



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

BALANCING THE FEDERAL BUDGET: POLITICAL RATIONALE AND ISSUES

James Slattery
U.S. House of Representatives

I appreciate the invitation to come here to discuss the political dimensions of the budget deficit. I am sure many of you have wondered how our elected officials could pursue such contradictory and dangerous economic policies.

What I hope we are seeing in Washington when it comes to the deficit is the slow death of an old politics and, hopefully, the painful birth of a new politics.

When I think about the cause of deficits, I am reminded of the Agatha Christie book, *Murder on the Orient Express*. After intense investigation, Inspector Poirot discovered there was no single killer. Everybody did it. One after another, each suspect plunged the knife into the unfortunate victim.

To a large degree, the same is true about the federal deficit. Democrats didn't do it, nor did Congress. Everybody did it together—just like *Murder on the Orient Express*.

For every dollar of spending, there was someone who asked for it. For every dollar of tax preferences, there was someone who requested it.

Almost every day someone asks me, with the best of intentions, to spend money for some program or create a tax incentive for some purpose. Most often, when someone asks me to cut something, it affects someone else.

The Deficit

I hope you won't be offended if I ask you a question: When was the last time you wrote your congressman, asking him to cut a program or tax incentive from which you benefit? I know some of you have done this and I am grateful. But you are exceptions, not the rule.

In looking for causes of the deficit we can start with our system of government. We elect members of the House of Representatives, or

the “People’s House,” every two years, and the reason is to assure that the House of Representatives is responsive to the people. After all, isn’t that what democracy is all about?

Members of the Congress do respond to their constituents, especially those that participate in the system. If they don’t, they will soon face a tough opponent charging that they have lost touch and are suffering from that politically fatal malady “Potomac Fever.” Constituents come to members of Congress with requests—often reasonable ones—and these requests have costs.

I can assure you that every part of the federal budget has a constituency that pressures the political process. And lest there be any doubt, the federal government responds more to political pressure than to logic and reason.

Let’s examine a few areas of the budget that have become politically untouchable because of the pressure involved.

More than \$300 billion or nearly one-third of the entire federal budget is spent on Social Security, Medicare and federal retirement programs. These programs serve more than 38 million Americans who make up the largest, most politically active group in the country.

This group is so politically powerful that Republicans, Democrats, the Congress and the president don’t even want to discuss changes for fear of being accused of dreaming about cutting Social Security. So in 1985 when the Leath-Slattery-Mackay budget freeze was presented in the House, only 56 members voted for it, primarily because of the freeze on most cost of living adjustments.

Another political cause of the deficit is the old-fashioned way that Congress does business. Sam Rayburn’s age-old formula for doing well in Congress was, “To get along, go along.” Translated into fiscal policy, this means: “If I get mine, you get yours.” As a result, the country gets deficits.

This old politics may have worked in a post-war world of unprecedented growth through which a rising tide raised many boats. But in the late 1960s, something happened. President Johnson tried to finance both the Vietnam War and The Great Society. Government spending increased and the seeds of inflation were planted. Then came the energy shock. And astronomical interest rates, hyperinflation and recession—in fact, several recessions.

So while deficits began to mount in the late ’60s and ’70s, the old politics, the go along to get along school of political coexistence, continued even though, increasingly, we could no longer afford it.

To summarize what I have said, two main political realities planted the seeds of the deficit:

- The first reality was that politicians tried to react to public demands, which is normal in the democratic process.
- The second reality was that politicians worked together and the congressional wheels turned by the mutual exchange of favors.

The issue is not partisan. President Johnson, a Democrat, tried to finance both a war and a major domestic initiative. President Reagan, a Republican, tried to finance a large tax cut and a historically large defense build-up. Neither was done in bad faith, but both created expanding deficits.

As many of you know, during the inflationary period of the '70s automatic tax increases occurred because taxpayers were pushed into higher federal income tax brackets as their salaries increased to keep pace with inflation.

This phenomenon became known as "bracket creep" and helped finance the spending increases of the '70s. It also gave birth to a political slogan that caught fire in 1980. The battle cry of candidate Reagan was to stop the old policies of "tax and spend" and balance the budget by implementing the new supply side economics.

Spend and Borrow

What has happened since 1981?

Let's look at the facts. We are all entitled to our opinions, but we aren't entitled to our own set of facts. And the facts are clear. Something big has happened between 1981 and 1986.

Total federal outlays were \$678.2 billion for fiscal 1981. For fiscal 1986, outlays will reach nearly \$980 billion. As a percentage of gross national product (GNP) spending has increased from 22.7 percent in 1981 to nearly 24 percent in 1986.

Spending has not been reduced in the last six years. It has increased. This is primarily due to increases in Pentagon spending, Social Security, federal retirement programs and Medicare and interest payments on the national debt.

Revenues, on the other hand, have declined as a percentage of GNP from 20.1 percent in 1981 to 18.6 percent in 1986. This of course is due to the 1981 tax cut.

The net effect is that we have been borrowing more than 20 percent of the money we spend and, in the last five years, we have doubled the entire national debt that took more than 200 years to accumulate.

As far as I am concerned we have replaced the policies of “tax and spend” with an even more irresponsible policy of “spend and borrow.”

From a political standpoint, “spend and borrow” is an intoxicating drug for politicians. Think about it. Politicians can claim the immediate benefits of spending—whether for cost of living adjustments on retirement programs or defense—while avoiding the heat for raising the revenues to pay the bills. Beneficiaries of spending are pleased because they get their money and taxpayers are pleased because their taxes have been cut.

Believe me, this is powerful political manna! It is the stuff that landslide elections are made of.

The big winners are the current beneficiaries of spending and current taxpayers, but the big losers are our kids. And they are not voting, they are not participating in the process.

When the political disciples of “spend and borrow” are questioned on how to deal with the deficit they will generally offer two solutions:

- Pass a constitutional amendment to make their policies illegal, thus providing themselves with a rationale for budget restraint.
- Wait for economic growth to produce such a sharp increase in revenues that the deficit will be eliminated. This of course has been the promise for six years while the deficits have continued to grow.

I might add, parenthetically, that David Stockman’s book should be mandatory reading for all concerned about current fiscal policy.

Gramm-Rudman is an admission that the 1981 experiment failed to produce the promised balanced budget. With the passage of Gramm-Rudman at least a significant majority of Congress and the president were able to agree on a procedure to do what they collectively lacked the guts to do.

Someone observed that Congress and the president needed to balance the budget in the worst way—and they selected the worst way to do it.

I remain hopeful that Gramm-Rudman, as crude as it is, will give birth to a new politics of fiscal responsibility. This means living within our means and stopping the mortgaging of the future of America.

Gramm-Rudman has worked to restrain spending in all areas of the budget. It has forced liberals, conservatives, Republicans and Democrats, the president and Congress to get realistic. It is forcing the federal government to reconcile the political promises of the ’60s and ’70s with the economic and demographic realities of the ’80s and ’90s. And I believe next year will be the year of reckoning or the year Gramm-Rudman is repealed.

After this political overview I cannot resist this opportunity to talk about a solution.

A Solution

First of all, the good news:

- Significant progress has been made this year. The fiscal 1986 deficit will be in the \$230 billion range. According to current projections the deficit for fiscal 1987 will decline to the \$155 billion range if the 1987 budget resolution is implemented and if we don't have an economic downturn. I am confident the automatic cuts under Gramm-Rudman will be avoided this October.
- The bad news is that next year the deficit will have to be reduced another \$50 billion to reach the Gramm-Rudman target. This will be extremely difficult to do after this year when the budget, except for Social Security and Medicare, was basically frozen or cut and assets like Conrail and various loans were sold to achieve the deficit reduction required.

If we are going to be successful in dealing with the deficit we must do what has always been done to solve problems in our democracy, with the exception of the Civil War, and this is compromise.

Compromise is not a dirty word! Compromise is the cement that holds our pluralistic democracy and our society together. We must realize that no one can get all of what they want.

If our elected leaders won't lead on the tough issues of taxes and entitlements, hopefully they will step aside.

For the life of me I do not understand why our immensely popular president does not invite Speaker O'Neil, Senator Dole and a few other congressional leaders to Camp David for an economic summit. We need a bipartisan solution that everyone can embrace similar to the 1983 Social Security amendments.

I believe there would be tremendous support for a bold measure to solve the deficit problems. And I believe if the president takes the lead he has the opportunity to remove the biggest cloud over his administration and his place in history.

For an economic summit to work the entire budget—all spending functions and revenues—must be on the table. In approaching a solution it is helpful to realize that when Social Security and Medicare spending and tax receipts are taken off the budget table, total remaining spending in 1986 would be 17.4 percent of GNP compared to 16.5 percent in the 1960s. Total remaining spending has not increased all that much in the last 20 years as a percent of GNP.

On the revenue side in the early 1960s non Medicare and Social Security tax receipts were equal to 16 percent of GNP. That number has now dropped to 12.4 percent of GNP.

So, if both Social Security expenditures and receipts were taken off the budget we would see that remaining spending would equal about 17.4 percent of GNP, and revenues to finance that portion of the budget would equal 12.4 percent of GNP.

The bottom line is, if the deficit is going to be reduced significantly we will need some additional revenues. I, for one, believe it is nuts for us to pass a tax reform package that doesn't raise the additional revenue needed.

If the president will give on revenues he will find many members of Congress who are willing to hold the line on spending and support vetoes of excessive spending measures.

You might find it interesting to know that the president has vetoed only one minor appropriations measure in four years and this year requested more spending authority than Congress approved in the budget resolution. The nondefense cuts he proposed were not large enough to pay for the defense increase he requested. It is high time the president and members of Congress tell the American people the truth about our tax and spend policies. The truth is that to restore fiscal responsibility we must exercise spending restraint in all areas including the sacred entitlements and we must raise the revenues necessary to pay the bills.

The Future

By so doing we will lay the foundation for a sound and secure future with an economy growing and creating the opportunities that we all want and need. And not just in service related sectors of the economy.

I believe our national security depends on the survival of the basic industries such as agriculture, steel, petrochemical and automobiles. These industries will continue to die a slow death unless we address the deficit problem, get real interest rates down further and stabilize our currency so that these industries can compete in the global marketplace.

I must also add that I am deeply concerned about going into the next recession with a \$200 billion deficit, especially in light of the global debt problems.

However, I want you to know that I am very optimistic about our country's future. The principal reason is that I have an enormous amount of confidence in our people's common sense and intelligence. I have always believed that politicians tend to underestimate the

intelligence of the people and overestimate the amount of accurate information they have.

Our citizens, thanks to people like you, are getting sound information on the deficit, and a growing number are concerned about mortgaging the future of America. They want it to stop. And it will. And then we will hopefully see the new politics of fiscal responsibility!

The other reason I am optimistic is because the problems we are facing are of our own making and are therefore within our power to solve. My father was born in 1906 and lived through World War I, the depression, the dust bowl, World War II, Korea, Vietnam and the energy crisis. In these cases our country faced the forces of nature or the hostile forces of foreign powers and, to a large extent, we confronted challenges beyond our power to control.

Such is not the case today. The deficit problem is within our power to solve. The challenge today is to stop mortgaging the future of America. I know we can and I believe we will!