



How to Grow the Deficit

by Paul Craig Roberts

Bill Clinton is practicing a new brand of economics that has replaced both demand-side and supply-side economics. It is called blind-side economics. He wants to repeat a fifth time the tax-hike approach to deficit reduction that failed in 1981, 1982, 1984, and 1990. (There were several other tax hikes along the way.)

A brief history of previous efforts to reduce deficits with taxes will document the counter-productivity of the approach. In 1981, David Stockman convinced President Reagan that scaling back personal income tax rate reductions from 30 percent to 25 percent and delaying their implementation until the second half of his term would permit a balanced budget in 1984. Stockman got his way, and fiscal policy provided nothing to offset Federal Reserve chairman Paul Volcker's independent recessionary monetary policy during 1981-82. The economy fell into recession, and the deficit estimate for 1984 jumped from \$0 to \$128 billion.

The Reagan administration responded with a second deficit-reduction program. This time Stockman promised that the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA), which took back most of the prior year's tax reduction for business, would reduce the deficit to a mere \$59 billion by 1987. TEFRA was enacted to much fanfare, but by December

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1982 Stockman's estimate of the 1984 deficit had moved from \$128 billion to \$229 billion. The \$59 billion deficit promised for 1987 had become \$280 billion.

Other tax increases followed. The five-cent-a-gallon gasoline tax and the 1983 Social Security Amendments were supposed to raise \$118 billion over a multi-year period—but the deficit persisted. Stockman put the Reagan Revolution into tax hike high gear again with the Deficit Reduction Act of 1984 (DEFRA), which took back the remainder of the business tax cut and was supposed to raise \$100 billion, but the deficit was unfazed.

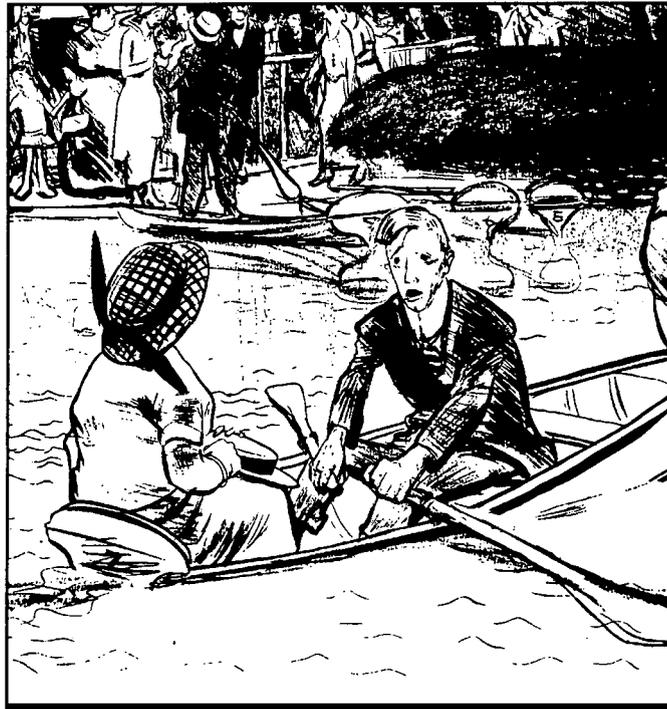
None of this accumulated failure made any impression on Richard Darman when he occupied the Office of Management and Budget. Darman forecast massive deficits unless President Bush broke his "no new taxes" pledge

and signed on to a \$165 billion tax hike. Bush gave in, and an ecstatic Darman made his budget deal with congressional Democrats. His budget for FY 1992 (issued early in 1991) projected a balanced budget in 1995 and \$20-billion surplus in 1996.

Here it is 1993, and Clinton projects \$300-billion deficits for these years unless he gets his tax increase. But if \$612 billion of tax increases has not reduced the deficit, Clinton's tax hike won't either. There has to be another way, and there is: either a budget freeze or a milder policy of permitting federal spending to grow by less than the annual increase in revenues that economic growth produces.

There is a lot of blather about the impossibility of freezing the budget: "What about entitlements and interest on the debt? Do you plan to cut Social Security, Medicare, and to default on the debt?" These aren't daunting questions: in 1987 Reagan did, for all practical purposes, freeze the budget. Federal spending increased only \$13.6 billion instead of the \$44 billion that it increased in 1986 and the \$95 billion in 1985. As a result, most of that year's \$85 billion revenue growth went to deficit reduction. The deficit fell by a third—from \$221 billion to \$150 billion—in one year. If Reagan had repeated this feat a second year, he would have rid his record of the deficit issue. Instead, spending resumed, rising by \$60 billion and absorbing that year's revenue growth.

From 1985 to 1989, federal tax revenue growth averaged



\$64 billion annually. If this growth is projected into the future, a three-year freeze would knock \$192 billion off the annual deficit, which would more or less solve the problem. (A variant of this plan would be a shorter freeze followed by several years of holding the growth in spending below the normal growth in revenues.) During recessions, the private sector gets by with less income than it had the year before. In 1974 and 1975 the real GDP was less than in 1973, in 1980 it was less than in 1979, and in 1982 it was less than in 1981. During the Depression things were much worse for much longer. In 1933, for example, the real gross national product was 30 percent less than in 1929. If the private sector can routinely endure declines in income, the government can go two or three years without a raise.

Three factors make a spending freeze practical: the vast room for maneuver within a \$1.5 trillion budget; documented waste, fraud, and abuse; and declining defense expenditures.

Citizens Against Government Waste has found \$167 billion in waste, fraud, and abuse in the annual federal budget. Officials in the General Accounting Office estimate that \$150 billion leaks out in waste, fraud, and mismanagement—a sum two to three times as large as the annual growth in Social Security, Medicare, and interest on the debt.

Many Americans lack a perspective on federal government spending, believing that the government, like them, is pinched for funds. It looks different from abroad. If the budget of the U.S. government were a country, it would be the third or fourth largest economy in the world. The federal budget is equal in size to the combined gross domestic products of Canada and Latin America. It is larger than the national income (wages, profits, rents, interests, and pensions) of every industrial country except Japan. The U.S. government spends every year more than the entire population of Great Britain or Italy can produce. Waste, fraud, and abuse is as large as the combined GDP of Colombia, Venezuela, Chile, and Peru.

Even our state and city budgets are gigantic. New York City's budget is approaching \$30 billion—as large as the GDP of Chile. New York State's budget is larger than the GDP of oil-rich

Venezuela. California's budget is equal in size to the national income of Argentina. New Yorkers do not receive equivalent services in exchange for delivering the value of the Chilean economy to the mayor's office. Californians certainly do not receive services from the state equivalent in value to the national income of Argentina, and U.S. taxpayers get very little in exchange for turning over to Washington income that the entire French nation—including the French government—could live on comfortably.

No doubt, any talk of a budget freeze would energize AARP, and the Social Security lobby would mindlessly flood the government with protests. It doesn't have to be this way. If the elderly were responsibly represented, AARP would lobby to have the COLAs paid out of waste, fraud, and mismanagement. Failing this, AARP could still explain to Social Security recipients that they are better off doing without COLAs temporarily than having 85 percent of their Social Security benefits permanently subject to income tax—which is what Clinton is proposing. The \$25,000-if-single and \$32,000-if-married retirement income thresholds for Social Security taxation are not indexed, and it is only a matter of time before most Social Security benefits will be taxed. The budget freeze would also spare the elderly the higher taxes on heating, cooling, ventilating, and lighting their homes, cooking their food, and running their refrigerators and cars. They will have to pay these Clinton energy taxes a second time every time they buy groceries or any products, since *everything* is produced with energy.

A budget freeze is the only plausible approach to deficit reduction when we look at the results of the alternative of the past decade—higher taxes and higher deficits. Once revenues catch up with spending, a simple rule will maintain budget health: *Spending can grow every year, but by less than the revenues from the normal growth of the economy.* The difference would be used to pay down the national debt. This budget rule would also stop the growth of government relative to the private economy that has been gradually crowding out property rights and the market. In 1929, government at all levels spent 9.9 percent of GNP. By 1990, government spent 33.3 percent of

GNP, leaving the private sector with only 66.7 percent—the proportion that was left to medieval serfs.

After the burst in government spending under Bush, the taxpayers' budgets have no room for the cockeyed Clintonites who want bigger government. Any moderate Republican or Business Roundtable executive who favors Clinton's budget plan should step back and look at the facts. The plan *says* it will add \$916 billion to the national debt over the next four years—and that's if everything works as advertised. To put that figure in perspective, it is \$183 billion more than Ronald Reagan's cumulative first-term deficit and \$238 billion larger than his second-term deficit. Reagan cut tax rates and built up our defenses. Clinton is doing the opposite and still producing more red ink.

What Clinton seems to mean by "reversing the legacy of the last twelve years" is that he can run up the national debt higher by raising taxes than Reagan did by cutting them. □

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Making Crime Pay

by Grover G. Norquist

For half a century, the views of candidates on Soviet Communism were paramount. Cuban-Americans would not even listen to a candidate's position on health care if they thought he viewed Castro as a misunderstood progressive. Polish-Americans would write off candidates who did not consider Soviet occupation of their ancestral lands an American concern. The left could not appeal to refugees from Communism's advance in Asia, Latin America, and Europe because the American liberal's faith in the good intentions of socialism and antipathy to American strength horrified voters. The left was unwilling to recognize evil where it reared its head, and could not even ape Republicans when they simply voiced the legitimate fears and enunciated the resolve of ordinary Americans.

George Bush's loss in 1992 was thus due to more than his betrayal of taxpayers with the 1990 tax increases and the regulatory explosion born of the Clean Air Act revisions and the Americans with Disabilities Act. It was also due to the collapse of the Soviet Union, which made a vote for Bill Clinton less dangerous. Clinton's corporate statism might cost the U.S. a few points in economic growth, but he couldn't lose Europe or Latin America the way Carter, Mondale, or Dukakis might have.

It is difficult to imagine a Bill Clinton winning the presidency in any year before 1992. His "loathing" of the American military, his demonstrating against America's defense of South Vietnam (but not the aggression of the Communists), his dissembling to avoid the draft, and his lack of gravitas in world affairs would have made Mike

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Dukakis astride his tank look like General Patton.

But as the worldwide struggle against Soviet imperialism faded, another issue began to emerge that might well replace it in the conservative arsenal: crime. Last November 3, five states passed constitutional amendments that empower victims of crimes to be heard at various stages in criminal justice proceedings. The power of the crime issue was demonstrated by the overwhelming popular support for ratification: in Kansas, the amendment won 84 percent; in Illinois, 77 percent; in New Mexico, 68 percent; in Colorado, 82 percent; and in Missouri, 85 percent.

In 1990, Oregon passed, with 74 percent support, an anti-crime initiative led by former Congressman Denny Smith that would require a criminal convicted of a second violent offense to serve the entire sentence—no parole, no probation.

Apart from confounding liberals who hope conservatives have lost their anti-Communist trump card, the crime issue offers five important opportunities to the conservative movement and to a Republican Party smart enough to act quickly.

First, crime is a real issue, not a symbolic one. It affects millions of Americans. Every year nearly 5 million people are victims of violent crime: murder, rape, robbery, or assault. Another 19 million are victims of property crimes: arson, burglary, or theft. Just as Polish-Americans and Cuban-Americans had first-hand knowledge of Soviet imperialism that made liberal platitudes about negotiations and peace talks ring hollow, so too have millions of Americans come to know that our present judicial system serves lawyers, bureaucrats, and crimi-

nals rather than the victims and their families.

Second, it is an issue on which the Democratic Party is institutionally incapable of following—or even mimicking—the opinions of the American public. Just as the hard left hobbled efforts within the Democratic Party to take a sensible view of the Soviet threat, so does the criminal rights lobby make it impossible for the national Democratic Party to take a sensible stand on stiff sentencing and more prisons. The financial reports from the Clinton campaign contain pages of contributions from defense lawyers and trial lawyers. It is indicative that Janet Reno, Clinton's new attorney general, has been more articulate in defining the rights of criminals than in defending the legitimate rights of crime victims and the community at large. She seemed to have it backwards in her confirmation hearings when she testified that she wants to make sure "that all America understands that victims have rights, too."

Third, the crime issue gives the Republican Party a tremendous opportunity to reach out to minority communities that have traditionally voted Democratic. Black Americans are disproportionately victims of violent and property crimes, and they cannot look to Democrats or the traditional black leadership for a serious attack on crime and criminals. Crime allows Republicans to speak directly to the real experiences and needs of black Americans in cities where Democrats refuse to protect their lives and property. Crime is also an issue that concerns women sufficiently to make them the fastest-growing market for new gun sales. Arresting, convicting, and incarcerating criminals is a real women's issue. And just as abortion, special privileges for homosexuals, and prayer in school allow