

## Deficits now a necessary evil necessary, unfortunately

**Colin Read: Everybody's Business**

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— The Congressional Budget Office has announced a federal budget deficit of \$1.2 trillion this fiscal year. Now that's real money. And it does not yet include the nearly \$800 billion economic-recovery package president-elect Obama is announcing.

To put these sums in perspective, I have calculated the average federal deficit each of our presidents left for us over the past 80 years. I list the deficits relative to gross domestic product to indicate the share of our production devoted to federal overspending.

The figures include the year, presidency and the average surplus/deficit as a percentage of GDP:

1929-1932, Hoover (R), 1.3%

1933-1945, Roosevelt (D), -8.4%

1945-1952, Truman (D), -9.0%

1953-1960, Eisenhower (R ), -0.5%

1961-1963, Kennedy (D), -0.9%

1963-1968, Johnson (D), -1.1%

1969-1974, Nixon (R), -0.9%

1974-1976, Ford (R), -3.8%

1977-1980, Carter (D) -2.6%

1981-1988, Reagan (R) -4.2%

1989-1992, G.H.W. Bush (R), -4.0%

1993-2000, Clinton (D), -0.8%

2001-2008, G.W. Bush (R), -5.0%

2009-2012, Obama (D) -9.0% estimated.

The disturbing news is that over the last eight years and the next four years, the federal deficit is the largest

since the Great Depression-World War II period. Ironically, this overspending followed a period of one of the lowest deficits in modern history.

While I can't rationalize the overspending over the past eight years, I'm afraid dramatic spending over the next four years is quite unavoidable. If we do nothing about the current economic crisis, the U.S., and the world, would likely be plunged into a depression. And if that occurs, the \$600-plus billion deficits under President Bush, spread over a contracted, depression-level gross domestic product, would begin to approach 7% or more of GDP anyway. That would be almost as painful as the deficits President Obama must run.

Unfortunately, to do nothing would be even more painful. Annual deficits of a trillion dollars for the next few years now seem like a surreal bargain.

An interesting thing about researching the federal debt is that the media rarely probe deeply enough. For instance, to calculate the federal deficit under the George W. Bush administration, I had to look at the change in the level of the federal debt. This debt is simply our U.S. credit-card balance over the past 232 years. The deficit is our annual overspending each year that is added to our debt.

Since Bush's election in 2000, the federal debt has risen by about \$5 trillion, to \$10.7 trillion today. He has almost doubled the debt it had taken us 224 years to accumulate. And it translates into an increase of more than \$600 billion annually. The funny thing is, though, that the media has never reported such annual deficits to us. As a matter of fact, the most recent federal deficit, and the largest in history, was reportedly only \$455 billion.

So why does the debt rise so much faster than the reported deficit that contributes to the debt each year?  
Hmm.

It may come down to a couple of factors. One is creative or optimistic bookkeeping. Another is that the administration is allowed to keep some spending off the books. We are kept in the dark about certain national-security items, and we borrow from Social Security taxes to pay for it. Of course, someday we will have to pay Social Security back, at least if we don't bankrupt it first.

If government deficit figures prove unreliable, the only accurate way to gauge how we are overspending is to watch how much we are borrowing. And borrowing is now on the rise. We see that 19 states need bailouts. And bail out we must, for if we don't, their job-reduction programs will undo the nation's job-creation programs.

There is one problem though — moral hazard. This is the troubling consequence when one must indemnify the problems created by another. For instance, if the insurance company indemnifies us of our hazard risk, they are rightly concerned that we would drive faster, build our homes on flood plains and not bother to lock our doors. And if states know that they will be bailed out from their fiscal imprudence, perhaps more states will look to California and New York for examples of how to run state government.

We are in a bind, though. Now that we are stuck in the bottom of the hole we have dug, it makes no sense to fill it in. Instead, we will have to try to slowly dig ourselves out, and hope that someday we can muster the fiscal discipline that permits us to actually run a federal surplus just as often as we run these perennial deficits.

By the way, where did we get all this extra money to spend beyond our means over the past eight years?  
Thank you China. Please keep investing in us. After all, it turns out that the health of the U.S. economy is very much in your interest, and the interest of all developing countries. Sorry 'bout that. Our bad.

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