

Owe No Man Anything But to Love One Another

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A focus of this year's presidential race will be the surplus. One thing appears agreed. The Social Security surplus should be used "to save Social Security." It is with the non-Social Security surplus that the debate will focus. President Clinton, in his State of the Union address, laid out the Democratic proposal: spend it on lots of new programs. Texas Governor George W. Bush has laid out one possible Republican proposal: cut taxes. Arizona Senator John McCain has laid out another: retire the National Debt.

Speaking as an economist, there is little difference between Bush's and McCain's proposals. As long as the federal government puts Social Security onto an actuarially sound basis, it hardly matters whether it runs a small deficit, a balanced budget, a small surplus or a large surplus.

A few years ago, we had two very real problems: runaway entitlement spending and a large deficit. Then, it was clear that we had to bring entitlement spending and the deficit under control. Today, we have substantially solved those two problems. I believe we now have a golden opportunity to truly save Social Security, to pay off the National Debt, and to dramatically lower federal income taxes.

Some people want to dwell on the blame game. Who was responsible for the fiscal mistakes of the past? The Democrats blame President Reagan, and the Republicans blame the Democratic Congress with which he had to deal. The truth is that the fiscal mistakes began way back in the 1960s, when President Johnson got us deeply involved in the Vietnam War and simultaneously involved in "the War on Poverty" without raising taxes, and thus set the stage for deficit spending along with the inflationary spiral, depressed stock market and middle-class stagnation that characterized the 1970s.

Let me congratulate the President, a Democrat, and the Congress, controlled by the Republicans, for hammering out the budget deal of 1995 that actually cut federal spending and brought about our present surplus. Politically, Bill Clinton used the negotiation process of that budget deal to his advantage. He vetoed the budget sent to him by the Congress, and then blamed the resultant shutdown of the government on the Republicans. I must say, the political game he played still sticks in my craw.

Having said that, what's the best thing to do with the surplus?

Instead of speaking as an economist, let me speak as an historian. In 1800,

when Jefferson became President, he sought to pay off the debt that was accumulated during the Revolutionary War. He actually did pay off most of the debt during his eight years in office. But, he didn't completely pay off the debt, and left it for his successors to finish the job.

Later that century, when Grant became President, he sought to pay off the debt that was accumulated during the Civil War. He did, in fact, retire much of the debt during his two terms in office. And, as with Jefferson, he had to rely on his successors to finish the job.

During the 1920s, Harding and Coolidge began paying-off the debt that was accumulated during World War I. Unfortunately, there weren't enough years of peace and prosperity to complete the job. In each of these great historical episodes, the country retired its debt gradually, and—here's the important point—did not wait until the job was completed to cut taxes. In fact, cutting taxes was part of the plan to spur economic growth to generate the tax revenues with which to pay off the debt.

We are today at a different juncture in history. After having defeated the Fascists during World War II and outlasted the Communists during the Cold War that followed, we are now finally able to turn our attention to our finances. Make no doubt about it. The real price of World War II and the Cold War was paid by the men and women who stood guard in our cause, and most especially by those who paid the full price. That a part of the money cost was borrowed is of little consequence in the big picture. That we also fell into high taxes and deficit spending for a long list of other reasons was unfortunate but perhaps understandable.

In ancient Israel, every fiftieth year was to be a year of jubilee. A year of forgiveness and reconciliation, for the release of prisoners, and for the forgiveness of debts. But we are not a bankrupt nation, and it would not be fair for us to ask our creditors to simply release us from our obligations. Rather, it should be in joy that we resolve to pay off our debt, and having done so, to resolve to not return to our former profligate ways. Ω