Sorry, Newt.
You Never Balanced the Budget

By Robert S. McIntyre

In December 1995, a budget deadlock between a beleaguered Democratic President and a new Republican majority in Congress aggressively seeking deep program cuts resulted in a government shutdown that closed national parks and alienated taxpayers. It was a confrontation from which President Bill Clinton emerged as the clear winner in the public's eyes.

Now comes former House Speaker Newt Gingrich, the much-criticized GOP leader at the time, to try to rewrite history. In a Feb. 27 article in the *Washington Post*, Gingrich argues (a) that Republicans did not cause the government shutdown and (b) that the shutdown was a brilliant tactical move by Republicans. The shutdown, he says, led inexorably to the 1997 "Balanced Budget Act," which he claims produced the federal budget surpluses we enjoyed from fiscal 1998 to 2001.

Gingrich's insistence that he deserves none of the blame, but all of the (supposed) credit for the 1995 government shutdown is humorous, and I thank him for the laugh. Not so funny is Gingrich's cockamamie theory that the so-called 1997 "Balanced Budget Act" and its companion bill, the "Taxpayer Relief Act," led to the budget surpluses that began in 1998.

Gingrich's argument comes down to this: In August of 1997, Congress passed a bill called the "Balanced Budget Act," which promised to balance the federal budget five years later, in fiscal 2002. Soon after the bill was signed, the budget was balanced. Therefore, the balanced budget act balanced the budget. But that's demonstrably false.

In fact, the budget surpluses that we enjoyed from 1998 to 2001 had nothing to do with the balanced budget act. Instead, the surpluses stemmed from a dramatic surge in federal revenues, mainly personal income taxes. Here's what really happened.

In 1993, Bill Clinton undid some of the Reagan tax cuts for the wealthy, in a bill that every Republican in Congress opposed. In the years that followed, federal revenues shot up. By 1996, the deficit had fallen by more than half from its 1993 level. But cautious official congressional prognosticators thought that this happy trend was unlikely to continue.

So, in January of 1997, the Congressional Budget Office predicted a budget deficit of $124 billion in the fiscal year that ran from October 1996 to September 1997, with little relief thereafter. That was the deficit situation that Congress thought it faced when it enacted the Balanced Budget Act in August of 1997.

But CBO's crystal ball was faulty. Because the economy and tax revenues continued to grow rapidly, the actual fiscal 1997 deficit turned out to be a mere $22 billion. Of course, that virtually balanced 1997 budget had no connection to the budget act, which wasn't enacted until the fiscal year was almost over.

In 1998 tax revenues continued to soar, coming in at $162 billion more than CBO had projected back at the start of 1997. That was enough to produce a $64 billion budget surplus. Again, this had nothing to do with the '97 budget act, which, because of its tax cuts, actually *reduced* the 1998 surplus slightly. (Yes, odd as it may sound, the "balanced budget" act started off by digging an even deeper budget hole, with a capital gains tax cut for the rich and other expensive tax cuts that overall were expected to cost $292 billion over 10 years!)

In 1999 and 2000, tax revenues and surpluses continued to grow at a rapid pace. That was due not just to a still vibrant economy, but also to an extra revenue bonus: Clinton's 1993 increase in tax rates on high earners applied to a new wave of taxable income from corporate executives cashing in their lucrative stock options (which are taxed as wages). In fiscal 2000, the surplus peaked at $237 billion, and it remained a robust $128 billion in fiscal 2001 (Clinton's last budget year).

All of these surpluses would have occurred if the Balanced Budget Act had never been enacted. But did the act at least play a role in making the 1998-2001 surpluses bigger? Not really. The act's tax cuts made the surpluses noticeably *smaller*, while the plan's biggest program cuts weren't scheduled to take effect until fiscal 2002, and in any event largely failed to materialize at all. For example, in 2002, the bill called for cutting discretionary spending by 10 percent; instead, it *rose* by 18 percent (or put another way, it was 31 percent higher than the '97 act had tried to mandate).

Sadly, after 2001, the Bush tax cuts and a sagging economy soon sent us back deeply in the red. Ironically, that abrupt turnaround from fiscal responsibility began in fiscal 2002, the precise year that Gingrich and his allies had promised to finally balance the budget.

Sorry, Newt. You never did.

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