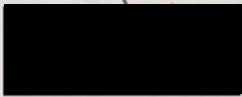

Rumney, New Hampshire
03266

Sirs:

Why don't you invite Everett Ladd to
be on one of your programs? Surely
the American public needs to hear his
point of view.

Sincerely,


July 7, 1993.

7/2/93

Getting It Right on the Deficit

THE bitter debate in Congress over the Democrats' budget plan has again brought the issue of the federal deficit and what to do about it to the forefront of public attention. Unfortunately, citizens who want to deal thoughtfully with this issue find themselves bombarded with competing claims and data that are at best confusing and often misleading.

To begin with, news accounts of the budget package which passed the Senate a week ago and was sent to a House-Senate conference committee said almost without exception that the measure would cut the federal deficit by \$500 billion over fiscal years 1994-98. Except in a limited, technical sense, this is simply untrue.

What the measure is supposed to accomplish — assuming all its tax and spending provisions through 1998 are followed, and its estimates of the nation's economic performance are met — is that the combined annual deficits for the next five years would be \$500 billion less than they otherwise would be if tax rates were unchanged and expenditures followed a previously projected course of increase.

In this reasoning, if I expect to earn \$50,000 next year and project my outlays at \$100,000, and then "cut" planned spending to just \$75,000, I've cut my deficit by 50 percent or \$25,000. In real life, of course, no one would call what is in fact a 50 percent increase in spending a budget cut, but the descriptions of federal finances are just that ridiculous. That such misinformation has been practiced for many years now by both parties and has been repeated endlessly in the press only makes matters worse.

Democrats and Republicans argue about the proper mix of tax increases and spending cuts. In fact, though, no one is proposing overall cuts in the federal budget. In the Democrats' plan that carried in the Senate vote, federal spending would climb to \$1.74 trillion in fiscal 1998, up from \$1.47 this year. What's more, the 1998 target assumes that most of what spending restraint is achieved will come conveniently far in the future — 1997 and 1998 — and, of course, doesn't take into account at all spending for new health-care programs.

The only substantial item that either the president or a congressional majority is proposing to cut is spending for national defense. That is in fact going down already. Current Pentagon outlays will be about \$10 billion less this year than last. Almost everywhere else, in both the House and Senate versions of the Clinton plan, expenditures would rise and in amounts in excess of the expected rate of inflation and population increase. In the projections of the House and Senate conference on the budget resolution two months ago, the current-year deficit in 1998 would be about \$202 billion, and

the total added to gross federal borrowing over fiscal years 1994-98 would be roughly \$1.1 trillion.

Government is an honorable enterprise, and there are many worthy ends for public spending. But surely there is no quicker way to diminish these undertakings in people's estimates and generate cynicism about the governmental process than to describe a plan that calls for an increase of more than \$1 trillion in federal borrowing, a \$500 billion "deficit-reduction package."

In recent years, one deficit reduction plan after another has been proclaimed and enacted. Still, the federal debt has increased by large amounts every year since the mid 1970s, and the budget hasn't been in balance since the 1960s. This recent practice has no counterpart in American history.

Federal deficit spending took a huge surge upward during World War II. At war's end, total federal borrowing stood at 123 percent of the national product. Economic growth and fiscal practice then produced a big proportional pay-down of the war debt. In 1945 federal borrowing amounted to \$260 billion; in 1960 it was \$290 billion. This modest jump becomes a large real reduction when adjusted for inflation, and a huge drop as a proportion of the national economy. Gross borrowing was down to 58 percent of GNP by 1960, and this continued through the Vietnam war until it reached its modern low of 34 percent of GNP in 1974.

Then, the progression was reversed and the debt began increasing not just in absolute terms but in proportion to the size of the economy — slowly at first, then at an escalating rate.

Contrary to the conventional wisdom, the biggest jump did not take place in the Reagan years but since 1989. As a share of GDP, federal borrowing was 55 percent in 1989 and 71 percent this fiscal year. Other parties had a big hand in this late surge, what with George Bush holding the presidency and the Democrats having substantial House and Senate majorities.

This surge was not propelled by any tax cut. Indeed, there was a substantial tax hike in the 1990 budget deal. The source was a sharp spike in federal spending, which rose by \$325 billion, or 28 percent, between fiscal '89 and '93. This came even though defense spending dropped by nearly 8 percent over this span.

We can properly debate the wisdom of these federal spending increases, which far exceed inflation and the economy's rate of growth. But there's no excuse for the hoax of claiming that budget cuts are being made.



■ Everett Carl Ladd is professor of political science at the University of Connecticut and president of the Roper Center for Public Opinion Research.

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