9			6.7					10.0	28.6
House D	1.3	5.9	1.6		3.4	0.3	0.5	0.8	1.0	8.0	22.8
Senate D	1.0	4.8	1.3	0.3	2.7	0.2	0.4	0.6	0.8	6.5	18.7
Nixon	2.5		3.2			0.6				3.4	9.8
Senate R	0.3	1.2	0.3	1.2	0.7	0.1	0.1	0.2	0.2	2.2	6.3
Obama								1.6	2.0	1.9	5.5
G. W. Bush				2.9						1.6	4.4
House R				1.4						0.8	2.2
G. H. W. Bush							0.7			0.4	1.1
Reagan							0.4			0.2	0.6
TOTAL	5.0	23.8	6.5	5.8	13.4	1.2	2.2	3.1	4.1	35.0	100.0

Note: Totals do not add due to rounding.

Medicare and Medicaid were the subjects of significant expansions in 1972, Medicaid again from 1985–90, Medicare again in 2003, and finally there was another ambitious expansion of federally subsidized health benefits in 2010. Along with the significant expansion of Social Security in 1972, these policy decisions essentially created the projected federal fiscal imbalance. The legislative decisions that led to these imbalances are summarized in table 6.

A brief analysis of this table may be useful. The table indicates that the single policymaker who contributed the most to our currently projected fiscal imbalance was President Lyndon B. Johnson. This conclusion makes intuitive sense, since Johnson was the individual bearing the greatest constitutional responsibility for the creation of the deficit-driving Medicare and Medicaid programs.

The second-largest responsibility shares are assigned to Democratic members of the House of Representatives. In part this result is an artifact of the table's summing together legislative actions over distant times spanning from the Congress of 1965 to that of 2010. On a per-year basis, President Nixon's policy decisions contributed more to our current fiscal imbalance than have the legislative actions of House Democrats as a group; the latter have summed to a higher total over time.

The prominence of congressional Democrats in table 6 nevertheless highlights a significant historical trend; with only one exception, the largest expansions of entitlement spending occurred when Congress was under unified Democratic control. Examples exist both during Democratic presidential administrations (Johnson, Obama) and Republican ones (Nixon, Reagan, and George H. W. Bush). The only exception to this rule was the Republicans' creation of Medicare Part D in 2003, a significant action but one substantially surpassed in magnitude by the originations of Medicare and Medicaid as well as the health-insurance coverage expansion of 2010.

Notably, none of these major benefit expansions occurred at a time of divided control of Congress. Though the dataset is limited, Congress has so far been more likely to enact significant long-term spending expansions when under the control of a single party.[56]

The ranking of President Johnson first in this table is sensitive to the degree of budgetary responsibility assigned to the president compared with that assigned to Congress. If 60 percent of such responsibility were assigned to Congress and 40 percent to the president, Johnson's responsibility for projected deficits would be surpassed by the cumulative actions of House Democrats over time.[57]

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56. Former National Economic Council director Larry Summers recently noted this phenomenon in an op-ed piece, writing that the "many unfunded entitlement expansions of the past few decades" were enacted under such circumstances. Lawrence Summers, "When Gridlock Is Good," *Washington Post*, April 14, 2013, http://www.washingtonpost.com/opinions/lawrence-summers-when-gridlock-is-good/2013/04/14/8bfeab9c-a3c3-11e2-9c03-6952ff305f35_story.html.

57. Table 6 probably overstates the contributions of Senate Republicans to projected deficits because the method underlying it automatically assigns some responsibility over fiscal decisions to the Senate minority based on its usual procedural ability to block legislation. In the particular case of the 2010 health coverage expansion, however, Senate Republicans were denied an opportunity to block the legislation,

As noted earlier, these estimates are based on the CBO's extended baseline projections, which under congressional scorekeeping conventions depart from literal law in some respects.[58] Had this analysis been conducted using a literal-law interpretation of federal trust funds, an increased share of responsibility for projected federal deficits would be assigned to Medicaid and to the ACA's health-insurance exchanges, and none of it attributed to Social Security. The total proportion of deficits attributed to Medicare would be slightly less, and that contribution would be further concentrated on the program's parts B and D.[59] On balance, such an analysis would anticipate significantly smaller future deficits and attribute a greater share of responsibility for them to President Obama and less to President Nixon than shown in table 6.[60]

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through the use of budget reconciliation procedures that allowed the law to pass on a majority vote over unified Republican opposition. Other legislation in this table (such as the 1972 Social Security amendments) also passed through budget reconciliation procedures. Given that most Senate Republicans voted in favor of those 1972 amendments, however, it seems best to simply note this phenomenon here rather than to change the methodology to assign less responsibility to Senate Republicans generally. Previous Republican senators clearly contributed somewhat to the current fiscal imbalance through the passage of Medicare Part D, and by contributing some of the votes in 1965–72 toward the initial passage of Medicare and Medicaid, as well as toward expanded Social Security benefits. Social Security Administration, "Vote Tallies for Passage of Medicare in 1965," http://www.ssa.gov/history/tally65.html. Of the 30 Senate Republicans who voted on the original Medicare/Medicaid act, 13 voted in favor of the law, while 35 of 36 Senate Republicans who voted in 1972 voted in favor of the major Social Security benefit expansion of that year. Social Security Administration, Vote Tallies, "1972 COLA Amendments," http://www.ssa.gov/history/tally1972b.html.

58. Under current law and projections, Social Security disability benefits would be reduced in 2016, Medicare Hospital Insurance benefits in 2026, and Social Security retirement benefits in 2035 due to the depletion of these programs' trust funds. *2013 Annual Report of the Board of Trustees*.

59. Prorating responsibility for projected interest costs, the primary analysis presented in this section attributes roughly 55 percent of the projected imbalance to Medicare, 37 percent to Medicaid and the exchanges, and 8 percent to Social Security. On a trust fund literal-law basis roughly 52 percent would be attributable to Medicare and 48 percent to Medicaid and the exchanges. Author's calculations based on CBO and Social Security/Medicare trustees' projections.

60. Some readers may also wonder why this table does not give credit for substantial actions taken with the effect of reducing future federal deficits and expenditures. Examples would include the Social Security amendments enacted by President Reagan and the Congress of 1983 and the Medicare cost restraints enacted by President Obama and the Congress of 2010 as part of the ACA. The reason for excluding such actions is that this analysis explains the causes of currently projected future deficits rather than examining how much larger they might otherwise have been. This approach is taken because the general purpose of the inquiry is not to undertake the impracticable task of quantifying the budgetary consequences of every policy decision ever made, but rather to isolate the continuing effects of those policy decisions that drive the currently projected fiscal imbalance. The 1983 Social Security amendments reduced the long-term fiscal damage of the 1972 Social Security benefit expansion, just as the provider payment reductions in the 2010 ACA (if implemented) will reduce the long-term fiscal damage associated with the initial creation of Medicare. But this table instead quantifies the drivers of projected federal deficit spending that remain under current law. The exclusions are not one-sided in their effects upon calculations of political responsibility; it is for similar reasons (i.e., because none of the long-term fiscal problem is attributable to projected taxes being below historically sustainable levels) that neither President Obama nor the last Congress is charged with responsibility for expanding long-term deficits as a result of the tax provisions of the ATRA.

Casual followers of politics may wonder why table 6 assigns so little responsibility for projected future deficits either to President George W. Bush or President Obama, given the frequency with which each president is accused by the opposing party of irresponsible deficit spending. The reason is that, as noted in the introduction to this study, such mutually accusatory polemics tend to ignore the effects of federal policy decisions made prior to 2001, thereby exaggerating the relative effects of policy changes effectuated since then. Such exclusions create an inappropriate basis for analysis given that policy changes over the last decade will contribute far less to projected future deficits than several policies adopted prior to 2001.

As table 6 shows, over three-quarters of our current fiscal imbalance is the result of legislation enacted in the years from 1965 to 1972. Medicare and Medicaid were created in 1965, and they along with Social Security were further expanded in 1972. Our currently projected budget shortfall is essentially a legacy of legislative decisions made during the 1965–72 period of exceptional federal government activism. No recent national officeholder has done nearly as much damage to the current long-term outlook as was done during the 1965–72 period.

View #2: The Incremental Policy Decisions Underlying Current Federal Deficits

A similar method has been used to analyze responsibility for the policy decisions leading to the current federal deficit.

The first question to be confronted is what time frame constitutes the "current" federal deficit. This study defines the current deficit as the one now estimated for the current fiscal year for the purposes of this study, FY2013. In addition to making intuitive sense, this choice represents a reasonable middle ground with respect to how responsibility is divided between the revenue and spending sides of the budget equation. In FY2014, none of the projected deficit would be attributable to inadequate tax collections because under current CBO estimates revenues will exceed historical averages as a percentage of GDP.[61] By contrast, in FY2012, 30 percent of the deficit would have been attributed to inadequate tax collections, largely due to various forms of temporary tax relief. In FY2013, 19 percent of the shortfall is attributed to historically low revenue collections, a reasonable middle ground between these alternative depictions of the role of revenue collections in producing the current deficit.

Responsibility for the 19 percent of the FY2013 shortfall attributable to low revenues resides with President Obama and the Congress of 2011–13. Had legislation not been enacted at the start of this year, federal tax collections would have exceeded historical averages during the fiscal year as a share of the economy.[62] This legislative action to permanently extend various expiring provisions of tax law reflected a

61. CBO, *Budget and Economic Outlook: Fiscal Years 2013 to 2023*.
62. CBO, *2012 Long-Term Budget Outlook*. The legislation referred to is the American Taxpayer Relief Act.

deliberate policy decision by President Obama and the last Congress to run a larger current deficit rather than to experience the economic drag expected to accompany the rising tax collections scheduled under prior law. Whatever the merits of this policy decision, procedurally this portion of the current deficit is properly attributed to the current president and to the last outgoing Congress.

Table 4 presented estimates of "affordable" levels in various spending categories assuming historical prioritization and enforcement of a balanced budget. Current federal net interest costs are depressed relative to these levels, largely due to the persistently weak economy increasing investors' relative preference for US Treasury bonds. These lower interest costs increase the amount of other spending that can be done within a balanced budget. Offsetting mandatory program receipts in 2013 are also higher than historical norms, further increasing the amount of gross spending that could be done within a balanced budget. Adjusting affordable spending levels in all other budget categories for these effects produces a finding that there is sufficient room in FY2013 to spend 7.7 percent of GDP on discretionary appropriations without unbalancing the budget. The CBO currently projects that due to appropriations caps in force under the 2011 Budget Control Act, 7.6 percent of GDP will be spent on such appropriations in FY2013.[63] Therefore, assuming that these caps remain in force, the drivers of the current deficit on the spending side consist entirely of mandatory spending.

Table 7 adjusts the historically "affordable" levels of various categories of federal spending for current low interest costs and offsetting receipts, also taking into account appropriations caps in force under the Budget Control Act.[64] The table also shows 2013 spending levels as well as deficit-driving excesses for each. Figure 5 shows the relative contributions of each budget category to the FY2013 deficit.

Whereas Social Security's share of assigned responsibility for the projected 2037 deficit might have seemed unrealistically small, its reported contribution to the 2013 deficit may be surprisingly large.[65] Again this conclusion arises because this study assigns responsibility for current deficits as a function of changes from historical spending patterns, so the recent large surge in Social Security expenditures (see

63. CBO, *Budget and Economic Outlook: Fiscal Years 2013 to 2023*.

64. Holding offsetting receipts constant while allowing gross expenditures to fluctuate represents something of an approximation given that in some mandatory programs offsetting receipts are a function of total program expenditures. The approximation does not significantly affect the qualitative picture of a deficit driven by increases in spending on Medicare, Medicaid, Social Security, and income security, as well as lower-than-typical revenue collections.

65. From a unified budget perspective, Social Security in 2012 experienced an excess of expenditures over tax income of approximately 1.1 percent of GDP, while its 2013 deficit is projected to be substantially smaller due to the expiration of the recent Social Security payroll tax cut. Table 7 exhibits a phenomenon that is somewhat the reverse of that in table 5; in 2037, as reflected in table 5, substantial projected savings in other budget accounts would offset part of Social Security's operating deficit. By contrast, throughout most of the 1980s through the first decade of the 21st century, Social Security surpluses partially masked deficits in other federal budget accounts.

TABLE 7. FEDERAL SPENDING BY MAJOR BUDGET CATEGORIES, FY2013 VS. HISTORICALLY "AFFORDABLE" LEVELS

Category	"Affordable" spending level under balanced budget (historical)	"Affordable" level adjusted for low FY2013 interest costs, receipts, appropriations caps[a]	FY2013 actual	FY2013 excess over "affordable"	Percentage share of responsibility for FY2013 deficit
Discretionary programs	7.3	7.6	7.6	0.0	0
Mandatory programs	8.7	8.9	13.2	4.3	81
Social Security	*3.8*	*4.0*	*5.1*	*1.1*	*21*
Medicare	*1.8*	*1.9*	*3.7*	*1.8*	*34*
Income security	*1.4*	*1.5*	*2.2*	*0.7*	*13*
Medicaid[b]	*0.9*	*1.0*	*1.7*	*0.7*	*13*
Other programs and offsetting receipts	*1.0*	*0.6*	*0.6*	*0.0*	*0*
Net interest	1.9	1.4	1.4	0.0	0
TOTAL[c]	17.9	17.9	22.2	4.3	81

Notes: (a) For any spending category that is at or below historically affordable levels, this column shows actual FY2013 levels, allowing other categories' totals to expand to fill the remainder of allowable spending within a balanced budget. (b) Expenditures on the new health-insurance exchanges established under the ACA are also grouped in this category, though such expenditures are comparatively minor before their full implementation in 2014. (c) Totals may not add due to rounding.

Source: CBO, The Budget and Economic Outlook: Fiscal Years 2013 to 2023, *February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf.*

FIGURE 5. RELATIVE CONTRIBUTIONS TO THE FY2013 DEFICIT, AS DETERMINED BY CURRENT SPENDING AND REVENUES RELATIVE TO HISTORICAL NORMS

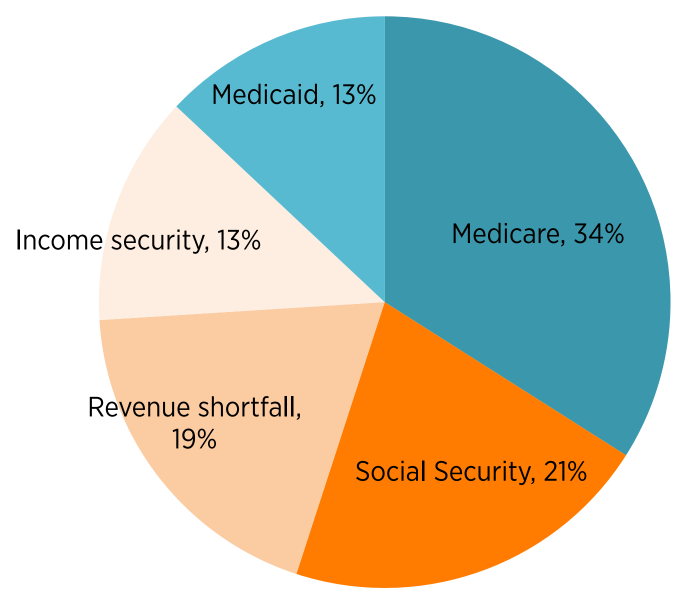

figure 1) is measured as a greater contribution to current deficits than would be calculated simply by comparing current Social Security taxes with current expenditures.[66] For reasons elucidated earlier in this study, the portion of the deficit attributable to increased Social Security spending is appropriately attributed to President Nixon and the 1972 Congress, who enacted the legislation that caused long-term Social Security expenditures to rise considerably relative to historical levels.

The allocation of responsibility for Medicare spending in FY2013 is somewhat different than it is for projected long-term program spending. In FY2013, Part D accounts for 11 percent of total Medicare spending.[67] Responsibility for this portion of Medicare costs is allocated to President George W. Bush and the Congress of 2003. Prorating the remainder, 19 percent of the responsibility for FY2013 Medicare spending is assigned to President Nixon and the 1972 Congress, and the other 70 percent to President Johnson and the 1965 Congress.

Of spending on Medicaid (and health-insurance exchanges) in FY2013, only 1 percent is attributable to legislation enacted by President Obama and the Congress of 2010.[68] Consistent with calculations described earlier, 13 percent of current Medicaid spending will be attributed to program amendments enacted from 1986–90, 8 percent to 1972 program amendments, and the remaining 78 percent to Medicaid's original creation.[69]

This derivation leaves only the recent increases in "income security" program spending to be allocated. Such spending currently equates to 2.2 percent of GDP, exceeding the level of 1.5 percent deemed affordable in FY2013 given interest costs, appropriations caps, and offsetting receipts for mandatory spending. This excess can be entirely accounted for by expansions of these various programs enacted during the last two decades, much of it concentrated in the last few years.[70] Of this excess, 29 percent will be attributed to President Obama and the Congress of 2011–13 for recent extensions of unemployment compensation; 43 percent to President Obama and the Congress of 2009–11 for expansions of the earned income tax credit

66. In other words, there is not room within a balanced federal budget for Social Security expenditures of 5.1 percent of GDP *unless* other federal revenues are substantially increased, and other spending decreased, relative to 40-year averages.
67. CBO, CBO's February 2013 Medicare Baseline, February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43894_Medicare2.pdf.
68. CBO, *CBO's February 2013 Estimate of the Budgetary Effects of the Insurance Coverage Provisions of the Affordable Care Act*, February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43900_ACAInsuranceCoverageEffects.pdf. The expansion is only scheduled to become fully effective in 2014.
69. Footnotes 53 and 54 provided the derivation of the 13 percent and 8 percent figures. Of the 13 percentage points attributed to the amendments of 1986–90, 9 points are allocated to President George H. W. Bush and the Congress of 1989–90, and the remaining 4 to President Reagan and the Congress of 1987–88, for reasons earlier described.
70. The CBO defines this "income security" category as including the Supplemental Nutrition Assistance Program, Supplemental Security Assistance, unemployment compensation, the earned income tax credit and child tax credit, family support, child nutrition, foster care, and assorted refundable tax credits. See CBO, *Budget and Economic Outlook: Fiscal Years 2013 to 2023*.

TABLE 8. RESPONSIBILITY SHARES FOR DRIVERS OF THE CURRENT FEDERAL DEFICIT (INCREMENTAL POLICY VIEW)

	Social Security	Medicare (1965)	Medicare (1972)	Medicare (2003)	Medicaid (1965)	Medicaid (1972)	Medicaid (1986–90)	Medicaid + exchanges (2010)	Inc. Sec. (1993)	Inc. Sec. (2009–10)	Inc. Sec. (2011–13)	Tax (2013)	TOTAL
Senate D	4.2	4.8	1.3	0.2	2.0	0.2	0.3	0.0	0.7	1.1	0.8	3.8	19.5
House D	5.3	6.0	1.6		2.5	0.3	0.4	0.0	0.9	1.4			18.4
L. B. Johnson		11.9			5.1								17.0
Obama								0.1		2.8	1.9	9.5	14.3
Nixon	10.5		3.2			0.5							14.3
House R				0.9							0.9	4.8	6.6
Senate R	1.1	1.2	0.3	0.8	0.5	0.1	0.1	0.0	0.2	0.3	0.2	1.0	5.6
G. W. Bush				1.9									1.9
Clinton									1.8				1.8
G. H. W. Bush							0.6						0.6
Reagan							0.3						0.3
TOTAL	21.0	23.8	6.5	3.7	10.1	1.0	1.7	0.1	3.6	5.6	3.8	19.0	100.0

Note: Totals do not add due to rounding.

(EITC), child tax credit (CTC), and other stimulus spending; and the remaining 28 percent to President Clinton and the Congress of 1993.[71]

Table 8 shows that responsibility for the current federal deficit is far more diffuse than is responsibility for the projected long-term federal fiscal imbalance. While the long-term imbalance is entirely attributable to growth in federal health entitlements and Social Security, the current deficit has many contributors including not only rising Medicare, Medicaid, and Social Security spending, but also increased spending on means-tested income security programs as well as revenue collections below historical norms. No president or congressional party is by itself charged with more than 20 percent responsibility for the current deficit.

The positions of Senate and House Democrats atop this table are again partially an artifact of aggregating nearly 50 years of legislative actions. As was the case with the projected fiscal imbalance, President Johnson is the single-largest contributor to current deficits per unit time in office, influencing today's deficit by almost as much during his five-plus years in office as Democratic senators or congressmen have collectively done over several decades.

The rankings in the table are again sensitive to assumptions about the relative influence accorded to Congress and the president. Had it been assumed that the president was 55 percent responsible for fiscal policy decisions rather than 50 percent, President Johnson would replace Senate Democrats atop the table as the leading contributor to the current deficit.

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71. These estimates are made on the basis of a survey of all recent CBO reports' estimates of the effects of changes in income security spending affecting FY2013 outlays. The FY2013 spending excess of $109 billion (2.2 percent of GDP over 1.5 percent of GDP) can be accounted for thus: $79 billion is attributable to legislation enacted over the past four years. First, $10 billion and later a further $22 billion in increased unemployment compensation outlays were enacted by President Obama and the 2011–13 Congress (estimates taken from the CBO's March 2012 baseline update, *Updated Budget Projections: Fiscal Years 2012 to 2022*, http://www.cbo.gov/sites/default/files/cbofiles/attachments/March2012Baseline.pdf, as well as its *Budget and Economic Outlook: Fiscal Years 2013 to 2023*). Estimates in the CBO's *Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12039/01-26_fy2011outlook.pdf, and *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, March 2009, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/100xx/doc10014/03-20-presidentbudget.pdf, respectively identify a further $37 billion and $10 billion in relevant stimulus spending as well as expansions of refundable earned income and child tax credits enacted by President Obama and the Congress of 2009–11. These were recently extended through 2017, but the latest legislation does not affect FY2013 outlays, per CBO, *Budget and Economic Outlook: Fiscal Years 2013 to 2023*. Another CBO report from February 2013, *Growth in Means-Tested Programs*, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43934-Means-TestedPrograms.pdf, shows that legislative activity expanding income security programs has been most concentrated on the EITC and CTC; without these expansions current income security spending would be below "affordable" levels as defined in this study. Prior to the Obama administration, the most significant major expansion of the EITC was enacted in 1993 and signed by President Clinton. Thus, the remaining portion of the current excess is properly attributable to the 1993 expansion. Hilary Hoynes's paper, "The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers," Chicago Federal Reserve Conference, 2007, identifies the 1993 expansion as "the largest" based on the payment schedule changes effectuated by it. See figure 2 in the Hoynes paper.

As should perhaps be expected for an incumbent, President Obama's assigned share of responsibility for the current deficit is much higher than for the long-term fiscal imbalance. Substantively this is because tax collections and income security spending play a greater part in the current deficit than either is projected to play in the long-term imbalance. The contributions of both of these budget categories to the deficit primarily reflect policy decisions made during President Obama's tenure.

Casual followers of politics may wonder why President George W. Bush does not appear more prominently in this table, considering the attention given by his political opponents to those of his policies said to increase deficits. This is because none of the factors often cited—the costs of recent wars, Medicare's prescription drug benefit, and the tax cuts he signed—are among the leading contributors to the deficit in FY2013. Though tax policies adopted in 2001 and 2003 had a significant effect on federal finances in the years immediately following their enactment, they have since been replaced by tax policies decided upon by President Obama and the last Congress. Even with the remaining costs of military operations abroad, total appropriations including defense spending are now lower than 40-year averages as a percentage of GDP. The Medicare prescription drug benefit does add to the current deficit, but it represents only 11 percent of total Medicare spending in FY2013 and thus only appears to be a dominant deficit-driver when all pre-2001 policy decisions, including the creation of Medicare itself, are selectively excluded from review. Even to the extent that deficits during President George W. Bush's two terms of 2001–9 increased federal interest costs, such effects are not driving the deficit in a year when federal interest costs are actually below historical averages.

The FY2013 deficit is to a much greater extent a function of earlier decisions to create and expand other federal health and retirement benefits, as well as subsequent decisions pertaining to tax policy and income security spending. Whatever the merits or demerits of President George W. Bush's fiscal policies during his time in office, they have very little to do with the size of the federal deficit in FY2013.

View #3: Track Records of Absolute Fiscal Stewardship

The third view presented in this study is one that evaluates officeholders according to the *absolute* deficit-spending behavior conducted during their terms of office. The basis of this analysis was presented earlier, in the section of this paper titled "Context: Absolute vs. Incremental Fiscal Policy Management."[72] The data presented in table 9 pertain to all fiscal years for which the CBO has published historical data in its budget and economic outlook.[73] Table 9 presents "responsibility shares" for deficits as a percentage of GDP. For example, during fiscal years 2010–13, annual

72. Deficits for a particular fiscal year are attributed to those who held office in the prior year, who typically enacted the legislation that determined tax and spending levels during that fiscal year. The text discusses instances where this assignment may inaccurately reflect fiscal track records.
73. CBO, *Budget and Economic Outlook: Fiscal Years 2013 to 2023*.

TABLE 9. RESPONSIBILITY SHARES, DEFICITS AS A PERCENTAGE OF GDP

Agent	Aggregate deficit shares	Average deficit responsibility per year in office[(a)]
Obama	15.00	3.75
Reagan	17.06	2.13
George H. W. Bush	8.46	2.11
Ford	3.48	1.74
George W. Bush	13.70	1.71
Carter	4.80	1.20
House Democrats	27.18	1.01
Nixon[(b)]	2.49	0.83
Senate Democrats	20.99	0.80
Senate Republicans[(c)]	11.75	0.41
House Republicans	5.55	0.40
Clinton	0.49	0.06

Notes: (a) For congressional parties, averages are determined on the basis of the years in which the parties held majority control. (b) Includes only fiscal years 1973–75; earlier years are not included in the aforementioned CBO data. (c) Senate Republicans have been assigned primary responsibility for the budget balance in FY2002, which was significantly affected by the passage of tax legislation in May 2001. At the time of the vote, Senator Jim Jeffords (R-VT) voted as a Republican. He later switched his status to Independent, caucusing with the Democrats. The Senate is thus treated as being under Republican control for the FY2002 budget and Democratic control for the FY2003 budget.

Source: CBO, The Budget and Economic Outlook: Fiscal Years 2013 to 2023, *February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf.*

federal deficits have been 9.0 percent, 8.7 percent, 7.0 percent, and 5.3 percent of GDP. These figures total 30.0 percent of GDP in the aggregate over the four years. President Obama is assigned 50 percent responsibility for these deficits, or 15.0 percent of GDP in the aggregate, which works out to 3.75 percent of GDP per year during the four years for which he is assigned partial responsibility.

Because this table only evaluates officeholders during the 40-year period from 1973 to the present, it does not include a view of the presidency of Lyndon B. Johnson, who is so prominent in the prior tables allocating responsibility for the enactment of key deficit-driving legislation. The omission does not have a significant impact on the names atop this table, because deficits during President Johnson's tenure were comparatively modest by modern standards, only once exceeding 1.1 percent of GDP and never exceeding 2.9 percent.[74] President Johnson's primary contributions to the fiscal imbalance were to future deficits through the enactment of Medicare and Medicaid; little of the eventual cost of these programs was experienced during his time in office.

Table 9 reveals that viewing deficits as reflecting the decisions of those contemporaneously in office produces a different picture of relative responsibility

74. OMB, Historical Tables, FY2013 Budget Submission, table 1.2, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/hist.pdf.

than those that emerge from other viewpoints. President Johnson's policy decisions contributed more to future deficits than those of any other president, while President Obama has overseen relatively larger annual deficits during his time in office than any of his predecessors, by a wide margin. Unlike some of the other tables in this study, the ranking here is not terribly sensitive to the method of apportioning responsibility between the executive and legislative branches. President Obama would still rank first by this method even if 60 percent of responsibility for federal deficits were assigned to Congress and only 40 percent to the president.[75]

However, the picture does change according to whether one views deficit spending in terms of annual averages or aggregate effects over long periods of time. In the aggregate, House Democrats have participated in more deficit spending over the past 40 years than any other entity described in the table, due in part to the large number of years in which they commanded the majority. Aggregate deficits run by President Obama as a percentage of GDP have yet to surpass those of the Reagan presidency, though only because there is only one Obama term in the books in comparison with Reagan's two full terms.

Among recent presidents, President Clinton possesses the lowest deficit responsibility shares by this method. Also low are the shares of Republicans in both the House and the Senate. The federal budget balance improved markedly during the period in which President Clinton held office at the same time as a Republican Congress.

The approximating methodology above overstates the deficits run during President George W. Bush's administration by assigning undivided presidential responsibility to him for the postwar record deficit of 10.1 percent of GDP run in FY2009. Though complete figures are not available, the CBO has documented that the 2009 stimulus law, enacted after President George W. Bush left office, added substantially more than 1 percent of GDP to the FY2009 deficit.[76] If table 9 were adjusted to account for the most obvious such misallocations, it would show higher responsibility shares for President Obama and smaller ones for President George W. Bush. Even with the method's misattribution of responsibility to President George W. Bush for the entire record-breaking FY2009 deficit, his average annual deficit responsibility still ranks only fifth among the eight presidents in the table,

75. This statement does not represent a negative value judgment; clearly some of the deficits during the years 2009–13 were created by deliberate policy design, including the 2009 stimulus law, the 2011–12 payroll tax cut, and other purposely deficit-increasing measures. Some policy advocates have recommended running still larger deficits.

76. CBO, *Changes in CBO's Baseline Projections Since January 2001*, June 7, 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-07-ChangesSince2001Baseline.pdf. The memorandum shows that the ARRA (stimulus law) reduced federal revenues by $65 billion in FY2009 and added $90 billion to spending, a $155 billion addition to federal deficits, or slightly more than 1.1 percent of GDP. Another $178 billion in deficit-increasing legislation is unallocated in the memorandum. Some such misallocations are inevitable under the methodology associated with table 9, because it assigns responsibility according to when deficits occurred instead of according to who enacted the policies underlying them.

behind Obama, Reagan, George H. W. Bush, and Ford, and above only Carter, Nixon, and Clinton.[77]

As explained earlier, understanding federal budget behavior requires looking not only at the incremental effects of legislation but also at the absolute records of fiscal stewardship quantified in table 9. Elected officeholders bear responsibility for ongoing federal deficits irrespective of the legislative decisions made by prior officeholders, who lacked perfect information about the eventual consequence of their legislative decisions. If later officeholders find that earlier legislation has become fiscally untenable as a consequence of subsequent economic developments, these later officeholders bear a responsibility to correct the law. For these as well as other reasons, it is important to grade elected officials by the absolute levels of deficits run during their tenures, as well as by the incremental changes they have made relative to prior law.

This view of absolute fiscal stewardship assigns a greater responsibility to President Obama than the other views provided in this study, for the simple reason that his presidency has witnessed the largest federal deficits. Reagan, George H. W. Bush, and Ford also appear more prominent from the vantage point of absolute fiscal stewardship than they did in the prior analyses of incremental policy changes. Nixon experiences the opposite treatment, appearing less significant in the analysis of absolute fiscal stewardship than in the analyses of incremental policy changes.

CONCLUSION

The causes of federal deficits are frequently debated for reasons ranging from political polemics to policy problem-solving. Too frequently the causes of federal deficit spending are attributed to political opponents using methods designed specifically to cast blame in a particular direction, for example by assigning responsibility exclusively either to the executive or legislative branch, and/or by excluding from review many significant policy decisions made by elected officials when the chosen political target was not in office. Such polemical constructions may well serve political purposes, but they do not serve the objective of understanding the leading causes of federal deficit spending.

77. Given the frequency with which political opponents have assigned responsibility for federal deficit spending to President George W. Bush, a further clarifying explanation may be appropriate. The documentary record is straightforwardly clear that the George W. Bush administration ran smaller annual deficits than those that occurred during the presidencies of Obama, Reagan, George H. W. Bush, and Ford. The criticism of George W. Bush is thus often grounded in the allegation that he was responsible for incremental changes to fiscal policy that resulted in weakened federal finances relative to those inherited from the Clinton administration. While it is true that the net effect of incremental policy decisions during the George W. Bush administration added to projected federal deficits, this method of analysis returns us to the vantage point of analyzing incremental policy changes, and it is only appropriate to apply such an analysis equally to all presidential administrations, not selectively to that of George W. Bush. As previously shown, policy decisions during the administrations of Johnson, Nixon, and Obama have contributed more to the currently projected federal fiscal imbalance.

To fully understand the causes of federal deficits, terms must be clearly defined. We must decide whether we are analyzing the current year's deficit, a projected long-term fiscal imbalance, or another construct. We must also decide whether we are assigning responsibility according to incremental changes in law or according to track records of fiscal stewardship during elected officials' terms of office. All of these are legitimate prisms through which to view the federal budget, provided they are not conflated in inconsistent ways.

This study has examined the causes of federal deficits from three vantage points, each of them based on comparisons of the components of the current fiscal imbalance with historical norms established over the last 40 years of federal budgets: first, responsibility for the incremental policy decisions that have produced the projected long-term fiscal imbalance; second, responsibility for the incremental policy decisions that have produced the current year deficit; and third, absolute records of fiscal stewardship for elected officials during their terms of office.

This study finds that the vast majority—over three-fourths—of the projected long-term federal fiscal imbalance derives from policies enacted in the years from 1965 to 1972. The long-term imbalance is driven primarily by growth in Medicare, Medicaid, Social Security, and the new health-insurance exchanges established as part of the 2010 Affordable Care Act. Most Medicare and Medicaid costs derive from their initial enactment in 1965 during the administration of President Johnson. They along with Social Security were also the objects of significant benefit expansions in 1972 during the Nixon administration. From this vantage point, President Johnson was the single greatest contributor to the projected federal fiscal imbalance.

Responsibility by the second standard, that being responsibility for the current (FY2013) federal deficit, is more diffuse. The current deficit exists largely because of recent surges in Social Security, Medicare, and Medicaid spending, in combination with recent expansions of income security programs and lower-than-typical revenue collections. Viewed from this vantage point, the largest contributions to the current deficit occurred as a result of policy decisions made during periods of unified Democratic Party control of the Senate and the House of Representatives. This finding reflects aggregate contributions by Congress to the deficit over long periods of time and is sensitive to the apportionment of responsibility between the executive and legislative branches; if 55 percent responsibility rather than 50 percent were assigned to the president each year, President Johnson would again be found to be the leading contributor.

The third standard evaluates responsibility for federal deficits according to their absolute levels during elected officials' terms of office. In the aggregate, more deficit spending has occurred during the periods of Democratic control of the House of Representatives than during the terms of office of any other entity studied, but this finding primarily reflects the large number of years during which Democrats controlled the House. On an annual basis, responsibility shares for federal deficits are highest for President Obama, by a wide margin.

None of these perspectives is inherently superior to the others, and each represents a legitimate way of understanding the federal budget. Viewed together, they reveal much to us about the policy choices that have created the federal fiscal imbalance. Despite the levels of political attention given to other policy issues ranging from tax policy to overseas military operations, both our current and our projected federal deficits derive more than anything else from the establishment and later expansion of federal entitlement programs. Our public discussion would benefit from greater attention to such comprehensive views of federal finances, and from comparatively less attention to selective evidence that principally serves the objective of partisan blame-laying.