

Biden on Track to Reduce the Deficit by \$1.8 Trillion

October 12, 2022

I just received a letter from Peter Goettler, CEO of the CATO Institute, and he was very negative about President Biden's economic policies. He criticized runaway spending, big federal deficits and the fact that Biden is leading us into problems for the next generation. There were really no details in his post, so to see just how bad the deficits had become I accessed the U.S. Department of the Treasury history of receipts, expenditures and the federal deficit by year and by month. Surely that would tell me how bad the Biden presidency has become.

But was there some mistake when I accessed the Treasury numbers. Was Peter Goettler's letter a misprint? Was there any truth to what CATO was telling the world? Let me summarize what I found.

Year	Federal Deficit	Change (current yr-previous Year)
2016	\$600 Billion	
2017	\$700 Billion	\$100 Billion
2018	\$800 Billion	\$100 Billion
2019	\$1,000 Billion	\$200 Billion
2020	\$3,200 Billion	\$2,200 Billion
2021	\$2.800 Billion	- 400 Billion
2021 (11 Mo)	\$2.720 Billion	
2022 (11 Mo)	\$945 Billion	-1,775 Billion

Trump took control of the budget in 2017, and increased deficits during each of his years, from 600 billion in 2016 to 1 trillion in 2019. When the COVID-19 pandemic began in 2020, the deficit rose to the unprecedented level of \$3.2 trillion. By 2021, the deficit had fallen slightly to \$2.8 trillion, but as 2022 has progressed, the U.S. has seen the largest deficit reduction in history – down \$1.8 trillion to about \$1 trillion dollars, or about where Trump left it during his third year. Despite the talk of uncontrolled spending and the profligate president, Biden has achieved by far the biggest deficit reduction in the nation’s history. To understand the massive proportions of this reduction, the next largest deficit reduction was about 500 billion during 2013.

How could this have happened with COVID-19 relief spending, a massive infrastructure bill, incentives for climate change, and parts of the Build Back Better initiative? The answer is in how dollars are spent. In 2017, Republicans used their supply-side logic to cut taxes for corporations and the wealthy, promising tax economic growth that would offset these tax cuts. Corporate taxes were supposedly too high and lowering them would make the United States a magnet for investment and growth. The ensuing boom would raise the salaries of employees, setting off massive growth in GDP of five or even six percent. Even Jamie Diamond went on TV to tell us of the boom coming to America.

But of course, none of this happened. In fact, foreign investment went down slightly in 2018. Corporations did not share their good fortune with their employees, but instead raised dividends and stock buybacks that benefit the very rich. We never saw the promised growth, and by 2019, GDP growth was about where it was during President Obama’s administration, despite Trump’s derision of those rates.

So, the Republican’s initiative failed miserably, increasing our deficit by 70 percent during the first three years of Trump and by several hundred percent during his last year. But no one apologized for destroying our tax base and further increasing income disparity. Politicians spoke of the Trump economic miracle, which is still part of the Trump mythology. The Trump “miracle” never happened. It was a scam. Although if you are in the top 1 percent of wealth and income, you may have considered those tax reductions a miracle. But there was no miracle for middle class Americans.

Biden, on the other hand, targeted federal relief to the millions of Americans who actually needed relief. The Child tax credit lifted two thirds of poor children out of poverty. Federal unemployment assistance targeted those who lost their jobs with a meaningful level of unemployment relief. Both policies targeted lower- and middle-class families, and those families actually spent the funds to get out of debt and pursue a secure future.

The result was a 5.9 percent increase in U.S. GDP during 2021. Since the growth from one year tends to show up in the next year’s taxes, that 5.9 percent increase explains a large part of the deficit reduction we have seen in 2022. For the first eleven months of fiscal 2022, federal revenues increased by \$822 billion, from a 2021 base of \$3,600 billion – an increase of more than 22 percent. Much of this increase was driven by personal income tax payments. In effect,

the Biden Administration policies have a paid for themselves and left the U.S. at the 2019 deficit levels.

The evidence shows that the criticism of Gattler, and so many on the right, is completely unfounded. Democrats are no longer the source of our deficit. It is the supply- side Republicans that continue to drive the deficit with their ineffective tax cuts.