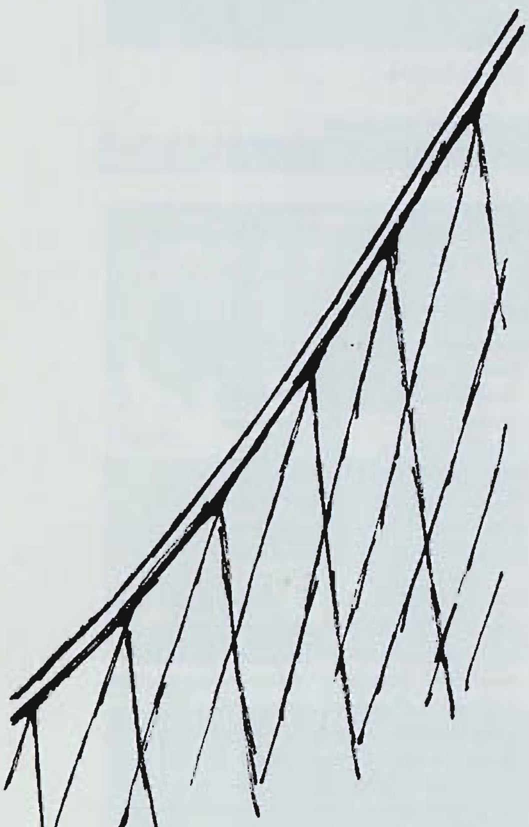
The great deficit debate

The deficit:
How bad? What to do?



It's bad. Or is it? Should taxes be increased to cut the deficit and whittle at the debt? Yes or no? What about spending cuts? And what about the deficit and agriculture?

Doomsayer business magnate and former cochair of the Grace Commission, Harry Figgie, Jr., draws on his recent best-selling book with economist Gerald Swanson, *Bankruptcy 1995*, to sound the alarm and urge that government drastically cut spending. His article for *CHOICES* also recently appeared in *The Washington Times*. But two noted economists, liberal Keynesian Robert Eisner and monetarist Allan Meltzer, have different views. Their articles update pieces that they wrote for the *National Review* in January of 1989—another time when the deficit was very much on the minds of politicians and economists. Finally, agricultural economist James Schaub and former assistant secretary for economics Daniel Sumner view the deficit with an eye to the USDA's budget, its importance in the federal deficit, and how the deficit might affect agriculture and agricultural policy.

Ammunition for the deficit war: A doomsayer speaks out

by Harry E. Figgie, Jr.

What the government collects in taxes barely covers the interest on its debt and its entitlement programs.

While president Bill Clinton has rightly named deficit reduction as one of his top legislative priorities, he has yet to commit to any clear immediate action to reduce the deficit. He says his first priority is to spur economic growth in the short term, with no explanation as to how this would affect the deficit or the economy in the long term. His discussions often focus on creating jobs and expanding health-care coverage—initiatives which are more popular than controlling the deficit and are more likely to increase it.

But deficit spending, even intended for the "short term," would be the biggest mistake Mr. Clinton could make. Instead of stimulating and growing the economy, it will further erode our economic stability.

Some economic observers say the deficit doesn't matter. They say it's small compared to the size of our economy or it's not as important right now as "something else" —growth, unemployment coverage, emergency aid, or dozens of other choices. They are wrong.

The reason? This country simply cannot afford to borrow any more money. Continuing our string of deficits—which in turn raises interest charges on the debt—will set off a chain of circumstances that will lead to the economic collapse of this country, not to mention the failure of Clinton's presidency.

The debt and its interest charges are already creating a tremendous burden on our economy. Interest on the debt in 1991 amounted to $286 billion—the largest single item on the federal budget and greater than the combined budgets of the departments of Agriculture, Education, Energy, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, and Veteran's Affairs. Instead of investing in our people or our national competitiveness, the U.S. government is sending its largest check to its lenders, both domestic and foreign.

Looking at the situation another way, what the government collects in taxes barely covers the interest on its debt and its entitlement programs. That means it must borrow to pay for most other government operations, including defense.

Increasing taxes will not solve the problem, either. Tax revenues have been increasing steadily since 1990, when Congress passed the second largest tax increase package in U.S. history. But for every additional dollar in tax revenue, the government has spent $1.38.

If present spending trends continue, the debt will reach a level so high that the United States will not be able to operate the government and afford its interest payments at the same time. The debt has quadrupled in the past ten years and, by 1995, will reach nearly 100 percent of our gross domestic product. We haven't seen our debt at such a high proportion of our economy since World War II—and that was an extraordinary circumstance.

For reasons like these, the 24 foreign nations of the Paris-based Organization for Economic Cooperation and Development have urged the United States to focus on

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shrinking the deficit and have warned against deficit spending for short-term growth.

The results of increased deficit spending could be disastrous. In just three years, an economic breakdown could hit the United States in the form of uncontrollable inflation or financial panic if the international community realizes that we are going to default on our debt.

The only way spending trends can be reversed is if Mr. Clinton makes a firm commitment to immediate action on the deficit. The deficit must be fought with the same resolve used in fighting a war. Mr. Clinton must declare this war immediately and embrace it as the country's top priority.

Here's how Mr. Clinton should fight the war against the deficit and debt:

First, he must take leadership and demand the assurance of the newly elected Congress that the deficit and debt issues will take first priority.

Second, he must go beyond the traditional political system for carrying out deficit reduction. In *Putting People First,* Mr. Clinton states, "our political system isn't working. ...Washington is dominated by powerful interests of an entrenched bureaucracy." To command an effective fight against the deficit and debt, Mr. Clinton must appoint as commanding general a U.S. business person with proven experience at cutting costs, streamlining operations, and pulling companies out of bankruptcy.

Any attempt at stimulating the economy through short-term deficit spending will have disastrous long-term effects.

Mr. Clinton must assemble troops of top business experts to help tackle the debt crisis. These task forces should include individuals at our top management consulting and accounting firms, and specialists who have taught failing companies to manage cash flow. Most politicians don't have any background in controlling costs or managing efficiency, so they need help from outside experts.

Third, Mr. Clinton must assemble congressional leaders into a deficit war cabinet, which can compose appropriate legislation to swiftly turn the recommendations of the business experts into action.

Throughout this process, he must mobilize the American people to support the debt-fighting initiative, to stop demanding more than our country can afford, and to accept the shared sacrifice this battle will require. There must be no sacred cows—especially in entitlements, which consume so much of our budget.

The election may be over, but our jobs as citizens have just begun. Each one of us must send our president and our newly elected representatives in Congress a strong, clear message that war on the deficit and debt must be this country's number one priority, and that we will support them in making the tough choices necessary.

Any attempt at stimulating the economy through short-term deficit spending will have disastrous long-term effects. Mr. Clinton must commit to deficit reduction immediately, detail his plan, and take action on it during his first hundred days in office. The success of his administration, the well-being of each and every American, and the future of this country rest on Mr. Clinton's making this commitment. ■