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Deficit Decisions Are Up to Congress

By Richard Rahn - Thursday, 08 Nov 2012

The media focus has been on the presidential campaign, but the makeup of the U.S. Congress is likely to have an equal or perhaps even greater impact on your future economic well-being.

The president often is blamed for the deficit by folks on both the right and the left, but under the Constitution, it is those in Congress who must approve all taxing and spending, and thus they are directly responsible.

In the 32 years since President Reagan was first elected, the Democrats have controlled both houses of Congress for 12 years, the Republicans controlled both for 10 years, and for 10 years, one party controlled the House and the other party controlled the Senate.

The accompanying chart shows the average deficit, government spending, and real economic growth (as a percentage of gross domestic product) under Democratic, Republican, and split control. Deficits, on average, were 3 times larger when the Democrats were in control of one or both houses of Congress than when the Republicans had control of both houses.

Also, government spending was higher and real economic growth was lower under the Democrats and under split control.

Presidents can influence the level of spending and taxing, but they are dependent upon Congress to implement their recommendations.

Reagan wanted to cut non-defense spending more than the House Democrats (who were in control at the time) would agree to. The Republicans controlled the Senate from 1981 through 1986, so a compromise was reached, which resulted in a budget larger than Reagan wanted but lower than what the House Democrats wanted.

President George H.W. Bush faced a Congress in which both the House and Senate were controlled by Democrats. Mr. Bush ran on a platform of a flexible freeze to control spending and a pledge of no new taxes, but he caved in to the Democrats on both issues, resulting in higher spending and taxes than he had promised but somewhat lower spending than the Democrats wanted.

President Clinton also ran on a pledge in 1992 of not increasing taxes but quickly acquiesced to a tax increase demanded by the liberal wing of his party.

The Democrats were trounced in the 1994 congressional elections by the Gingrich Republicans, who took control of both houses of Congress by running on a pledge to reduce spending and taxes. Mr. Clinton then reversed course and agreed to many of the Republican budget cuts and freezes, along with a capital-gains tax rate cut.

With the exception of part of 2001 and 2002, President George W. Bush had a Republican Congress for his first six years. Mr. Bush requested and Congress agreed to more spending for the Iraq and Afghanistan wars.

In 2006, the Democrats won back both houses of Congress. They continued to fund the military spending that the president requested but also greatly increased domestic discretionary spending, to which Mr. Bush only gave weak resistance. Spending soared after the beginning of the recession in 2008, and Mr. Bush supported much of it.

President Obama was elected in 2008, and he immediately pushed Congress to accelerate spending even more with his notorious "stimulus package" in February 2009. The president and Democratic Congress kept the level of spending at the higher rates.

Republicans regained control of the House with the help of the tea party in the 2010 elections, but the Democrats held on to the Senate. House Republicans passed budgets reducing the level of spending growth (the Ryan budgets), but the Senate refused to vote on them or on any other budget. Hence, stalemate has resulted, with the government continuing to spend at a high level through a series of continuing resolutions.

Again, it is obvious that big increases in government spending do not lead to higher growth rates and lower unemployment. To be considered valid, an economic model needs to be reasonably accurate in its predictions.

The Keynesian models have failed this test time and time again over the past 100 years and, most recently, during the past four years. Unemployment was supposed to be less than 6 percent, but it is higher, at 7.9 percent, than it was when the president took office. (Note: The real unemployment rate is 14.6 percent because many have stopped looking for work.)

The Austrian and classical economists who have argued for lower spending and tax rates have proved again to be correct. Based on historical, empirical evidence rather than the political ideology of the past three decades, those who vote today for Democratic control of the House and Senate also are voting for higher levels of government spending, bigger deficits, lower growth, and fewer jobs than those who vote for Republican control.

Most politicians promise to cut wasteful spending, reduce deficits, and increase jobs, but most fall short of their promises. The members of one party have a record of falling much farther short of their promises than the other party, so the presidential vote is also a measure of gullibility and historical ignorance.

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