The Deficit Chicken Hawks  By Robert J. Samuelson

A favorite pastime of politicians and pundits is to denounce big federal budget deficits. Just recently former Treasury secretary Robert E. Rubin (1995-99), former senator Warren B. Rudman (1981-93) and former Commerce secretary Peter G. Peterson (1972-73), among others, held a press briefing doing precisely that. They brandished charts and tables contending the immediate deficit outlook is worse than official projections. This is probably true; it is also not the country's biggest budget challenge.

Almost everything you think you know about budget deficits is probably wrong or misleading. For starters, they don't automatically cripple the economy. If they did, America would be a much poorer country. Since 1961 the federal government has run deficits in all but five years (1969, 1998-2001). Over the same period, the economy's output (gross domestic product) has expanded by almost a factor of four, the number of jobs has grown by 72 million and per-capita incomes have increased about 150 percent.

Indeed, rising deficits are sometimes helpful. They are now. It is possible to dislike parts of President Bush's tax cuts -- and to see the White House's budget rhetoric as hypocritical -- but it is not possible to think that on balance these policies have hurt the economy. From fiscal 2000 to 2003, the budget has moved from a surplus of 2.4 percent of GDP to a deficit of 3.7 percent of GDP; the shift is worth about $650 billion annually. Tax cuts didn't cause all of this swing. Still, the massive stimulus helped offset the depressing effects of the stock market, Internet and telecom bubbles. Higher deficits didn't raise interest rates. In 2000, rates on 30-year mortgages averaged 7.5 percent; this year, they've been under 6 percent.

But the biggest misconception about deficits is that, by themselves, they threaten the economy's long-term vitality. Not true. The real threat is rising government spending. The reason is simple. Government spending must be paid for by either taxes or borrowing (a deficit). If spending rises too high, economic growth may suffer from either steeper taxes or heftier deficits. Spending is the real culprit.

Consider the long-term budget outlook. Federal spending is now about 20 percent of GDP, which is roughly the average since 1960. Homeland security and higher defense spending have undone much of the post-Cold War "peace dividend." Under present policies, aging baby boomers will raise spending to a new plateau. The Congressional Budget Office projects that Social Security, Medicare and Medicaid will grow from 8 percent of GDP now to 14 percent of GDP by 2030. The increase equals almost a third of the existing budget. A Medicare drug benefit would make the increase even bigger.

It's true that trying to pay for this increased spending by borrowing might ultimately cause a financial crisis. The resulting deficits, as a share of GDP, would almost triple the present deficit (other spending is assumed to remain constant as a share of GDP). The amounts would be so large that investors might one day refuse to buy U.S. Treasury bonds. But it's also true that the needed tax increases might depress the economy by discouraging work and risk-taking. To pay for the baby boomers' retirement benefits would require a 36 percent increase in all federal taxes, or a 91 percent increase in the payroll tax or an 81 percent increase in the individual income tax.

The danger is that higher government spending -- however financed -- will trigger a vicious circle. A sluggish economy makes it harder for government to pay promised benefits. Pressures mount to raise taxes, increase borrowing or abruptly cut benefits. The first two choices are self-defeating; the third is unfair. This is the death trap of the welfare state, here and in Europe and Asia.

The way to avoid the death trap is to minimize future spending increases. Some needed steps are obvious. Congress should gradually raise the eligibility ages for Social Security and Medicare to 69 or 70; make benefits less generous for the well-off elderly; fully tax all Social Security benefits; and eliminate unneeded or wasteful federal programs -- from Amtrak to farm subsidies. Even these steps would not likely reduce federal spending as a share of GDP. They would simply limit the increase. Such are the pressures of an aging society.

What did Rubin-Rudman-Peterson et al. say about this? Nothing. They "called on policymakers to develop a long-term plan to restore fiscal discipline." How bold. None of these men is running for office. If they won't mention the unmentionables -- raising eligibility ages, trimming benefits, eliminating bad programs -- how can they expect politicians to do so? Pundits commit the same sin. Denouncing deficits is easy; discussing unpopular choices is hard.

As a nation, we need to change the conversation. It has to become respectable to talk about limits, not just wants and needs. In the next few years, large deficits are tolerable; indeed, trying to reduce them too quickly might ruin the fragile recovery. But Republicans need to admit that, once the economy strengthens, large deficits falsely promise something for nothing. The CBO now reckons taxes are 16.5 percent of GDP, the lowest since 1959 (16.1 percent). They will ultimately have to be raised. Otherwise, higher interest costs on the debt compound spending pressures. Meanwhile, Democrats need to admit there's not much room for new spending. The idea that "taxing the rich" will cover deficits and new programs constitutes another fashionable falsehood.

Choices can be faced or avoided. The deficit fixation represents avoidance. Its presumption that higher taxes alone will "restore fiscal discipline" sidesteps the true problem -- altering the trajectory of spending. It's a delusion.