Washington's Moral Deficit

Robbing Baby Peter to Pay Pols

Adam Meyerson

"My God, now it's *our* deficit!" exclaimed Daniel Patrick Moynihan as Bill Clinton won the presidency. With its control of the White House as well as Congress, the Democratic Party now will be fully accountable for taxing and spending decisions in Washington.

This gives the Democrats enormous power and enormous reason for worry. Their new president turns out to be quite a riverboat gambler. He is betting voters will forgive him for breaking his campaign tax promises within a month of taking office. Now he is wowing the American people with his new promise to cut the deficit—while sowing the wind of new federal activism not seen since the days of Lyndon Johnson.

Voters in 1994 and 1996 will tell the Democratic Party whether they like this talk-centrist, act-liberal direction. Do they really think the government in Washington should be taking more money from families and businesses now that the Cold War is over? Are they happy with a national debt that will rise from $4.2 trillion to over $5 trillion during the Clinton presidency, without even counting his new health-care programs? The president and his party will reap the whirlwind if the American people think they have been betrayed.

But in holding the Democratic Party accountable, voters will also compare it with alternatives. If there are any. The budget strategy of the Republican Party comes out of Tolstoy's *War and Peace:* Let Napoleon's (Mr. Clinton's) army destroy the country, then hope the invader freezes to death in the Moscow winter. This is an even riskier strategy than President Clinton's. If the GOP cannot define its position on the most important national political question of our time—the size and functions of the federal government—then voters will conclude it is irrelevant and obsolete.

Metaphor for Selfishness

The most effective way for the GOP to respond is to combine the best of its "growth and opportunity" and its "deficit hawk" wings. The opportunity wing recognizes that the deficit is not America's most important economic problem, and that deficit reduction cannot be the centerpiece of a Republican economic strategy, as it was under President Bush. It points out, correctly, that tax increases in the name of deficit reduction typically worsen the economy without lowering the deficit. It argues, again correctly, that a Republican Party known only for spending cuts—or even worse, for spending cuts and co-conspiracy in tax increases—will be a permanent minority unless it connects its budget positions with a broader strategy for economic growth.

What the opportunity wing ignores is the profound public anger over the deficit. There is a deep foreboding that the country is headed for bankruptcy if debts and deficits are not brought under control. The American people see the deficit as a moral problem even more than an economic problem. Deficit spending robs children and grandchildren to pay for the consumption of parents and grandparents. It is a metaphor for selfishness, a sign that too many able-bodied adults expect to be taken care of at the expense of their and other people's children.

The deficit also has become the ultimate symbol of the irresponsibility of politicians in Washington. Setting budget priorities—reconciling the competing needs of different constituents—is what we pay elected representatives to do. The conspicuous failure of politicians to do this explains why voters so angry over unbalanced budgets are equally angry over congressional pay raises.

Reagan's Investment

It is true that the deficits of the 1980s did not greatly disturb voters at the time. But deficits are higher and scarier today than they were under Ronald Reagan. (The national debt will rise during the Clinton administration to nearly twice its level when Mr. Reagan left office.)

Even more important, the Cold War is over. Borrowing from future generations is a necessary evil when the country is in mortal danger, as in World War II or when President Reagan had to protect America and the free world against a rapidly expanding Soviet empire. A third of the debt run up in the 1980s financed the Reagan military buildup; this was "investment" in the truest sense, because it has given us peace and enabled us to

ADAM MEYERSON *is editor of* Policy Review.

reduce future expenditures. With the danger gone, voters say there is no excuse to defer our bills.

The Reagan boom also showed that economic growth does not eliminate the deficit when spending is uncontrolled. The American people no longer will accept a tax-cutting agenda unless it is accompanied by spending cuts of greater magnitude. But deficit reduction is no substitute for an economic growth strategy that boosts incentives to work and invest, eliminates frivolous regulation and litigation, and puts more money in the family budget instead of the government budget.

Shared Sacrifice

Since the deficit is a moral problem, the GOP needs to develop a moral vocabulary for spending cuts, one that encourages able-bodied Americans to take greater responsibility for their own families and communities. President Clinton already has used the concept of sacrifice skillfully, and persuaded many Americans to acquiesce in higher taxes if that is what is needed to cut the deficit. In seeking to wean Americans from government, Republicans will have to be as skillful in using the concept of shared sacrifice for the sake of the children and a brighter economic future.

The notion of *shared* sacrifice is critical. Neither farmers nor the elderly nor welfare recipients nor any other group will accept reductions in subsidies if they think they are bearing the brunt of spending cuts. It is easier to cut spending in many programs than in few.

It is also important to tie spending cuts *directly* to advantages for children and grandchildren. One way to do this is by channeling some of the savings from spending cuts into tax relief for families with children. Favoring spending cuts no longer seems stingy and parsimonious; it becomes a way to help struggling young families, something all Americans want to do.

For the sake of the children and grandchildren, Americans also have to change their behavior. Too many groups—rural and urban, North and South, East and West, black and white, rich and middle-class and poor—have been asking other taxpayers, and future generations, to pay for bills they can realistically pay themselves.

It is not right, for example, for farmers to expect permanent subsidies when that means driving America further into debt. Borrowing from future generations can be justified when there's a terrible farm depression. But American agriculture is not in crisis by the standards of recent decades, although times are hard in many places. Building up debt to subsidize farmers today will make it harder for the country to respond generously the next time rural America really is in trouble. The current unneeded farm subsidies eat into seed corn for future needed ones.

It also is not right for big-city mayors to expect federal aid when they are pursuing policies that are driving out their own middle class. The city of Washington, D.C., for instance, receives $630 million in federal aid, $2,500 per household, even though it is in the highest-income metropolitan area in the country. Washington easily could finance essential city services without burdening future generations—by making it attractive for middle-class suburbanites, black as well as white, to move back into town. Dozens of other central cities are in prosperous metropolitan areas. It is wrong for them to build up the national debt while driving away their own natural tax base.

One of the biggest abuses of future generations comes from girls and women who deliberately have children without a father to help support them financially and emotionally. Not only are deliberate single mothers doing a terrible disservice to their own children. By becoming public charges, they are imposing a burden of debt on other children as well. They are taking away resources from those who truly need help both now and in the future—the lame, the blind, the mentally ill, the widowed and orphaned and abandoned. President Clinton is calling for greater personal responsibility in his New Covenant; if he really means it, he should end all subsidies to intentional single motherhood.

Contributions from the Rich

President Clinton has argued that the rich should contribute more in tax payments. The same argument can be made about spending, where prosperous communities are asking less-well-off taxpayers, and their children, to finance programs of special concern to them. The average homosexual, for example, makes almost $50,000 a year, and has no children to support; if roughly 2.5 percent of the working population is gay, then American homosexuals together earn over $100 billion a year. The gay community already has done a heroic job setting up private hospices and other institutions to care for AIDS victims, even for many who are not homosexuals themselves. It would be consistent with the American tradition of philanthropy for this well-to-do community also to fund most of the $4 billion a year that the nation's taxpayers currently spend on AIDS research and treatment.

Similarly, few industries have as many multi-millionaires as the actors, producers, directors, and agents of Hollywood. This community has a strong commitment to the arts and to freedom of expression. Wouldn't it be generous for these wealthy people to relieve taxpayers and their children of the obligation to fund the Corporation for Public Broadcasting and the National Endowment for the Arts?

The wealthiest group in America consists of senior citizens. They have lived longer and healthier lives than any other generation in history, and they have received much more in Social Security and Medicare benefits than they ever paid in payroll taxes plus interest. Their children and grandchildren now pay much higher taxes than they did, largely to fund current retirement benefits. Indeed, 70 percent of American workers pay more in payroll taxes than they do in income taxes. Long, dignified, and comfortable retirements for the majority of the population were unheard of in prior generations. They are an extraordinary blessing, both for seniors and their families. Isn't it right in turn for seniors to accept some modest cuts in Social Security and Medicare subsidies, to provide some tax and debt relief for their children and grandchildren?

May We Cut In, Mr. Clinton?

A Plan to Balance the Budget Without Raising Taxes

William A. Niskanen and Stephen Moore

America can do better than the budget blueprint unveiled by President Clinton in his State of the Union Address in February.

Mr. Clinton pretended in his speech that he was cutting federal spending. Under his plan, annual federal spending actually would rise by $202 billion from 1993 to 1997. Annual defense spending would fall by $49 billion—in ways that the president failed to specify. But annual domestic spending would rise by $264 billion, or about 8 percent a year. If this is the best that a moderate "New Democrat" could come up with, it is frightening to think what the old-school liberals would propose.

President Clinton pretended in his speech that he was bringing the deficit under the control. But even according to his own numbers, the deficit in FY1998 would be $240 billion, or 3.1 percent of the gross domestic product. This figure is slightly higher than it was when Ronald Reagan left office in 1989. And this projected deficit does not count the additional costs of Hillary Clinton's health plans. It assumes that all of Mr. Clinton's budget savings are credible, and also that Congress approves no additional spending between now and 1998.

To secure these minimal benefits on the deficit front, President Clinton broke his campaign promises not to tax the middle class. He is proposing $238 billion in new taxes over four years, the largest tax increase in American history. Compared with a baseline of current services, his plan proposes $4.70 in tax increases for every dollar in spending cuts over the next four years. What few spending cuts there are are deferred to the future—in fact, Mr. Clinton has called for a $10 billion spending stimulus in 1993—while the taxes kick in immediately. Next year, taxes would rise $37 billion, and there would be no net spending cuts.

The Bush–Clinton Era

Although the theme of the Clinton budget proposal is "change," in reality it perpetuates George Bush's economic policy. Domestic expenditures rose by $200 billion a year under President Bush, even after accounting for inflation and excluding the costs of the savings and loan bailout. If federal "investment" were needed to get the economy going, then America would have prospered under President Bush. Federal spending on categories Mr. Clinton calls investment—such as infrastructure, research and development, and Head Start—rose by $100 billion a year, or more than 40 percent, under President Bush. Yet these investments did not cause the economy to grow.

If the economy needed an immediate stimulus, as President Clinton argues, then it should have received one under his predecessor. The federal deficit rose from $153 billion in FY1989, Ronald Reagan's last year in office, to an estimated $330 billion in FY1993. The past four years have delivered the most powerful stimulus—by Mr. Clinton's Keynesian standards—ever in peace time. If the stimulus had worked, George Bush would have been re-elected.

The Clinton budget also repeats the mistake of President Bush's budget agreement of 1990. That agreement raised taxes by $165 billion in order to reduce the deficit. Instead, it contributed to an explosive growth in outlays, the highest five-year deficit in history, and an anemic economic performance. The Bush performance confirmed again that raising taxes in a weak economy is a recipe for stagnation.

Right Goal, Wrong Policy

President Clinton is right to insist on a major deficit-reduction plan. In the absence of any change in current policies, the Congressional Budget Office forecasts a federal deficit of $400 billion in the year 2000, and over $500 billion in 2002. Federal deficits of this magnitude will place enormous pressure on interest rates and capital availability if U.S. private savings remain low. Capital flows from Japan, Germany, and other countries are drying up and no longer can be counted upon to finance U.S. deficits.

Furthermore, economic growth will not be sufficient to reduce the federal deficit without a major change in current fiscal policies. Even if we were to achieve the

William A. Niskanen *is chairman of the Cato Institute.* Stephen Moore *currently is on leave from the Cato Institute and is serving as a minority-staff economist for the Joint Economic Committee.*