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The Deficit Debate

by U.S. Senator Phil Gramm*

[Federal budget deficits are one of the greatest economic problems facing our nation. Excessive spending by Congress is mortgaging America's future, threatening our children and grandchildren with a lower standard of living.

Unfortunately for taxpayers, the discussion in Washington about the federal deficit and fiscal crisis is often centered around partisan finger-pointing about who is to blame, instead of bipartisan efforts to solve the problem. Special-interest groups, who may support the concept of fiscal restraint, strenuously object to any efforts to restrain the growth of spending for programs from which they benefit. Some believe more tax increases are part of the answer, but 13 tax increases since 1982 have resulted in higher spending, not lower deficits.

Fortunately, there is good news. The economic expansion beginning in 1982 began the longest period of peacetime economic growth in American history. The Gramm-Rudman-Hollings Deficit Reduction Act has slowed the growth of spending, leading to a \$70 billion fall in the deficit in 1987. Furthermore, with tax revenues projected to increase by an average of \$74 billion annually over the next few years, even modest controls on spending growth would result in dramatic reductions in the deficit.]¹

Let me begin by saying that the debate about the deficit is not just a debate about numbers. It is not just a debate about balancing the budget. It is a debate about

something that is far more important. It is a debate about America's future.

In truth, this debate is really a debate between two competing visions for America's future. That is why it is important and that is why it is going to be a bitterly fought issue in the Congress. One vision for America's future is a vision of government growing, providing more benefits and more services to more people. That is the vision that, up until 1980, dominated the American political scene for 50 years. It is not, in my opinion, what is shared by most working Americans, but it is a vision that has dominated American government.

The other competing vision which is both older and newer, depending upon your perspective, is a vision of America growing, providing more opportunities for more people. The conflict comes from the fact that you can't have unlimited government and unlimited opportunity. You have to make a choice.

In the 1970's we saw clear evidence of the result of that choice when the average American worker, after taxes, after inflation, was worse off in January of 1981 than that worker was in January of 1971. That happened because in the whole decade of the 1970's the federal government grew so rapidly that it absorbed the entire growth potential of the economy...the most vibrant economic system in history... As a result, the people who do the work, pay the taxes, pull the wagon, were worse off a decade later, at least looking at the decade of the 1970's.

The first point I would like to make about the budget debate is that this debate, while it has to do with America's future and competing visions, is not going to be debated on that basis. Paradoxically, and I

think disappointedly, the issue is never really going to be put in terms of two competing visions for America's future. Nor is the issue really going to be meaningfully debated as the decision between raising taxes and controlling spending.

The entire debate is going to be dominated by how you define the parameters of the debate and, more fundamentally, what the words of the English language mean. In fact, you tell me which faction ends up defining the debate in terms of its perception to the media and the public, and I will tell you which different vision for America's future will win the debate. You tell me whether the public will understand the meaning of the word "cut" at the end of the debate and I will tell you who won the debate.

You can pick up any newspaper in this country today, and I'm talking about from the *Cut-and-Shoot Herald* to the *Ben Hurr Herculean* to the *Wall Street Journal*, and with virtually no exception, the word "cut" is totally misused in terms of the meaning of the word understood by the general public. Government, being the oldest profession, and less reputable than the second oldest profession, has always tried to change the meaning of the language to effect the debate, and nowhere has that been more prevalent than in the 1980's in America.

Hardly a day goes by that we do not hear about cuts in federal spending. Yet, one has to go all the way back to Harry Truman at the end of World War II to find a presidency where federal spending has actually been cut, if you mean by cutting spending what the American people understand cutting spending to mean. If you went out in the street today, even in Washington, and you asked people, "Have

*Remarks made to Citizens for a Sound Economy Foundation Conference on Taxes, Spending and Economic Growth, January, 1989.

you cut your spending?" If you find somebody who said "Yes," they, invariably, would always mean the same thing. They would mean they were spending less than they used to spend. Cutting spending means reducing spending relative to a base period—last month, last year, yesterday, last week—but spending less than you *used* to spend.

As the great economist Alfred Marshall used to say, "The greatest errors arise from overlooking the most obvious truth." The most obvious truth in this case is that government does not mean the same thing the general public takes the words to mean when it says "cutting federal spending." Cutting federal spending to the government really means spending less than you would have. Between "used to" and "would have" is a massive gulf that totally distorts this budget debate.

Let me outline the reality of the budget debate as I see it. First of all, the largest contributor to deficit reduction is the guy standing out on the factory floor, the person working in the restaurant, the person working on the farm, because the American economy is growing very rapidly. The Congressional Budget Office, which is now totally controlled by Democrats and every day becoming more partisan, estimates that federal revenues next year will grow by \$86 billion due to economic growth alone. Some two million people are going to go to work in new jobs, tax-paying jobs. Real wages are going to rise and as we all know, any time anyone is born, dies, buys anything, sells anything, government is the beneficiary.

Without any increase in taxes, without an increase in the rate of existing taxes, federal revenues are going to rise next year by about \$85 billion. OMB estimates \$82 billion or \$80 billion; CBO estimates \$86 billion, but let's just say, to keep the arithmetic simple, \$85 billion is coming through the front door due to economic growth. If economic growth is stronger it's going to be more; if it's weaker it's going to be less. But, the budget we're going to write, based more or less on CBO estimates, assumes \$85 billion coming in through the front door. In virtually no discussion of the budget debate is that ever mentioned, period. That is the most fundamental fact. Taxes are rising because of economic growth.

Visualize, if you will, \$85 billion coming through the front door in new revenues. To meet the targets of the Gramm-Rudman-Hollings deficit reduction law, about \$55 billion of that \$85 billion have to go to deficit reduction. That leaves you with about \$30 billion, more or less. The federal government spends a little over a

trillion dollars, or did last year, so what is required to meet the Gramm-Rudman-Hollings deficit reduction targets is to limit the rate of growth in federal spending to no more than three percent above what the government actually spent last year. Nobody can dispute that figure. We will meet the Gramm-Rudman-Hollings deficit reduction targets if we can limit the aggregate rate of growth in federal spending next year over this year to no more than

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three percent in actual dollar outlays.

If you went out and you did a survey, a poll in America, and you said, "Are you willing to raise taxes so that federal spending can grow more than three percent above the level that we spent last year in dollars?" Not one out of ten people would say, "Yes." Needless to say, that question will never be asked by those who want to raise taxes. The question will be asked, "Are you willing to raise taxes so that we do not have to cut federal spending?" Let me translate that into the English language used by the American people. What that translates into is that they want to raise taxes so that federal spending can grow by seven percent instead of three percent. That is what the whole debate is about, and don't be confused about that.

First of all, let me make it clear that limiting the rate of growth in federal spending to three percent is not easy. On the other hand, if you come from a state, as I do, where we have been in a recession for three years, where the nation has been in a period of boom conditions, asking any family in Texas or any business in Texas to limit spending to three percent above what they spent last year would be considered child's play. The problem is that Congress

hates to set priorities. Let me just go through what it would take in order to meet this three percent target. Let's just start with the \$30 billion. I'll just use round numbers for you; taking the \$85 billion coming through the front door for economic growth, taking the \$55 billion off that is required to meet the deficit reduction targets, you have about \$30 billion left. If you pay on the Social Security and you provide the benefits for the people that are going to become eligible, you have about half the \$30 billion going for that purpose. How much spent on interest on the debt, obviously depends on what happened to the debt and what happens to interest rates, but you're probably looking at between \$2 and \$10 billion.

Basically, when you meet the obligation to Social Security that is going to be met when you pay interest on the debt, you're down to around \$10 billion left to spend—\$10 billion more than you spent last year. There are a lot of places you can spend the \$10 billion. My proposal would be to divide it between defense and non-defense . . . That would mean, just taking these numbers, which would vary depending upon the estimate you have, that you have about \$5 billion in new spending authority in non-defense, and about \$5 billion in defense.

If you want to freeze everything, you can take that \$5 billion and pay for the space station, the war on drugs, the SSC, a whopping education initiative, and you can initiate clean-up of nuclear waste and the recapitalization of FSLIC. That would mean that if some programs grew, like Medicare, then you have to reduce other programs to pay for it. In the defense area, you could make similar decisions. I think that would appeal to the public because you're sharing the burden between defense and non-defense.

If I were the new President, I would simply outline this process to Congress and say the truth is that I don't have the wisdom alone to set these priorities and what I'm willing to compromise on is to let you sit down with me and work out these priorities. That, I think, is the essence of the budget debate. Those who want to raise taxes, want to raise taxes because they want the government to grow; that is the issue pure and simple.

You're going to hear all kinds of red herrings or see dead cats dragged back and forth across the table. The first is going to be the nuclear clean-up. What are we going to do about the nuclear clean-up? We're going to spend less than a billion dollars on it the first year and the proposal you're going to hear over and over with a little bit of sleight of hand is, "Well, to pay for the

nuclear clean-up, let's raise taxes by \$20 billion and we'll spend \$500 million on the nuclear clean-up."

Another dead cat dragged across the table is the savings and loan crisis—a \$100 billion crisis. The truth is, ninety percent of the industry is solvent, sixty percent of them are profitable and, as bad and rotten as the problem is, it is basically their problem. Again, you're going to hear the proposal, "Let's raise taxes by \$20 billion and allocate half a billion in real outlays to the savings and loan problem." So the savings and loan problem and nuclear clean-up are big problems, but they are long-term problems. They are rear-end loaded and they really have little impact on the budget debate when you look at the fact that we're spending one trillion, one hundred billion dollars.

[W]e ought to look at reordering priorities. This year we have an opportunity

to do it. America will be richer, freer, and happier if we do it than if we don't. Congress will never do it if they're given a choice. Gramm's first law of political behavior is that a politician will never make a difficult choice as long as there's any viable alternative. But Gramm's corollary to that first law is if politicians know they are going to catch hell no matter what they do, they will normally do the right thing. That's where the Gramm-Rudman-Hollings law comes into effect.

NOTES

¹D. Mitchell, *Tax Increases or Spending Restraint: A Citizens' Guide to Deficit Reduction* at 4 (1989). (Copies of this 24-page booklet may be obtained from Citizens For A Sound Economy Foundation, 470 L'Enfant Plaza, S.W., East Building #7112, Washington, D.C. 20024. (202) 488-8200).

U.S. Senator Phil Gramm (R-Tx) was elected to the Senate in 1984, after serving three terms in the U.S. House of Representatives. He is a member of the Senate Armed Services Committee and the Senate Banking, Housing, and Urban Affairs Committee. He is co-author of the Gramm-Rudman-Hollings Deficit Reduction Act. Before being elected, Senator Gramm taught economics for twelve years at Texas A&M University. He received a Ph.D. in economics from the University of Georgia.

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