Joint Economic Committee Republicans
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Whither the Budget Deficit -- II

On October 25 President Clinton held a news conference claiming credit for reducing the budget deficit for three consecutive years. However, as pointed out in a JEC staff study released by Congressmen Armey and Saxton in August 1994, entitled **Whither the Budget Deficit?** , the improved deficit picture claimed by the President since 1992 is driven by economic and accounting factors, not the Clinton tax increases.

The following brief points update the August JEC report. Please note that the JEC will release a more detailed *Staff Report* in the near future.

Non-Policy Economic and Technical Factors Driving Deficits Down

- A review of the budget figures from 1993, 1994, and 1995 demonstrates that the deficit declines are not driven by the Clinton tax increases, a policy which even President Clinton now acknowledges was a mistake.

Fiscal 1993 Deficit Decline

- As the 1994 JEC report pointed out, the deficit did decline from 1992 to 1993:

$290 Billion (1992) - $255 Billion (1993) = $35 Billion Deficit Reduction

- This decline had nothing to do with Clinton policies, but with large swings in **deposit insurance outlays** and other **non-policy factors**. Also, since the fiscal year ended several weeks after the Clinton tax increases were signed into law, there is no way that these policies could have had a direct effect on the fiscal 1993 deficit.

Fiscal 1994 Deficit Decline

- In the fall of 1993, OMB projected that the **1994 deficit would be $259 billion**, which would have been an increase from the 1993 deficit of $255 billion actual level. OMB's projections included the President's new tax increase. However, **due to better than projected economic and technical factors, the 1994 deficit was actually much lower**. Ultimately, the 1994 deficit came in at $203 billion.
- The key point is that the $259 billion OMB deficit projections included Clinton budget policy changes, so that any reduction in the deficit from the $259 OMB projection to $203 billion was due, **by definition, to non-policy factors, mainly changes in economic assumptions and technical factors**.

Fiscal 1995 Deficit Decline

- In February 1995 OMB projected that the 1995 budget deficit would come in at $192.5 billion, not too far below the $203 billion 1994 final level. However, better than expected economic performance and other non-policy factors in 1994 pushed the deficit lower.
- According to President Clinton, the 1995 deficit will be $164 billion. Since the OMB itself projected a deficit $29 billion higher under Clinton policies, **this reduction once again is due to non-policy factors.**

In Retrospect

It is not very surprising that the deficit declined during an upswing in the business cycle. This improvement was boosted by a huge swing in deposit insurance outlays from a significant contribution to worsening deficit projections in the 1991-92, to a force actually reducing the deficit in later years. ***After all, it was the recession and the S&L crisis that had pushed deficits and deficit projections so high in the early 1990s, from their relatively low levels of the late 1980s. In the last three Reagan budget years, the expansion had left deficits averaging $152.5 billion, lower than the Clinton deficits.***

The President would like to take credit for the pick-up in economic growth and its effects on the budget deficit by claiming that his budget proposal caused this added growth. **Unfortunately, this argument is not credible because Administration officials had claimed that its policy would boost the economy by reducing interest rates**. However, soon after the Clinton tax hikes were adopted in August 1993, the linchpin of this argument -- interest rates -- **started going up, not down.**

In other words, within several weeks interest rates started moving in the opposite direction from that predicted by the Administration. By putting all their eggs in the interest rate basket, the Administration cannot credibly argue that its policies caused the unexpected improvement in the economy.

Conclusion

A review of the facts on budget deficits does not support President Clinton's claim that the deficit is declining because of his tax increase, a tax increase which even he has disavowed.