

14 When Will Deficit Emerge as an Issue?

(DESTRUCTION)

By Robert Kuttner

Why has our single most pressing economic problem — the federal budget deficit — failed to emerge as a major campaign issue? And why, if the deficit is such a calamity, is the economy continuing to thrive?

The first answer is obvious enough. The deficit has not been an issue because Michael Dukakis and George Bush joined in a kind of tacit conspiracy to keep the deficit out of debate.

Bush, as a leading member of the Reagan administration, shares culpability for the enormous deficits; he can't very well attack them. From his vantage point, it makes more tactical sense to keep insisting that the big-spending congressional Democrats are partly to blame, and that the Cassandras are wrong because nothing bad has happened to the economy (yet).



Kuttner

And until recently, it seemed that Dukakis couldn't hammer on the deficit without explaining how he might fix it, which would raise the specter of new taxes.

MOREOVER, THE deficit is not a burning issue to most voters because it indeed has not done them any obvious harm (yet). The links between the budget deficit, the gyrating dollar, the decline in U.S. competitiveness, the trade deficit and falling standards of living are rather subtle and indirect. And most of the bill will come due only in the next administration.

But several weeks ago, in his Peoria, Ill., speech, Dukakis found a clever and legitimate way of injecting the deficit into the campaign without having the issue boomerang. The Reagan administration, he declared, is using up the Social Security surplus to offset part of the deficit in the rest of the budget. Therefore, retirement funds set aside for an "inter-generational compact" are being spent now to soak up Republican red ink.

Here, finally, is some impending damage attributable to the deficit that gets voter attention. In 1988, \$39 billion in Social Security funds went to help offset the deficit. By 1994, the deficit will consume some \$113 billion of Social Security reserves and will still be more than \$100 billion in the red.

Dukakis' argument is quite on target — fiscally, politically and symbolically. As Robert Strauss, chair-

man of the National Economic Commission, noted recently, deficit reduction is hard to imagine without cutting both military spending and Social Security. But, of course, were it not for the deficit, nobody would be proposing cutting Social Security and nobody would be siphoning off its funds.

THE FACT REMAINS, however, that the larger economy has managed to ride out the 1980s surprisingly well, despite the growing deficits and the accumulating public debt. But Reaganomics deserves little of the credit, and the damage has only been postponed.

The first reason we have survived the deficit (so far) has to do with lucky timing. Just as the federal deficit was swelling, which would normally trigger inflation, several unrelated factors were causing inflation to subside. Commodity prices, notably oil and food, were falling. Trade unions were getting weaker, which reduced inflationary pressures from wages. And a newly internationalized economy intensified competition, making it harder for domestic manufacturers to hike prices.

Second, that same international economy made it possible for the United States to sell its bonds and finance its private capital needs globally, despite the fact that the big budget deficits were "crowding out" domestic sources of capital.

Finally, President Reagan proved far more pragmatic than is sometimes appreciated. When the supply-side tax of 1981 triggered the very deficits that the skeptics had predicted, Reagan reluctantly went along with the "revenue enhancement" bill of 1982. The Social Security rescue of 1983 also substantially raised revenues. And when the floating exchange rate experiment urged by conservative economists proved disastrous, Reagan permitted Treasury Secretary James Baker to negotiate managed exchange rates, which in turn permitted foreigners to keep financing our deficit without a disastrously overvalued dollar.

But if the Reagan economy was rescued by a dose of pragmatism, lucky timing and foreign bail-outs, the economy of the 1990s may not be so fortunate, especially if a Bush presidency keeps opening up new tax loopholes and denying that the deficit is a problem. By finally, if gingerly, forcing the deficit into debate and helping to explain its hazards, Dukakis is doing a big favor both to his own campaign and to the economy.

AMERICA, Political Equality; "ALL UNITS OF GOVERNMENT ARE EQUALLY SOVEREIGN, INDEPENDENT, AND SELF GOVERNING."

Federalist Paper 39, J. Madison, p. 245, Mentor Publishing Edition.

- 1- ADMINISTRATIVE LAW(?) IS UNCONSTITUTIONAL!!!!
 - 2- ABOLISH THE FEDERAL RESERVE BANKING SYSTEM!!!!
 - 3- ISSUE AN HONEST SILVER BACKED FIXED VALUE CURRENCY!!!!
 - 4- REMOVE ALL TAXES OR FEES FROM LABOR AND THEIR PERSONAL PRIVATE PROPERTY, POSSESSION, USE, OR DISPOSAL!!!!
 - 5- PLACE FIXED LIMITS ON BORROWING & DEFICIT SPENDING BY ALL UNITS OF GOVERNMENT, LENGTH OF TIME, AMOUNTS, & INTEREST!!!!
 - 6- STRICT ENFORCEMENT OF THE SEPARATION OF POWERS DOCTRINE BETWEEN ALL UNITS OF GOVERNMENT & THEIR INTERNAL AGENCIES!!!!
 - 7- REPEAL THE LIMITED LIABILITY CORPORATIONS ACT!!!!
- RESTORE THE REPRESENTATIVE REPUBLIC OF SELF GOVERNMENT & INDEPENDENCE TO EVERY UNIT OF GOVERNMENT WITHIN THIS NATION, AMERICA!!!!