Trillion Dollar Politics

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Using the Social Security Surplus to Fund Tax Cuts for the Wealthy

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Chapter 1

Reagan's U-Turn:
The National Debt Takes Off

The law of unintended consequences, that devious partner of all human endeavor, reserves its most outrageous tricks for those who see their path most clearly. And so, this mischievous prankster most loves politicians.

> *When a conservative says it is bad for the government to spend more than it takes in, he is simply showing the same common sense that tells him to come in out of the rain.*

So saying, Ronald Reagan sealed his fate. He was granted his wish to be President but never did manage to get out of the rain. And the more he tried, the harder it rained. Years later, after Reagan and his successor had doubled the national debt, one president finally did stop the accelerating deficits. But with his usual ironic twist, that sly devil of the unintended gave the honors to—God forbid—a liberal.

Twenty years later another politician is at it again. Our conservative president has forecast that, if re-elected, he will achieve the highest level of national debt in over fifty years. You can find his detailed predictions of how the government will "spend more than it takes in" right on whitehouse.gov. Why doesn't conservative common sense tell him to "come in out of the rain?" This time, standing in the rain can't be simple confusion, so what is his motive? Has he outwitted the law of unintended consequences by finding a use for huge deficits? If so, what is the use, and who will pay his trillion-dollar tab?

In 1976, Reagan believed the national debt was at its peak and out of control and said "It took this nation 166 years until the middle of World War II [1942] to finally accumulate a debt of $95 billion. It took this [the

Carter] administration just the last 12 months to add $95 billion to the debt." While these numbers are roughly accurate, the picture they paint is grossly distorted, because they ignore three factors. The population had been growing, the country had been getting richer, and the dollar had been losing value. Between 1942 and 1976, that was a lot to ignore.

[The following numbers are a place holder, but tell a true story.]

He could just as truthfully have said "It took this nation 166 years to spend $5 billion on bread and just in the last 12 months it spent another $5 billion on bread." This actually happened, but what does it mean? Did bread become a crushing financial burden in 1976? As everyone knows, bread cost a lot less in 1942, does that mean it's a lot harder to afford a loaf of bread now? No. It's no harder to earn $1.50 to buy a loaf of bread now than it was to earn 15¢ back then. Wages are that much higher. Similarly a $1.50 of national debt now is no worse than 15¢ of debt back then. Also there's a lot more of us helping to pay for the national debt now.

The huge increase in the total annual cost of bread is partly an indication of the nation's greater size and wealth and partly an indication that the dollar has fallen in value. The statistics do not indicate the U.S. is having a hard time affording bread.

[These numbers are quite close.]

Similarly, Reagan's statistics tell us nothing about any problem with the national debt. In fact, when the debt reached $95 billion in 1942, it would have taken the entire output of the country for 8 months to pay it off, while in 1976 it would have taken only 3½ months. The 1976 debt that seemed so enormous to Reagan was really less then half as big as the 1942 debt relative to the strength of our economy. He was simply a victim of bad statistics and economic advisors afraid to tell him the truth. Remarkably no one ever told him the real story. Five years later, soon after taking office, he announced

> *Can we, who man the ship of state, deny it is somewhat out of control? Our national debt is approaching $1 trillion. A few weeks ago I called such a figure, a trillion dollars, incomprehensible, . . .*

In that year, the national debt was 28.4% of the nation's gross domestic product (GDP), the lowest it had been with one tiny exception since the 1930s, and more than three times lower than it had been when the ship of state won World War II.

The data for figure 1 were taken from the White House web site and plotted without modification. They are for the "Gross Federal Debt" at year end as a percentage of GDP (gross domestic product). This percentage is the proper and accepted way of adjusting the debt for inflation and for the country's growth. It is also used by the *Economic Report of the President*, and is the method of adjustment preferred by Alan Greenspan. It is really the only sensible way to adjust for all three of the major relevant factors: inflation, population and increases in per-capita income. It is particularly appealing because it requires no mysterious adjustment with the consumer or producer price index. To find the value for 1989, simply divide the debt by the GDP for that year—both measured in unadjusted 1989 dollars. In any case, the White House has done the work for us.

Perhaps the most interesting part of Figure 1 is the future. The last five years, from 2004 through 2008, are a White House forecast of the nation debt under a second Bush term. Of course, optimistic assumptions about economic growth are used to shore up tax revenues, reduce the predicted deficits, and obtain the lowest plausible debt predictions. Still they come in higher than anything since 1955.

This way of looking at the debt does not stack the deck against President Reagan. It does contradict his view that the debt was skyrocketing in the years before he took office. On the other hand, The current dollar value of the debt went from $993 billion in September of 1981 to $2,868 billion in 1989, so he is often accused of tripling the debt. This is unfair, as much of the increase was due to inflation and increased wealth. Compared with what the nation could afford, his impact was

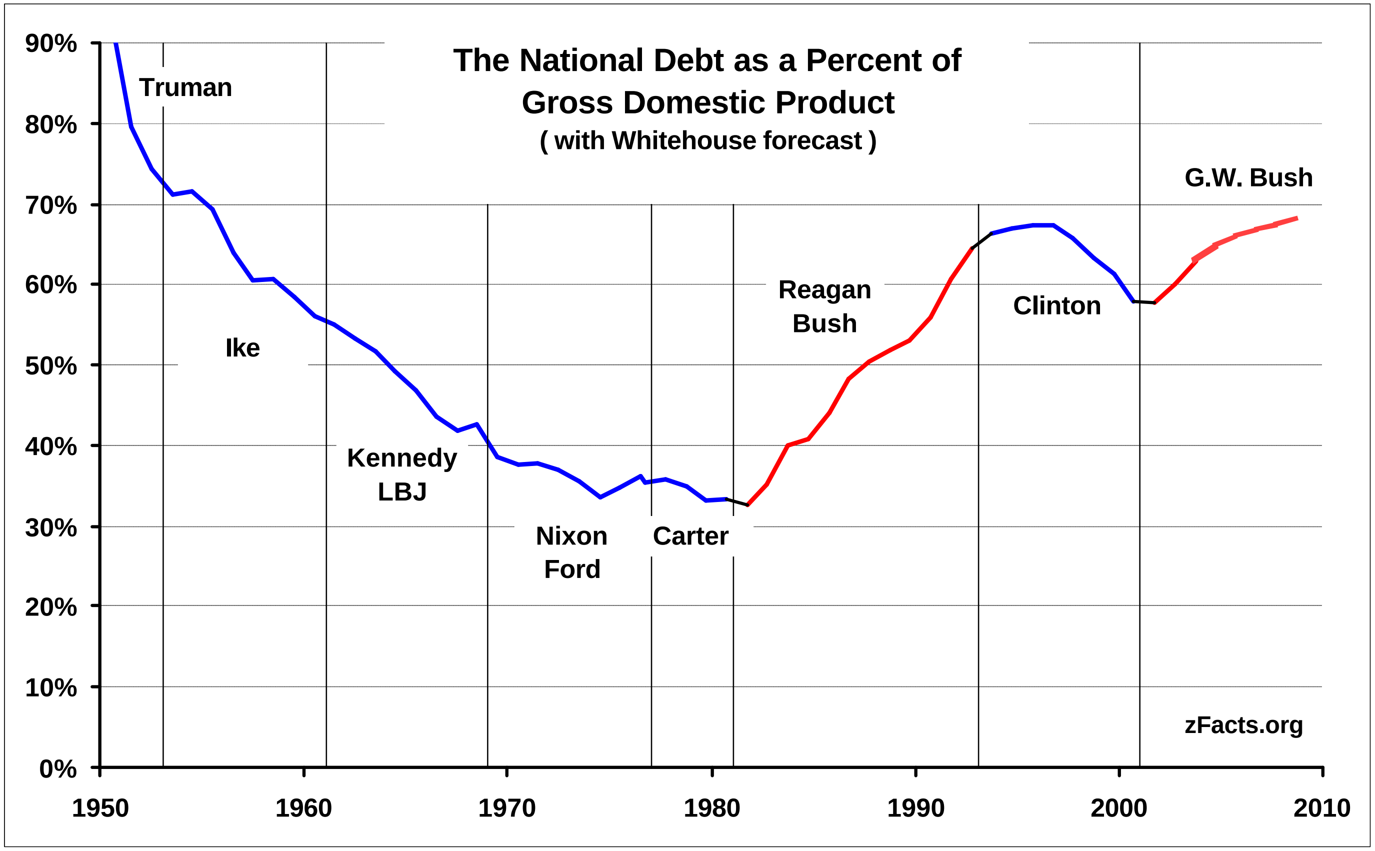

Figure 1. Graph of Data from the Historical Table of the U.S. Budget, 2004, p. 116 (whitehouse.gov).

actually much less. As a percentage of GDP, the debt increased only from 32.5% to 53.1%—it didn't even double. Still, for peace time, this was completely unprecedented.

Such a dramatic ballooning of the debt by the champion of the balanced budget has caused some embarrassment among his supporters who put forth the following rationalization. Really, they claim, the Democrats "controlled Congress," and *they* did it. They prevented spending cuts that Reagan requested to match his tax cuts. Here's the table that gets handed around as "proof" of this claim. Its taken from www.presidentReagan.info.

Federal Budget Outlays
Proposed (Reagan) and Actual (Congress) and
Cumulative Percent Difference
(billions of dollars)

	Outlays		
Fiscal Year	Proposed	Actual	Difference
1982	695	746	7.3 %
1983	773	808	4.5 %
1984	862	852	-1.2 %
1985	940	946	0.7 %
1986	974	990	1.7 %
1987	994	1004	1.0 %
1988	1024	1064	3.9 %
1989	1094	1144	4.6 %
Totals	$ 7,356	$ 7,554	$ 202

Their conclusion is "If the budget in 1989 had been 24.5% smaller (i.e., by $280 billion dollars) there could have been a surplus of about 130 billion dollars instead of a deficit." Well, yes, 24.5% of $1144 billion is $280 billion. But where did they get 24.5%? Apparently from some theory that if the budget had been 7.3% smaller the first year, then Reagan would have lowered his request in the second year by 7.3%, and they throw in a little compounding for good measure. This is just silly. If Congress passes a budget that's 4% too high this year, that does not force the President to add 4% to next year's request. That was Reagan's whole point. He was not going to follow past mistakes.

Notice that the total discrepancy between what Reagan requested and what Congress gave him was only $202 billion, while the national debt increased by $1875 billion during his years as president. What is missing from the above table is the actual federal receipts each year. Subtracting receipts from Reagan's requested outlays give us his requested deficits. In 1980 and 1981, the actual deficits were $74 billion and $79 billion. In the seven year shown in the above table Reagan's requested deficits were $77, $173, $196, $206, $205, $139, $115, and $103 billion respectively. Reagan's budget ***requests*** account for almost all of the increase in the national debt that occurred under his tenure.[Might be good to have a table of this rather than text]

Besides the numerical flim-flam, the budget-request numbers, used to excuse the ballooning debt, were cooked. Budget requests have built-in assumptions about how much will be spent on variable items like unemployment insurance. Reagan's requests were based on very optimistic assumptions, and the main reason actual expenditure turned out greater than requested had nothing to do with Congress. Congress provided almost exactly what Reagan requested. Unfortunately Reagan's optimism proved unfounded in every year except fiscal year 1984 when the economy outperformed his optimism with a 6% growth rate. Moreover all of the budgets were approved by the House of Representatives which was controlled by Republicans in every year. Reagan always got what he asked for.