JOINT ECONOMIC COMMITTEE
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Spending Restraint, Economic Growth Key to Reducing Deficits

Washington, DC—The Joint Economic Committee (JEC) released a report today that puts current deficits into historical perspective and discusses how spending restraint and a growing economy are critical to reducing future deficits.

"The current deficits reflect a near 'perfect storm' that has rocked government finances in recent years," said JEC Chairman Bob Bennett. "Revenues plummeted due to a weak economy and a sharp drop in the stock market. At the same time spending has increased because of terrorism, new homeland security requirements, and two wars. Our economy is large enough to recover from these events, but only if we can practice fiscal restraint."

Recent projections by the Office of Management and Budget (OMB) show a potential budget deficit of $455 billion this year. Although the current deficit is large in nominal dollars, today's JEC report points out that in order to have an accurate picture, deficits should be measured relative to the size of the economy. It is important to account for the economy's capacity to absorb the deficits and the government's ability to finance them. Both of these factors depend on the size of the economy. When measured as a percentage of the gross domestic product (GDP), today's deficits are still below the peaks of the 1980s and 1990s.

"Continued increases in the deficit could pose significant economic problems if they persist," said Bennett. "It is important to have an understanding of how these deficits arose and to put them in proper perspective. In doing so, we can more effectively implement policies to rebound from current deficits. The reason for the deficits prescribes their solution."

Fifty-three percent – the largest chunk – of the budget deterioration in fiscal year 2003 has been due to overall economic weakness, declines in the tax base, and other technical estimate changes. Spending increases account for 24 percent of the deterioration. Tax relief and economic growth legislation of the last two years have contributed only 23 percent of declines in projected surpluses. In fact, the economy has fared much better than it would have because of these pro-growth actions.

"The economy is beginning to show signs of renewed growth," said Bennett. "Congress has enacted timely pro-growth legislation. Now is the time for a renewed commitment to spending restraint."

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