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Sorry, the Federal Deficit Isn't a Spending Problem
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In a bitterly polarized Washington, where the two parties increasingly confront one another over issues both large and small, we have apparently reached a rare bipartisan consensus: The rising deficit is a spending problem.

Republicans have been saying it for years; President Obama largely adopted their narrative in his recent State of the Union address; and lawmakers of both parties have been outdoing one another in recent days in proposing legal and constitutional measures to limit total annual spending.

This week, Sens. Bob Corker, R-Tenn., and Claire McCaskill, D-Mo., said they will introduce legislation to cap federal spending at 20.6 percent of gross domestic product (GDP), which they say is the average from 1970 to 2008. Senators Richard Shelby, R-Ala., and Mark Udall, D-Co., went a step further, announcing a proposed constitutional balanced budget amendment that would limit spending to 20 percent of GDP.

Forgive me for interrupting this bipartisan love-fest, but this is one consensus that isn't worth celebrating. The deficit problem is most certainly not a spending problem. Those who suggest that it is are making political statements, not substantive ones.

Let's start at the most basic level. The deficit is the difference between what we raise and what we spend in a given year. Whether revenue is too low or spending is too high depends on your political point of view. Those on the left want government to do more things, so they naturally think we need more revenues; those on the right want government to do less, so they think spending is too high.

In his State of the Union, Obama said, "We have to confront the fact that the government spends more than it takes in." Notice the emphasis on "spending." He could just as easily have said, "we have to confront the fact that the government takes in less than it spends," thus making the issue about insufficient revenues. The choice of emphasis is rooted in politics.

Proponents of the "spending is the problem" view often point to historical averages. They note that federal spending hit 24.7 percent of GDP in 2009 and, after dipping slightly last year, the Congress Budget Office estimates it will again hit 24.7 percent in 2011. That figure marks the highest level of annual spending since 1946.

But, history is an arbitrary guide. The combination of deep recession and extraordinary federal action since 2009 to prop up the financial system and rejuvenate the economy produced the unusual spending levels of recent years. By definition, and as CBO confirms, federal spending will fall as a share of GDP in the coming years.

Moreover, annual spending averaged less than Corker-McCaskill's 20.6 percent historical average under Presidents George W. Bush and Bill Clinton, but more under Presidents Ronald Reagan and George H.W. Bush. Who's to say which president had it just right?

History is also a silly guide because the past is, well, past. We don't live in 1970 or 2008 or any year in between. We live in 2011 and, compared to those earlier years, the United States has a much larger population, which is also older and more diverse. The Cold War is over, but the threats to our national security seem just as serious and, in fact, may be more complicated than ever. Whether all of that calls for less or more spending as a percentage of GDP is not a simple matter.

What's driving our future budget deficits is not spending, per se, but two societal realities. First, like most of Europe as well as China and Japan, the United States is growing older as a society. Second, health care costs continue to grow far faster than inflation and even faster than the economy.

To be sure, those realities have major impacts on existing federal programs. The combination of an aging America and soaring health care costs will drive up the costs of Medicare and Medicaid, while an aging America also will swell the budget of Social Security. Nevertheless, the fact that demographic and technological factors expand the costs of key federal programs that, in their basic elements, have been around for decades doesn't merit the conclusion that "spending is out of control."

Frankly, if you want to blame our looming deficits on policy changes, you would look not to spending but, rather, taxes – specifically, to President Bush's huge tax cuts of 2001 and 2003 that Congress recently extended until 2012 and will likely extend either wholly or in large measure again after that.

Simply letting the Bush tax cuts expire would reduce annual deficits to about 3 percent of GDP (which is considered economically sustainable) over the next decade, though they would start rising again later on due to soaring health care costs.

Does that mean "the deficit problem is a revenue problem?" No, it means the deficit is what it always is – a mismatch between revenues and spending. Policymakers can address it by cutting spending, raising revenues, or some combination of the two. What they choose to do is a political matter, nothing more and nothing less.