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The Big-Spending Presidents

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Which presidents in the 20th century were the biggest domestic spenders? Contrary to expectation, domestic spending growth occurred under the watch of Republican rather than Democratic presidents. This is because domestic government activity has been less a result of presidential ideology than of opportunity or crisis. The point of our argument is not that the Republicans rather than the Democrats are the real "big government" party. We suggest, in fact, that domestic spending over the last century has had little relation to campaign promises to expand or contract government. Rather, it has been driven by more practical considerations: the expansion and contraction of available sources of financing for government activities.

Today, the easy financing mechanisms that fueled most of the 20th century domestic spending growth are no longer available. This, combined with high and automatic growth of entitlements, is driving our current long-term budget crunch. The floundering of government today is far more than an issue of changing ideologies or philosophies of government. A primary cause is the dramatic reversal in fiscal flexibility.

The top two domestic spending presidents—Richard Nixon and Herbert Hoover—are considered by some to be among the most conservative of the 20th century. Yet together they produced almost three-quarters of the domestic spending growth over the entire 100-year span.

Domestic Spending by Presidential Term

Over the last 100 years, of the five presidents who reigned over the largest domestic spending growth, four were Republicans. The line-up, in order, is Nixon, Hoover, Eisenhower, Truman, and Bush (see table). We obtained this ranking by measuring the change in domestic spending as a percentage of gross domestic product (GDP) between the fiscal year of a president's inauguration and the fiscal year of his successor's inauguration. For example, the measure for President Bush is the change in domestic spending as a percentage of GDP between fiscal years 1989 and 1993.

A striking aspect of our findings is that presidential ideology and political party do not appear to play a strong role in determining domestic spending. The top two domestic spending presidents—Richard Nixon and Herbert Hoover—are considered by some to be among the most conservative of the 20th century. Yet together they produced almost three-quarters of the domestic spending growth over the entire 100-year span.

In contrast, the liberal New Dealer, Franklin D. Roosevelt, is at the bottom of the list. Domestic spending actually fell by 3.6 percentage points of GDP during his tenure. How can this be? The massive World War II defense build-up crowded out domestic spending. Under FDR, defense increased by an enormous 37 percent of GDP. Domestic spending fell as the nation devoted over a third of its resources to the war effort. Perhaps more importantly, FDR's New Deal programs were primarily short-run or counter-cyclical in nature, and focused on unemployment compensation and

Big Domestic Spending Presidents
Change in Federal Domestic Outlays as a Percent of GDP

Administration	Fiscal Years	Change in Domestic Outlays: Percent of GDP	Change in Domestic Outlays: Percent of *(Potential GDP)*	Change in Defense: Percent of GDP
Nixon	1969-1975	5.0	*(4.3)*	-3.1
Hoover	1929-1933	4.0	*(2.1)*	0.4
Eisenhower	1953-1961	2.9	*(2.4)*	-4.8
Truman	1945-1953	2.1	*(1.6)*	-24.0
Bush	1989-1993	1.6	*(1.3)*	-1.2
LBJ	1964-1969	0.9	*(1.3)*	0.1
Wilson	1913-1921	0.8	*(0.6)*	2.4
Kennedy	1961-1964	0.7	*(1.0)*	-0.8
Carter	1977-1981	0.4	*(0.3)*	0.2
Coolidge	1924-1929	0.1	*(0.2)*	-0.1
Ford	1975-1977	0.1	*(0.3)*	-0.6
Clinton, 1st term	1993-1997	0.1	*(0.0)*	-1.1
T. Roosevelt	1902-1909	0.0	*(-0.1)*	0.2
Clinton, both terms	1993-2001	-0.1	*(-0.3)*	-1.7
Taft	1909-1913	-0.2	*(-0.1)*	-0.3
Harding	1921-1924	-0.3	*(-0.1)*	-2.4
Reagan	1981-1989	-2.0	*(-1.3)*	0.5
FDR	1933-1945	-3.6	*(-1.0)*	37.0
Total[a,b]	**1902-2001**	**12.6**	***(12.7)***	**2.0**

Source: Urban Institute 1997, based on outlay data from the Office of Management and Budget, the Congressional Record, the former Bureau of the Budget, and the Treasury. GDP data from the Office of Management and Budget and Professor Robert J. Gordon, Northwestern University.
a. Assuming passage of the Clinton administration's fiscal year 1998 budget proposal.
b. Federal domestic spending was 1.3 percent of GDP in 1902 and is scheduled to grow to 13.9 percent of GDP in 2001. The total change in federal domestic outlays, therefore, is 12.6 percent of GDP.

jobs. Much of the spending was not intended to be permanent and, by the end of FDR's tenure, the nation had reached the full employment levels of World War II. Non-cyclical programs, such as retirement and health, remained quite small. Even at the end of the Truman administration, domestic spending was 1.6 percentage points lower than it had been when FDR took office two decades earlier. Finally, much of the increase in domestic spending in response to the Depression occurred prior to Roosevelt's presidency, under Hoover.

Also contrary to expectation, from the turn of the century until the end of the Wilson administration in 1921, the Progressive Era presidents did not increase their domestic spending by much. Spending on domestic programs fell under Taft and, when combined with spending under Theodore Roosevelt and Woodrow Wilson, yielded almost no growth for this era (a net increase of only 0.6 percentage points of GDP). During the Progressive years, activist governments focused on strengthening regulation of monopolies, food, drugs, railroads, and currency rather than increasing social spending. Government continued to concentrate domestic spending on veterans, as had been done since the Civil War. Outlays for veterans accounted for well over 40 percent of domestic spending for almost all of the Progressive era.

President Clinton is often considered a supporter of activist government, but domestic spending is not likely to rise under his administration, either. Over his first term, domestic spending only increased by a tenth of a percent of GDP, and under his budget proposal of February 1997 it would fall by that same amount over his two terms combined.

The Reagan administration performed closer to expectation. Domestic spending fell by 2 percentage points of GDP, the largest drop of all 20th century administrations other than that of FDR. The Reagan defense build-up added significantly to the pressure on domestic spending. The Reagan domestic cutbacks were quickly eliminated during the Bush presidency, at least in the aggregate.

To level the playing field among the presidents, some of whom presided over weaker economies than others, an alternative method of ranking them is to measure the change in domestic spending as a percentage of *potential* GDP. Potential GDP estimates economic output at full employment, thereby eliminating the effects of recessions and booms on the size of the economy. When the presidents are ranked this way, the story is basically the same: four of the top six are Republicans, the Progressive presidents combined account for little domestic spending growth, and Reagan remains near the bottom of the domestic spenders.

The Paths to Easy Financing

Regardless of the political party in the White House, domestic spending growth has usually occurred only when easy financing mechanisms were available. The most important factor affecting government spending over the last 50 years was the relative decline in the defense budget. Even since the Korean War, the defense budget has declined from about 14 percent to 3.4 percent of GDP.

The drop since then amounts to about $800 billion more annually—roughly $8,000 per household—that we can now spend on domestic programs. This is on top of the hundreds of billions provided by simple growth in the economy, even while there was no significant change in average tax rates when all federal taxes are taken into account. Now it's easy to understand why some presidents were big spenders. They got to spend peace dividends. Truman did so after World War II, Eisenhower after the Korean War, Nixon as the Vietnam War wound down, and Bush in the post–Cold War era.

Apart from defense, other methods of easy financing were available in the first few decades after World War II. These allowed Eisenhower, Kennedy, Johnson, and Nixon to increase domestic spending more easily than other presidents. Rising inflation from the end of the Korean War until the late 1970s eroded the value of government debt, acting like a large tax on holders of outstanding bonds. This allowed the government to run significant deficits even while its debt-to-GDP ratio was generally falling.

Bracket creep in the individual income tax was another method of easy financing: inflation and the strong economic growth of the period (at least until economic growth slowed in the mid-1970s) pushed taxpayers into higher tax brackets. These sources of funds allowed the government to increase support for many domestic programs without appearing to pay for them through legislated tax increases or reductions in other domestic programs.

Steady increases in Social Security taxes provided yet more easy financing. The payroll tax rate increased about 3 percentage points per decade from 1950 to 1990, from 3 percent to 15.3 percent of taxable wages. Payroll tax increases during most of this period were hardly noticed. The tax started out small, changes were deferred until years after legislation passed, and most voters at the time were promised lifetime benefits far in excess of taxes to be paid.

The Current Fiscal Straightjacket

None of these methods of easy financing is readily available today. Defense spending as a percentage of GDP will soon fall below its lowest point since 1948. This means there is a limit on the amount of funds that could be transferred from defense to domestic spending, even if the defense budget were shaved further. There is little or no peace dividend left, and what does remain has already been committed. No additional $800 billion will be available to transfer to domestic spending without raising taxes. Government can no longer depend on inflation to erode the value of government debt. In the late 1970s the Federal Reserve Board began an aggressive anti-inflation effort that has led to lower rates of inflation. Government now pays higher rates on its outstanding debt than it does on its new debt. Bracket creep in the individual income tax, which in the past brought government more revenue, has been curtailed by slower economic growth and particularly by indexing of tax brackets for inflation since 1984. The Social Security tax rate is already higher than it has ever been, and the public far more resistant to further increases in it. The system is no longer able to make every cohort of senior citizens a winner by passing on higher and higher financing obligations to future generations.

The current fiscal straightjacket explains why recent Republican and Democratic balanced budget proposals have similar effects on the size and composition of government. Under both parties' proposals, domestic spending as a percentage of GDP would not grow, defense spending would remain on a decline, and entitlement spending would continue to crowd out discretionary spending.

Unfortunately, our fiscal policy not only moved away from easy financing, it moved into a straightjacket. What is fairly unique today, in comparison to much of American history, is that domestic policymaking is determined primarily by previous voters and policymakers. Their principal control comes from the entitlement programs, enacted in the past, that increasingly dominate federal government activity. The unbridled growth of programs such as Social Security, Medicare, and Medicaid means that revenue growth for tomorrow is already spent. Indeed, it is overcommitted. Instead of moving from a peak of fiscal flexibility to a more normal state of affairs, we have moved to a trough.

This predicament is illustrated by the dramatic change in the composition of government spending over time. Entitlement spending increased from 28 percent of total spending in 1962 to 53 percent in 1995, while discretionary spending fell from 66 percent to 28 percent. (The remainder represents payments of interest on the debt, which has also put increased pressure on domestic spending since the late 1970s.) The shift from discretionary spending to entitlement and interest payments on the debt has severely curtailed our ability to address current needs or respond to current voter interests. Entitlements are not temporary. They are not designed to respond to any current measure of need. Perhaps even more important than these factors is entitlements' scheduled rate of future growth, regardless of the status of the economy. Programs such as Social Security and Medicare grow faster than the economy, so the revenues made available by economic growth are prespent on such entitlements. This pressure forces discretionary programs as well as entitlements without built-in growth into further decline. Spending on today's entitlements, therefore, is intrinsically different from domestic spending of the New Deal, because FDR's programs were designed primarily to be temporary in nature.

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Toward the Future

Our exercise in presidential rankings obviously skips over important factors such as composition of the Congress, precedents set by one administration and followed by the next, and public demands. Our purpose is not to grade the presidents by this ranking but to draw three important lessons for the future.

First, entitlement growth and the demise of postwar easy financing options continue to constrain government's ability to respond to current needs. As long as future revenue growth is entirely precommitted, deficit reduction alone, at least of the type we have had for the last 15 years, will never remove that constraint. Not even a balanced budget provides a cure. Pressure on discretionary programs such as community development and educational opportunity for children—programs without built-in growth—will not be relieved until precommitted growth for other programs is brought under control and a more level field is established.

Second, if younger generations have become less accepting of government, it is partly because they are denied ownership of current budgets.

Finally, we should grade presidents' budget policies less on their political philosophies and more on their vision in dealing with the fiscal opportunities and constraints that prevailed during their time in the White House.

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The arguments made in this brief are part of a wider study. On Common Ground: America's Domestic Challenges and Opportunities, *by C. Eugene Steuerle, Edward M. Gramlich, Hugh Heclo, and Demetra Smith Nightingale, will be published by the Urban Institute Press later this year.*

C. Eugene Steuerle is a senior fellow at the Urban Institute. His books include *Retooling Social Security for the 21st Century: Right and Wrong Approaches to Reform*, 1994; and *The Tax Decade: How Taxes Came to Dominate the Public Agenda*, 1992—both published by the Urban Institute Press. He has worked under four different U.S. presidents on a wide variety of social security, health, tax, and other reforms.

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