The deficit
Robert Heilbroner (reprinted from Spring 1992)

The American economy is in serious trouble. Why? Because of the deficit. I write it as one word, like a term from an incomprehensible language, because not one American in a hundred can tell you what the deficit is or does. But they can tell you what it means. It means that nothing can be done to cure the present trouble.

What could be done if we didn't have the deficit?

Right away, we might cut payroll taxes, which would immediately increase the public's spending power. We might start up a quick program to employ the unemployed. We might transfer funds to the states to reopen libraries, rehire teachers, expand social services to the wretched homeless and the drug addicts.

For the longer run, we might begin to rebuild our decaying infrastructure. Infrastructure is to the private sector what a railroad embankment is to a railroad. Our economy is limping because our infrastructure is holding it back.

The fact is, however, that we cannot do any of those things. Why? Because they would run up the deficit.

Only three possible courses of action are possible in the face of this paralyzing problem. First, we can pray for a turnaround. That's the course we have been taking for some time. Unhappily, there is no reason to think our prayers will have any more effect on the economy in the future than they have had in the past.

Second, we can take whatever fiscal measures will not worsen the deficit. We can cut some taxes and increase others. Democrats would like to cut taxes on lower-income families and raise them for rich families; Republicans would like to do the opposite, by lowering capital gains taxes and putting taxes on gasoline or whatever. Those remedies are not likely to turn around a $6 trillion economy dead in the water.

Third, we can rid ourselves of the impossible obstacle itself. By this I do not mean dismissing the deficit or finding a magic way around it. I mean understanding what it means.

Understanding begins with definition. A deficit is the amount of money the government borrows during a year. That's all it means. In the year ending June 30, 1992, the government expects to borrow about $350 billion.

Is this a disaster? That depends on what the borrowing is for. If we borrow $350 billion to build a high-speed rail network, to bolster education, to underwrite research and development, to restore ailing Americans to working health, I would call that anything but a disaster. It might, in fact, be the way to get a becalmed economy moving again. Studies have shown that public investment would be even more effective in increasing our productivity than the same amount spent for private investment, because private investment today is robbed of much of its effectiveness by the very lack of a supportive infrastructure.
Good Borrowing Finances New Wealth

On the other hand, it would be a disaster if we borrowed the $350 billion to build more Stealth bombers, to pay interest on the national debt or to cover the costs of normal everyday government. In exactly the same way, it would be a disaster if corporations borrowed large sums in order to expand production of a line they knew was obsolete, or to pay interest to their bondholders or to meet the payroll. In the private sector as in the public sector, there is good borrowing and bad borrowing. Good borrowing finances new wealth, which will bring more income to corporations and more tax revenues to government. Bad borrowing adds nothing but additional obligations and nothing to meet them with.

Now for the key question. How much of the $350 billion of borrowing for fiscal 1992 will be good borrowing, and how much bad? The answer is that we do not know. There is no separation of our government deficit into borrowing for growth-promoting purposes and borrowing for “household” purposes. All spending is lumped together into one meaningless and frightening figure call the deficit. Is there any wonder that the word strikes terror in the hearts of all?

Why doesn't the government break down its spending into investment and regular expenses, the way businesses do? Why doesn't Congress establish a capital budget with an explicit borrowing authorization, the way boards of directors do? Why doesn't the administration urge a budget that would enable voters to understand clearly what we are borrowing for?

No doubt there are “answers” to these questions. A capital budget would tempt many in Congress to put their favorite project into the capital hopper. Great battles would be fought to classify all manner of projects as “capital,” so that we could cover their costs by borrowing and not by taxes. But there are also ways around those problems. A nonpartisan, nonpolitical committee of oversight could have the power to reject poorly chosen projects from the capital budget. Total capital spending could be limited to some fixed proportion of public expenditure. A proportion of one-quarter for the coming fiscal year would authorize us to borrow roughly $350 billion to spend on infrastructure, including education. The deficit would be the same, but we would know that all of it was used to promote growth.

Not a Proposal for Indiscriminate Spending

So this is not a proposal to open the floodgates of indiscriminate government spending. On the contrary, it is an attempt to allow citizens, for the first time, to see what their government is borrowing for. It is not a proposal that will give us economic recovery overnight. It will take time before a strengthened infrastructure exerts its effects on private productivity and even more time before an education program can pay off in a better-trained labor force.

What getting rid of the deficit will do overnight is to remove an obstacles that today makes any kind of sensible policy impossible. A capital budget is neither a liberal nor a conservative proposal, merely a common-sensical one. Looking at the climate in Washington today, I am inclined to think that may be its most unacceptable feature.

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Robert Heilbroner was an economist and historian of economic thought. The author of some twenty books, he was best known for The Worldly Philosophers, the second-best-selling economics text of all
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