

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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Grow Our Way Out of the Debt Problem? Republican Policy Record Says No

Dear Democratic Colleague:

Continuing large deficits and a mushrooming national debt raise serious public concern. Republicans respond by urging that we stick with the policies that caused these problems. Just keep cutting taxes, they say, and the economy will grow so fast that the deficit and debt problems will just melt away.

A look at the path of the debt under Republican policies suggests otherwise.

Republicans have controlled U.S. budget policy during three recent Administrations. In 1981, when Republicans controlled the White House, Republicans controlled the Senate, and a coalition led by Republicans controlled the House, Republicans enacted a massive tax cut that they claimed would increase revenues and balance the budget in four years. (Only one House Republican voted against the tax cut; only 48 Democrats voted for it.) Republicans continued to control the White House, and hence to have veto power over any significant change in policy, through 1992. Then, in 2001, when Republicans controlled the Congress and regained control of the White House, they enacted another enormous tax cut which the President claimed would increase revenues and keep the budget in surplus.

The following chart shows the relative paths of the national debt (debt held by the public) and the gross domestic product (GDP) over those two historical periods, and projected into the future. (The debt and the GDP are set at an index equal to 100 in 1980. The years of 1993 through 1999 are dropped from the series; the index values for the debt and the GDP in 2000 are then set equal to the index values for 1992. This shows the effect of Republican policies continuously for the full periods of Republican control, without including the years of the Clinton budget and tax policy. The debt and GDP figures for 2004 onward come from the September 23, 2004 Congressional Budget Office (CBO) analysis of Administration policy proposals, which was undertaken in response to my request.)

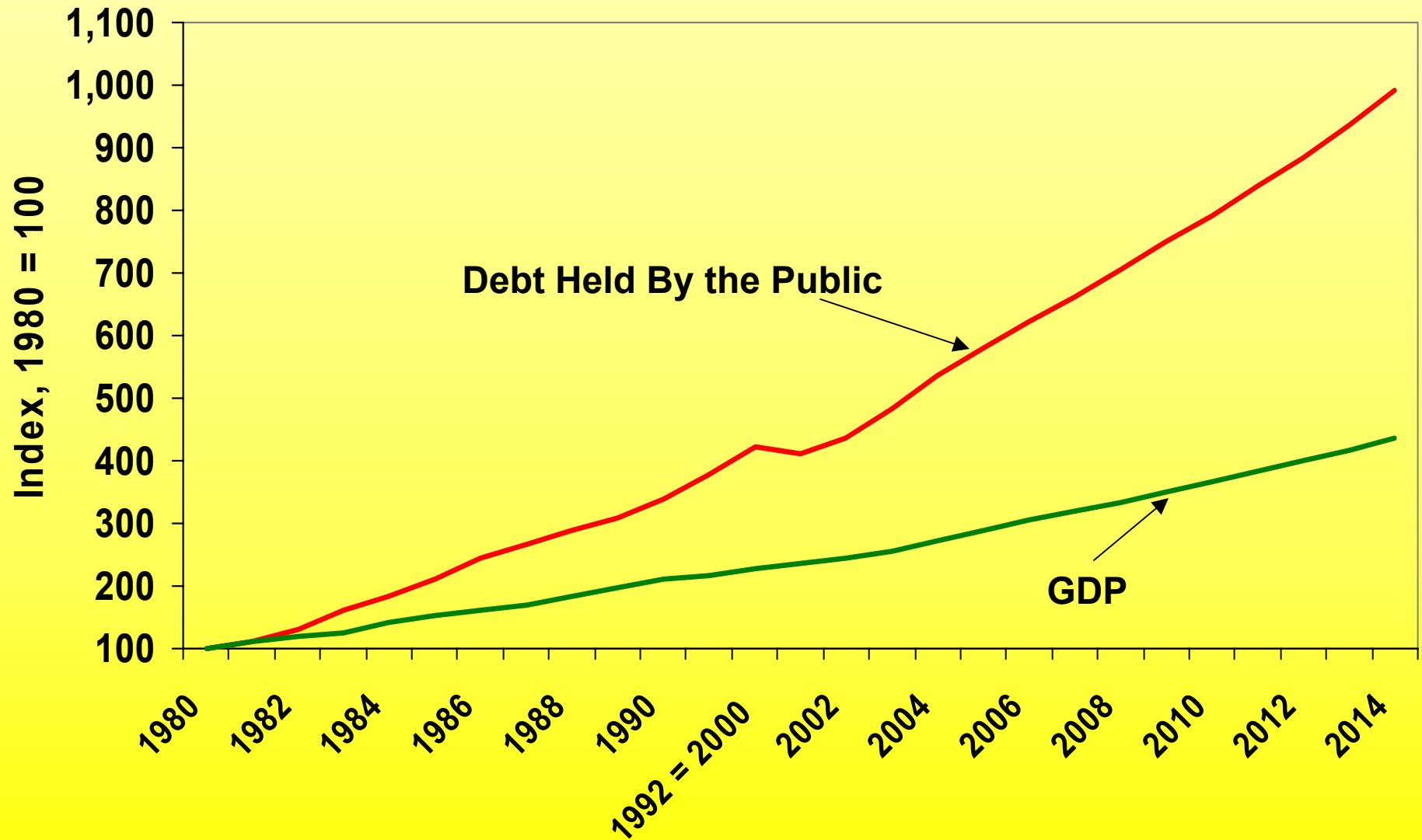
The chart shows that in the Reagan-Bush and the George W. Bush periods, the effect of the Republican policies is exactly the same. Debt grows exponentially faster than the GDP throughout the times of Republican control. The only slight variations in the trend come in the very beginning of the Reagan and the George W. Bush Administrations, when it took a short time for Republican policies to achieve their full adverse effect.

The numerical table that follows shows the compound average annual rates of growth of the debt and the GDP over the entire period of Republican control, and over several relevant sub-periods. Most notably, from 1980 through 1992 and from 2000 through 2004 — that is, for years for which we have actual experience (including a projection very late in fiscal year 2004, which ends this week), the debt held by the public grows by 11.1 percent per year, but the (nominal — that is, not inflation-adjusted) GDP grows by only 6.5 percent per year. In other words, the debt grows 70.9 percent faster than the economy. Over the entire period, including the CBO projections for 2005-2014, the debt held by the public grows (and is projected to grow through 2014) by 9.2 percent per year, but the GDP grows by only 5.8 percent per year. In other words, the debt grows 58.7 percent faster than the economy.

This Republican track record, covering 16 years of experience and 10 years projected by the Congressional Budget Office, yields no hint that any economic growth that comes from imprudent tax cuts can offset the resulting compounding of debt. Cutting taxes still further for those who need the help the least, with faith that all of the history of the last quarter-century will suddenly reverse itself, is especially imprudent given that the first of the baby-boom generation begin to collect Social Security benefits in 2008, just four years from now. If the regularities of 16 years of history and the forecasts of the CBO prove true, there will be no time to correct yet another policy error. In the interests of our children and grandchildren, the President and the Republican leadership in the Congress should be thinking of how to correct their mistakes, not how to compound them.

Sincerely,
/s
John M. Spratt, Jr.
Ranking Democratic Member

Under Republican Policies, Debt Grows 50 Percent Faster Than The Economy



Debt Has Outgrown the Economy Throughout Republican Control

Growth Rates

Years	Debt Held By Public	GDP	Ratio
1980-1992	12.7%	7.1%	178.2%
2000-2004	6.2%	4.5%	138.6%
1980-2004*	11.1%	6.5%	170.9%
2004-2014	6.4%	4.8%	133.1%
2000-2014	6.3%	4.7%	134.6%
1980-2014*	9.2%	5.8%	158.7%

* Omits years 1993 through 2000.