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How Do We Manage the Economy Intelligently? An Analysis of Our Budget, Our Debt, and Our Future

By Senator Robert F. Bennett

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The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
202/546-4400
http://www.heritage.org

How Do We Manage the Economy Intelligently? An Analysis of Our Budget, Our Debt, and Our Future

The Honorable Robert F. Bennett

This time of year is budget time, a time in which the Senate is filled with speeches about budgets, debt, the economy, taxes, and all the rest of the subjects that have to do with our joint effort—"joint" meaning members of both parties, members of both houses, members of both branches, the executive as well as the legislative—to achieve a balanced budget by the year 2002. That is a very laudable goal, one that has been put off for too long.

However, as I have listened to these speeches—on both sides of the aisle—it has occurred to me that there is much that is more political sloganeering than it is analytical and understanding. Therefore, I want to lay out my understanding of where we are and what we are looking at with respect to the budget, our deficit, and our future.

One of Washington's most thoughtful and capable political reporters, David Broder, did a column on this subject in which he addressed the issue of whether we should have tax cuts in the middle of the debate over balancing the budget. He coined a magnificently succinct phrase. He lauded those who said we must put off tax cuts until the budget is balanced, stating it this way: "In other words, eat your spinach before you get the dessert." It is a great phrase and worthy of Mr. Broder's skill as a journalist.

It also happens to be wrong.

It implies that tax cuts are without nourishment and make no contribution to the meal, that they are a reward for doing your job rather than an integral part of doing your job. Much as I respect Mr. Broder and those who have echoed this sentiment in the Senate, I think that they are in error. We must examine the whole circumstance of where we are in order to understand the role that proper tax policy can play.

Another very familiar image has been with us during this debate which, like David Broder's phrase, is very compelling and very easy to understand. The image is drawn—by people on both sides of the aisle—of a family sitting around the table in their kitchen, going over the family budget. The father says to the members of the family, "We cannot balance our family budget. Our income is not sufficient to cover the expenses." Then the father says to the mother, and solemnly to the gathered children, "We have only two choices. We can either somehow convince the boss down at the factory to give us a raise or we can cut our expenditures. Since the boss is not inclined to give us a raise, we will have to tighten our belts, do the right thing, and cut back on our expenditures."

Robert F. Bennett, a Republican, represents Utah in the United States Senate.

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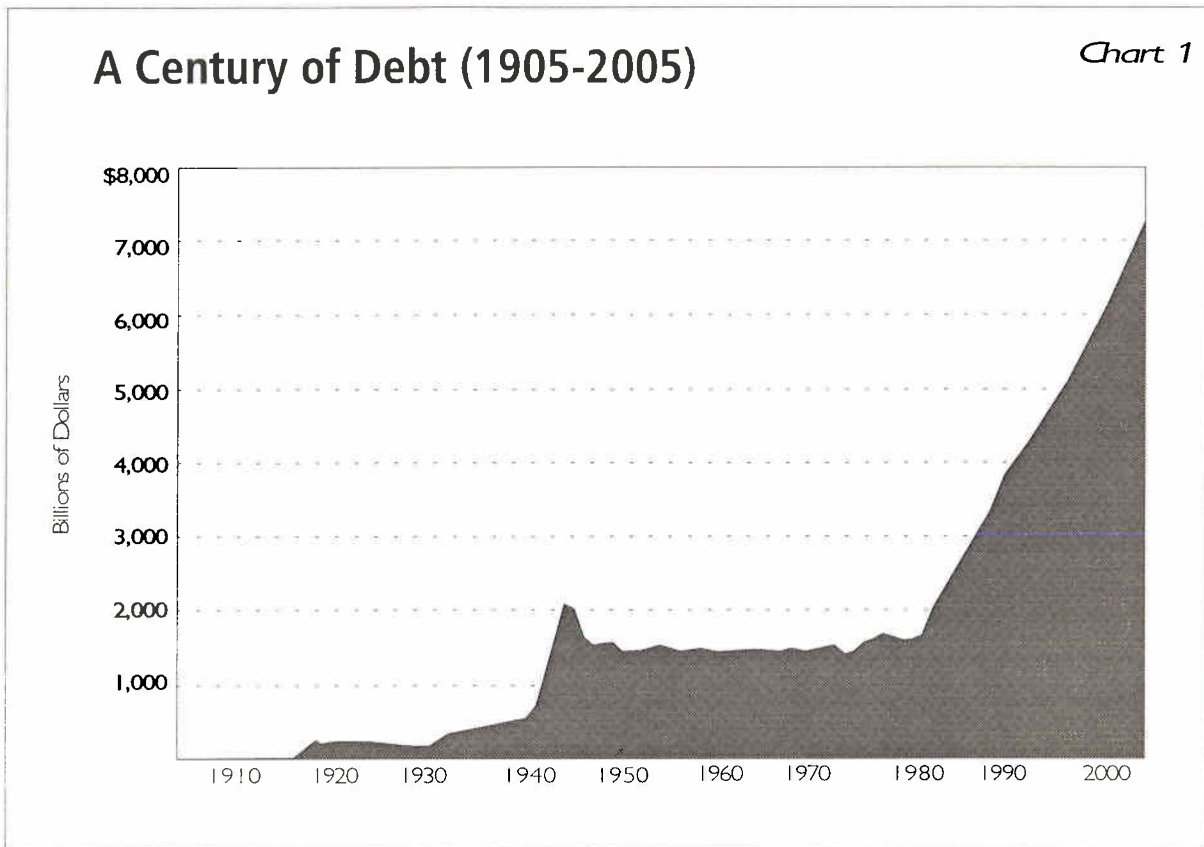
After we conjure that image to mind, we are told the government runs the same way: We must tighten our belts, stop the spending, cut down on the expenditures just like that family. Again, it is a powerful image. It is easily remembered. It is surrounded by a great deal of emotion—and it is wholly wrong, just like the spinach and the dessert.



In the process of hearing about the family, we always see this chart (Chart 1). It is displayed by people on both sides of the aisle. This is the chart showing what is happening to the national debt. The national debt was so low it did not show up on the chart in the years prior to 1941, and then gradually it starts creeping up and stays about level until suddenly it explodes. People point to this chart and remember the family, and say a family that is going into debt this rapidly is headed for absolute disaster.

I want to ask you to consider a different image, a different table, and a different group sitting around the table to help us understand what is really going on in the economy. Instead of a family sitting around the table talking about their finances, let us consider a group of businesspeople sitting around the boardroom table of a company. The chief executive officer of the company (we will give him the title of chairman of the board) calls his people together and says to them, "We have a deficit in this company of about $1 million a month. If we cannot solve that deficit problem, we will go bankrupt. What can we do to deal with a deficit of $1 million a month?"

His first expert steps up and says, "Mr. Chairman, I have examined this issue very carefully, and I can tell you what it is we need to do. Without question, we can solve our problem if we simply raise our prices. We are selling $50 million a month worth of our products. So if we

raise our prices two and a half percent, we will make enough money to cover our $1 million a month deficit. Case closed. All you need to do is raise your prices."

The next expert stands up and says, "Mr. Chairman, raising prices is absolutely the worst thing you could do. I know the answer to our problem. We must cut prices. Our problem is that our competition is cutting into our market share. We are losing sales right and left because our prices are too high. If we simply cut our prices by 5 percent across the board, the increased volume will do two things for us. Number one, our total sales will go up; and number two, our cost of sales will come down as we get economies to spread over a larger number of units. So I disagree absolutely with the first expert. He says raise prices, and I say cut prices."

Then the third expert stands up and addresses the chairman in our boardroom, and he says, "No, they are both wrong. The price structure is just fine. What we must do is spend more money on plant and equipment. Our factory is outmoded; our costs are enormously high in the factory. If we spend another $50 million on the factory and retooling and new equipment, we will cut our overall cost of manufacturing by more than $1 million a month."

When he sits down, the fourth expert stands up, and she says to the chairman of the board, "Mr. Chairman, they are all wrong. We do not need to raise prices or cut prices. We certainly do not need to increase spending. All we need to do is cut spending, cut the overhead. Our overhead is running about $11 million a month, and if we cut it 10 percent that would give us the $1 million a month we need to come to a break-even position."

So there sits the chairman of the board. He has four groups advising him. The four groups are saying to him, "Raise prices. Cut prices. Increase spending. Cut spending." He thanks them all for their efforts. They leave. He is there, left alone with an assistant who does not have a great deal of experience in the business.

The assistant looks at the chairman of the board and says to him, "OK, you have four options. Which one are you going to take?" Because we are dealing with a wise chairman who has a great deal of experience in the free market system, he smiles at his assistant and says, "All four."

When you manage a business that is constantly changing from day to day, as every business is, you cannot put in a static pattern and then leave it forever. You have some products that are not price-sensitive, and you can raise the price and thereby increase your margins without having any punishment in the marketplace. You have some other products that are overpriced, or need a lower price in order to increase their hold on the market, so you cut the prices on those products. You have some increased spending needs for plant and equipment, research and development; it is the future of your business that depends on your increased spending in those areas. Finally, of course, you have areas where you have to cut spending.

In government terms, what we are saying with this pattern is that there are some areas where you would cut taxes, some areas where you would raise taxes, some areas where you would cut spending, and some areas where you would raise spending.

It is not the simple either/or circumstance of the family sitting around the kitchen table. It is the very challenging management problem of a business sitting around the board table and trying to figure out how to maximize profits and, at the same time, make the right kind of investments for the future.

With that new image in our minds, let us address the fundamental question: How do we manage the economy intelligently? How do we manage an economy—think of it in business terms—that is doing $7 trillion worth of business every year? If you were the chief executive officer of a business that was doing $7 trillion worth of business every year, how would you manage that challenge?

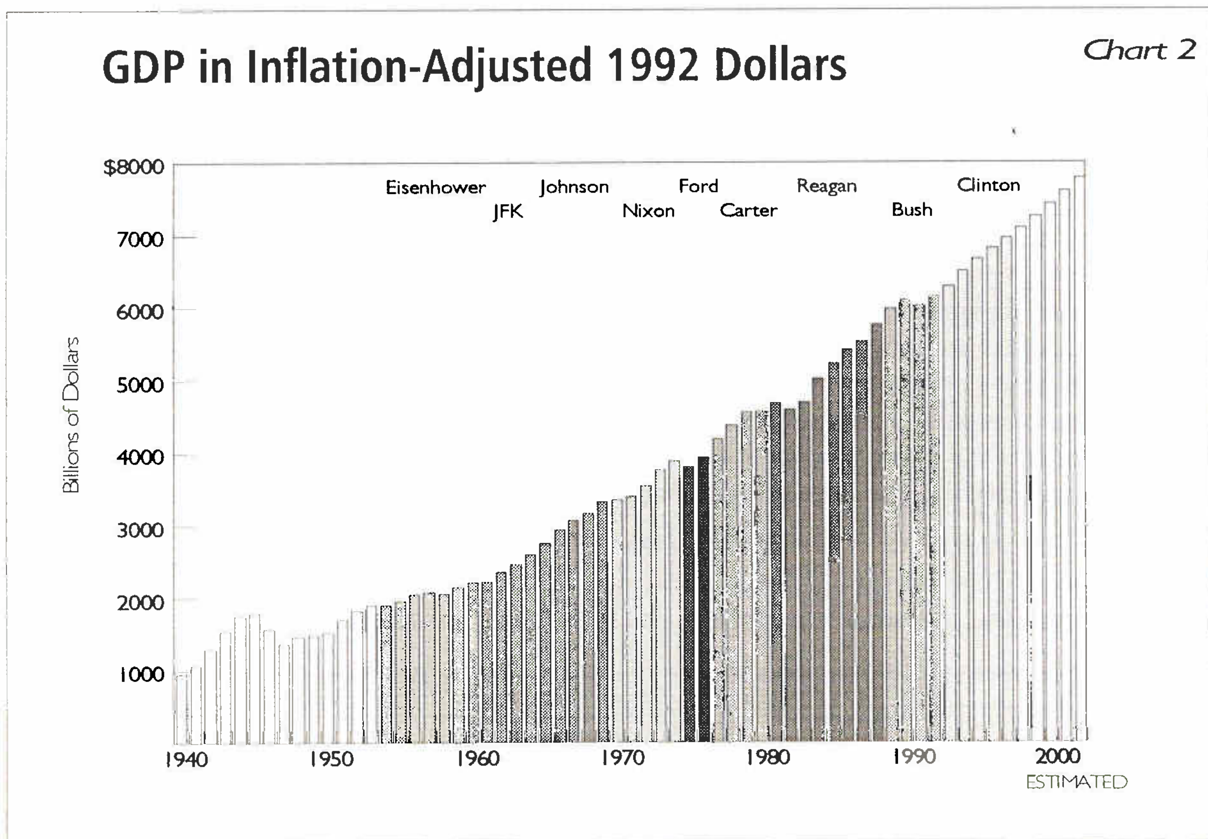
We start by asking ourselves, Where are we? You cannot manage a business without accurate data, without accurate information and reports. We can't manage the business of the country without accurate information.

I submit that while Chart 1 is enormously popular and enormously emotional in the message that it sends, like the vision of the family sitting around the kitchen table, it is not accurate. The numbers are not inaccurate; the debt numbers are correct, but the question should be asked: Debt compared to what?

To answer that, I will take you back to my own business career.

When I was hired as the chief executive officer of the Franklin Institute in Salt Lake City, that company had debt of $75,000. When I left, prior to my run for the U.S. Senate six-and-a-half years later, the company had debt of $7.5 million. If you were to put that on a chart like this, your reaction would be, "Bennett is a really irresponsible executive. When he took over the company, the debt was way down here at $75,000, and when he left, it was way up here at $7.5 million. Aren't we glad to be rid of him?" Again I ask: "the debt compared to what?"

When I took over as CEO of the company, it had four employees and sales of about $250,000 to $300,000 per year. The debt was over 25 percent of sales, and we were not getting a margin



of 25 percent of sales on our product. A debt of $75,000 threatened the very existence of that company.

When I left the company, the debt was $7.5 million, and sales were over $80 million. We had more than $7.5 million in cash on the balance sheet. The only reason we did not pay the debt off is because there were prepayment penalties built into some of the mortgages we had signed, and it was financially more beneficial to keep the cash than to pay those penalties. So measuring just the mere size of the debt had nothing to do with a measurement of my stewardship as CEO of that company. (Since I have left the company, sales have gone to over $400 million.)

Now let us look at Chart 2, relating debt to the size of the company or, in this case, the size of the country. First, what is the size of the country? Here we have a chart that shows gross domestic product (GDP), or the size of the nation's economy. Back in the 1940s, the economy was about $1 trillion in inflation-adjusted 1992 dollars. You can see the steady growth up so that now, in 1997, we are a $7 trillion economy, headed toward $8 trillion by 2002. Under those circumstances, the information on Chart 1 is suddenly going to look a little different when you compare it to GDP. Federal debt, as a percentage of our GDP, looks a little different than federal debt in nominal dollars.

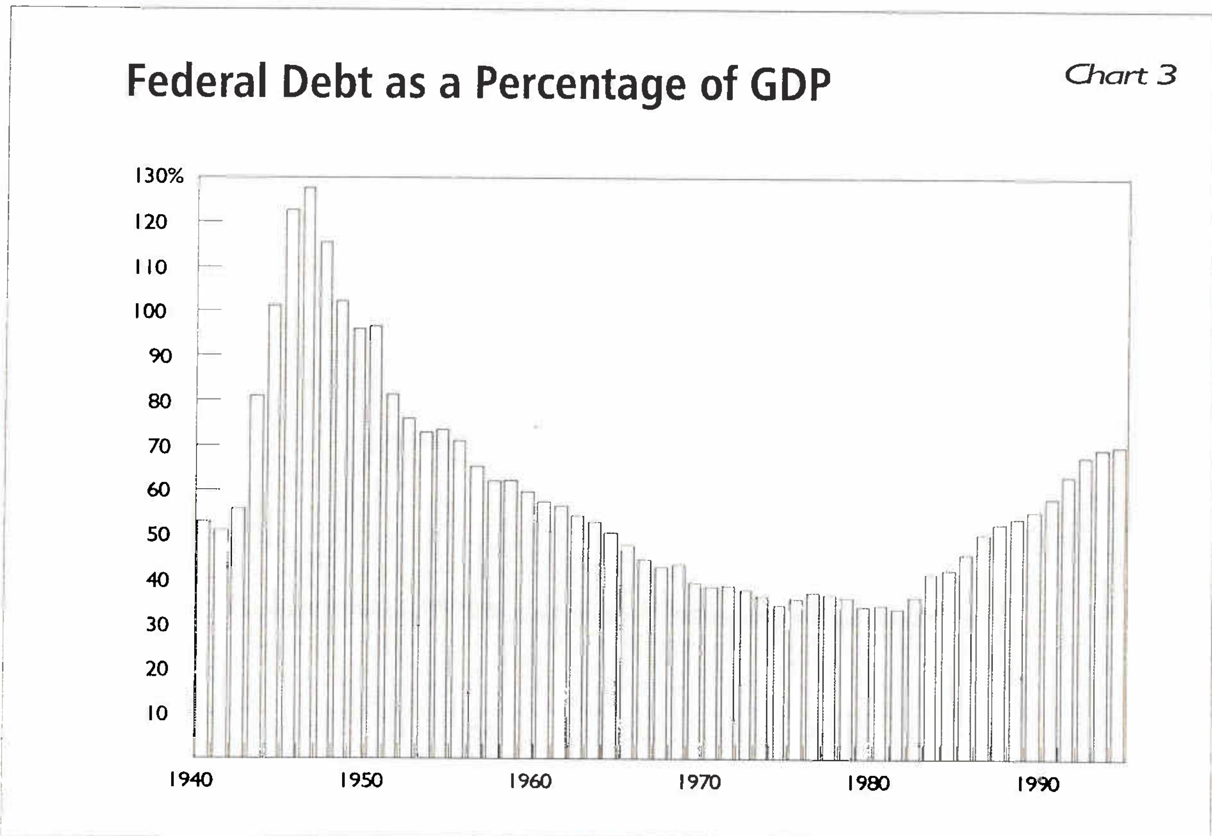
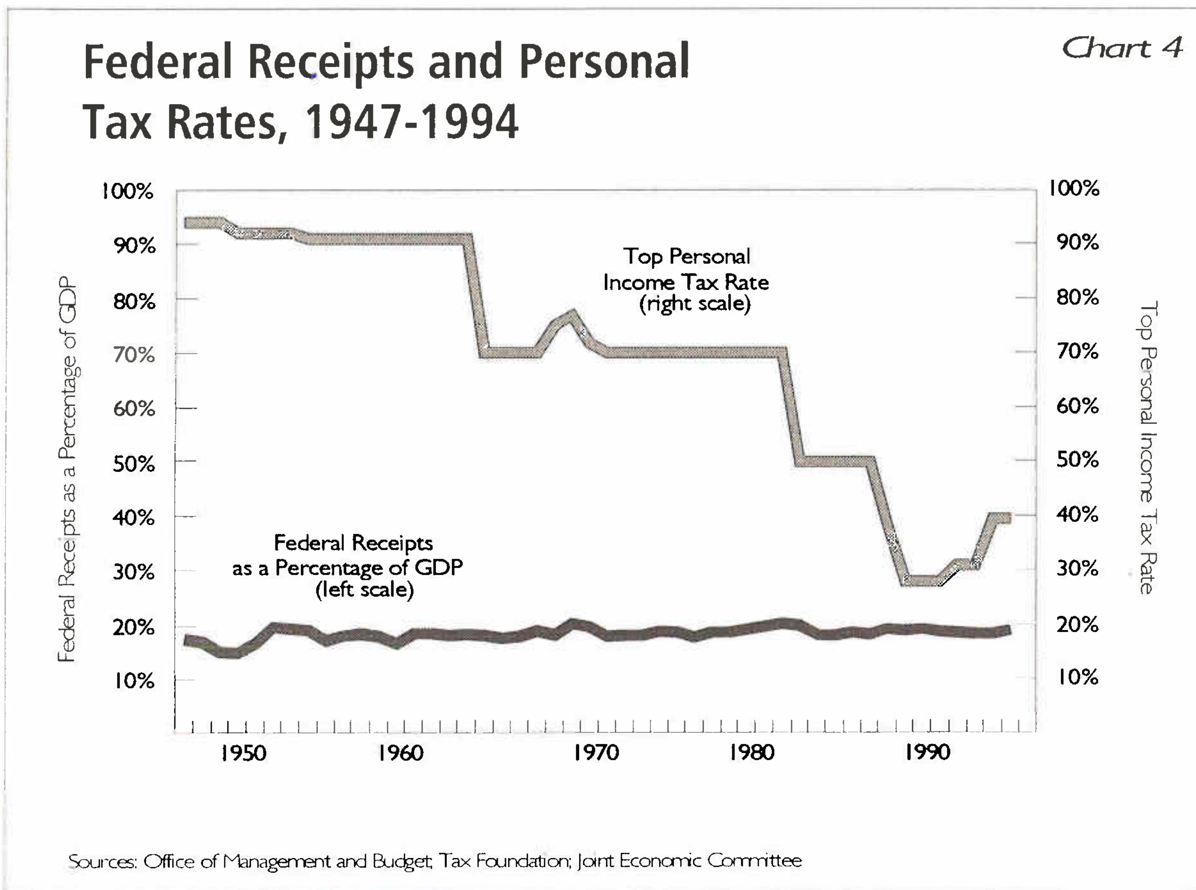


Chart 3 shows that we reached the highest point of debt in our history during the Second World War, at 130 percent of GDP. As soon as the war was over, debt as a percentage of GDP started coming down, and it continued to come down until it leveled off at around 30 percent in the 1970s. It started back up in the mid-1970s and dramatically back up in the mid-1980s.

This is a comforting chart in that it says that the previous chart is not wholly accurate, and a discomforting chart since it shows that our debt is rising as a percent of our economy for the first time in peacetime in our history. Always before, the national debt has been tied to a war; and when the war was over, debt as a percentage of GDP came down. For the first time in our history, it has started to go up in peacetime; that is a very disturbing trend.

The question is, Why did the debt start to come up? There are those who have a very quick answer, summarized in two words: Ronald Reagan. "Ronald Reagan is the one who caused all of this to happen," they say. "Look how the debt exploded during the Reagan years. It is all because of the disastrous Reagan tax cuts." (It seems to me that some people cannot discuss the tax cuts that happened in the 1980s without automatically adding the words "disastrous Ronald Reagan.")

I want to discuss whether the "disastrous Reagan tax cuts" are responsible for this rise in the national debt. Let us look at who pays the income taxes in this country and, also, what the history has been of the tax rate. Here is the history of federal tax receipts and personal tax rates, on Chart 4. The black line along the bottom is federal tax receipts, expressed again as a percentage of GDP.



Do you notice a clear trend? Virtually from the end of the Second World War until now, federal tax receipts have remained rock solid, within a narrow band, no lower than 18.5 percent and no higher than 19.5 percent of GDP, averaging around 19 percent year after year. That is where it was—19 percent—when the top marginal rate under Harry Truman was 91 percent.

Then we had a tax cut. The rates went down slightly. John F. Kennedy recommended that it come down to 70 percent, and many in Congress were scandalized, saying we can't afford that heavy a tax cut; we can't afford to lose the revenue. However, when it came down from 90 percent to 70 percent, what happened to the receipts? As a percentage of GDP, they did not change. (You had one blip: Lyndon Johnson put through a surcharge to help pay for the Vietnam War, and it showed up with an upward blip in the tax revenue. But the tax revenue quickly went back to the 19 percent line.)

When the tax rate dropped from 70 percent to 50, what happened to the tax revenues? They stayed solid. As a matter of fact, they went up a little with the drop of 70 percent to 50 percent in the marginal rate.

Then Ronald Reagan convinced Congress to pass the "disastrous Reagan tax cuts." The marginal rate came all the way down to 28 percent. What happened to the revenues? They stayed right at 19 percent. Bill Clinton said, "We have to get more revenue to balance the budget," and he forced the marginal rate, with Congress's help, back up close to 40 percent. What happened to the revenue? It stayed around 19 percent.

You cannot blame the "disastrous Reagan tax cuts" for the increase in the debt as a percentage of GDP, because they had no long-term effect on tax receipts as a percentage of GDP. Those are the facts.

Now, I said in my example that the businessman was counseled both to raise prices and to cut prices. How about doing the same thing with taxes?

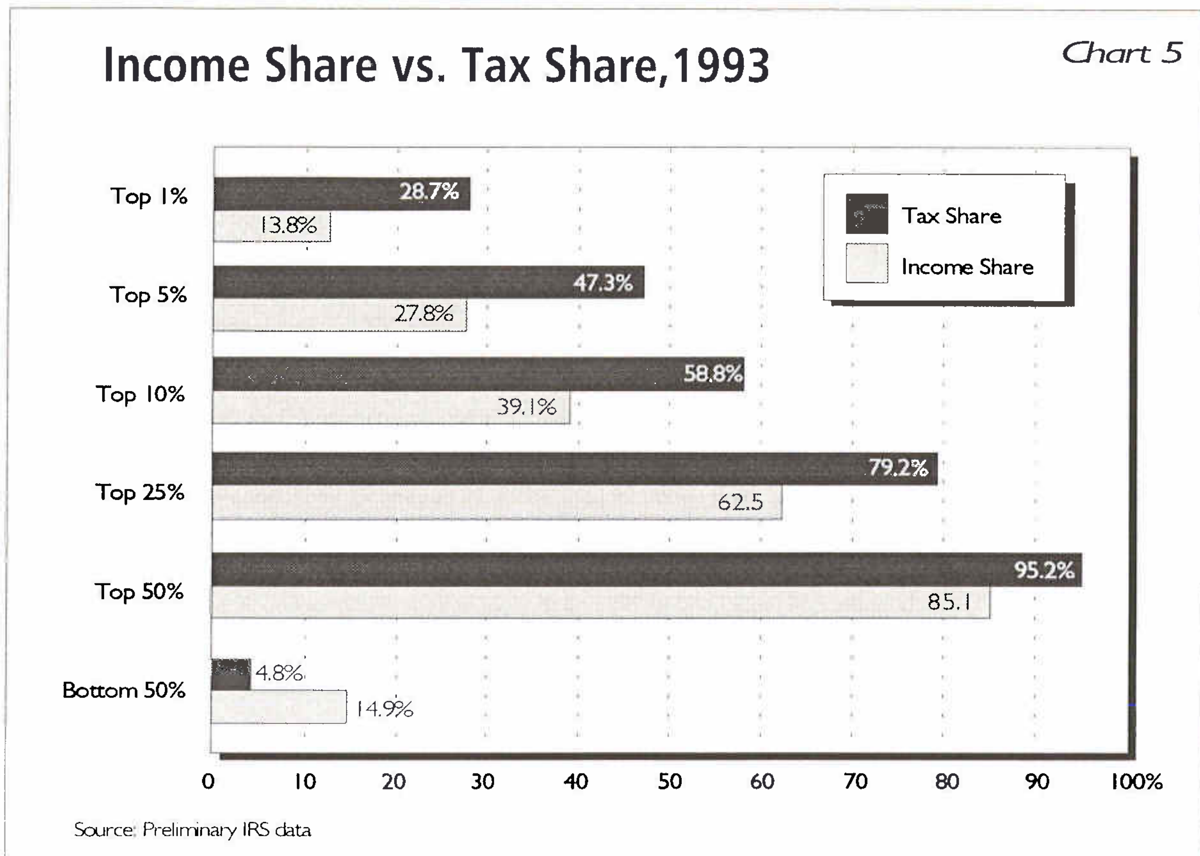
One of the interesting debates we have in Congress concerns tax increases. Members of the Republican Party stand up and accuse Bill Clinton of pushing through the "largest tax increase in history." Then the members of the Democratic Party stand up and say, "That's not true; the largest tax increase in history was put through by Ronald Reagan."

Who is right? Well, if you take nominal dollars, the Republicans are right; the Clinton tax increase was the largest in history. However, if you take constant dollars, adjusted for inflation, then the Democrats are right; Ronald Reagan's tax increase was the largest in history. Now, he didn't call it a tax increase; he called it "revenue enhancement," but he still infuriated conservative groups around town that looked upon him as their hero.

Reagan did exactly the thing that the businessman in my example did. He raised prices on some products and cut prices on others. He raised taxes on gasoline, for example, while cutting the marginal rates on incomes. And what happened to the economy in the Ronald Reagan years?

Go back to Chart 2. Again, this chart is the inflation-adjusted GDP. Something done in one President's administration does not necessarily produce a result in that administration; many times, the effects are felt years later. Nonetheless, to give us some guidance, start with the growth of the economy during the Eisenhower Administration. It moved up more vigorously in the Kennedy Administration.

Why is that? Well, that is the period of time in which we came down from 90 to 70 percent as the marginal rate. I don't know whether there is a direct cause-and-effect correlation, but it is certainly a significant enough issue to look at. We dropped the top marginal rate, and the rate of growth in the country went up through Kennedy and Johnson, too. Then we had a recession. The economy is flat in the last year of the Johnson Administration and in the first year of



the Nixon Administration (1969, also the only year on this chart in which we had a balanced budget).

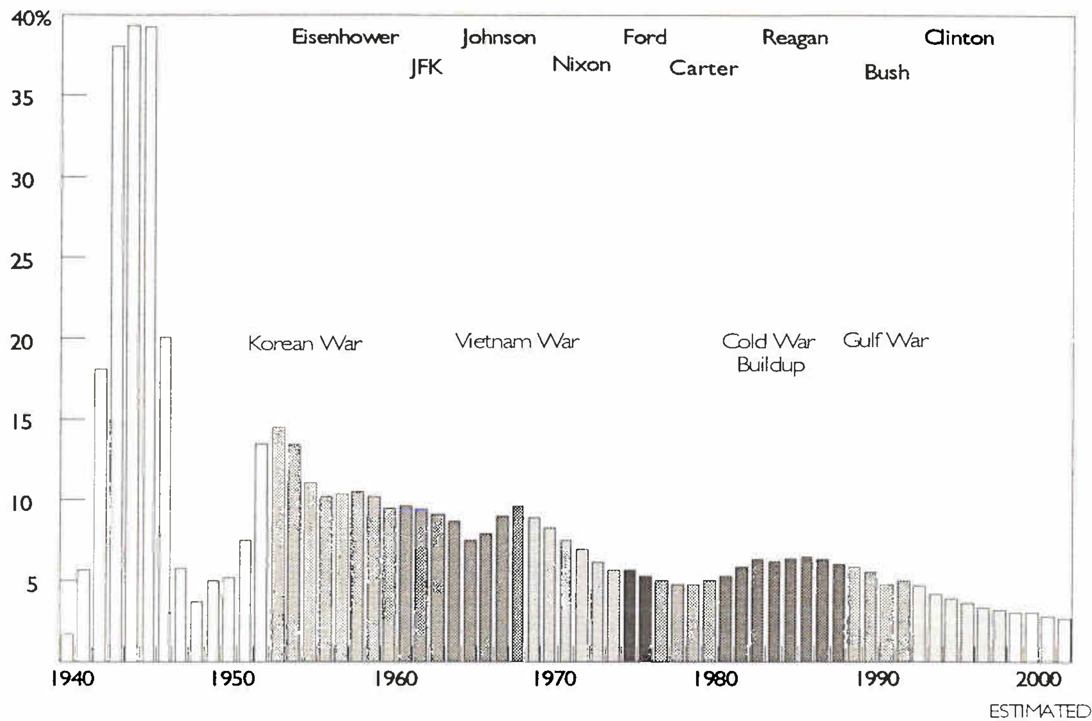
GDP starts to go up again, but you get hit with a recession in the later Nixon Administration and the Ford Administration. Here is this recession, and Jimmy Carter becomes President. We come out of that recession and get the advantage of the recovery in President Carter's first two years; but as we hit the third year, we get another recession: GDP becomes flat again.

Ronald Reagan was President while we had what the economists called the "double dip"—the "Carter recession," which we came out of in 1981, quickly followed by a more serious recession. Once that recession was over, the rate of growth that came out of those years for the balance of Reagan's term and the first two years of Bush's term was historically one of the finest we have ever had.

Is there any reason for that? Well, that just happens to coincide with the "disastrous Reagan tax cuts." With the GDP going through the roof, 19 percent of this kind of growth produced a whole lot more revenue to the government than 19 percent of a recession did. It seems we cannot blame the tax policy relating to the top marginal rates for the deficit and our problems.

Why does a change in the income tax marginal rate not produce a corresponding change in the percentage of income that comes in? One reason is shown in Chart 5, which tells us who pays the income taxes in this country.

The top 1 percent of households produce 13.8 percent of the income in this country. Many people say that is very unfair, and they want to do something about it, but that is where we are:



The top 1 percent of households produces 13.8 percent of the income. However, they pay 28.7 percent of the income taxes, or more than twice the percentage of the income that they receive.

If you go to the top 5 percent, they get 27.8 percent of the income and pay 47 percent of the income taxes. In other words, of the taxes that are paid on Chart 5, nearly half of them are paid by the top 5 percent of earners. If you go to the top 10 percent, you get 60 percent of the income taxes.

What that means is that when you change the marginal rate, the people who earn the most income, who have options as to what they will do with their money, change their investment patterns to adapt to the tax code, moving into areas that are low tax. The result is that the percentage they pay remains constant, as measured in terms of GDP.

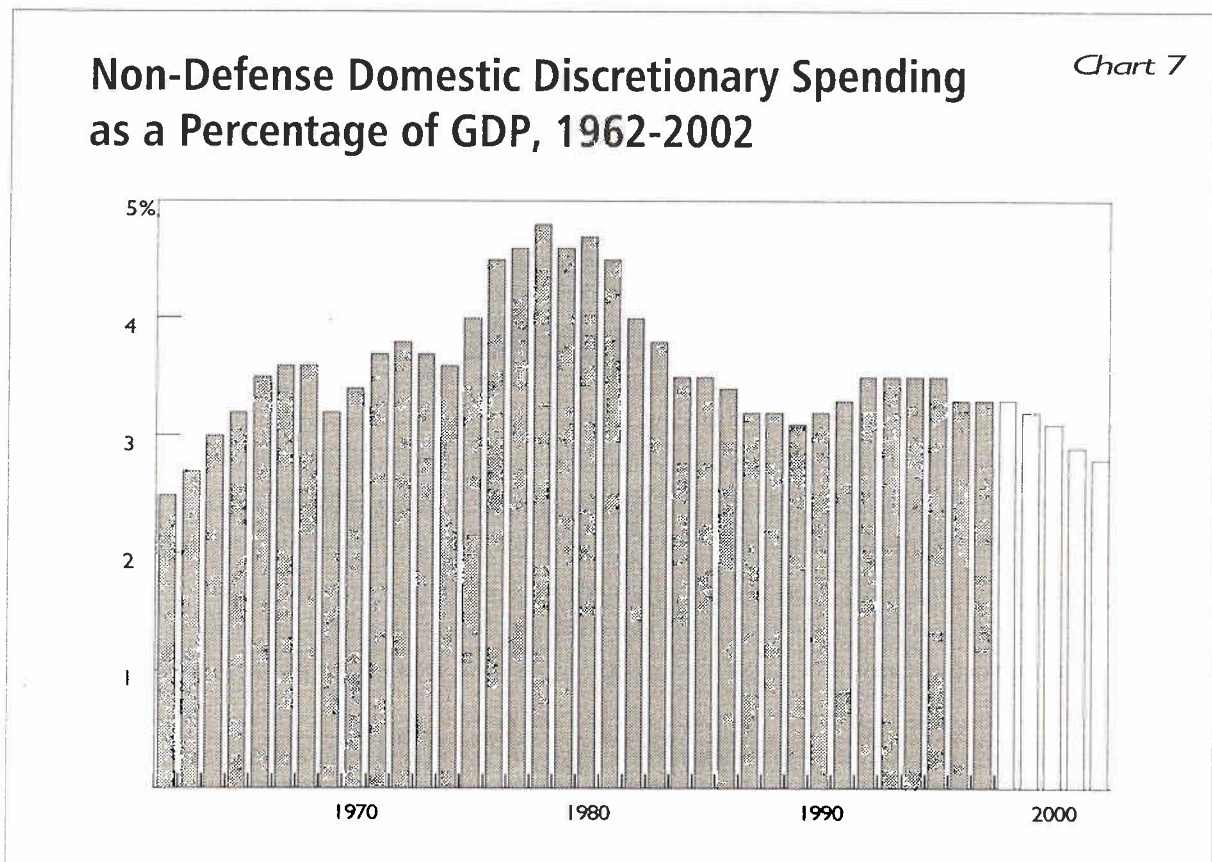
So what you want to do (again, back to Chart 2) is make sure that the GDP is going up as rapidly as it was during the later Reagan and early Bush years in order to maximize government returns, because those revenues are going to remain a constant percentage of that GDP.

The bottom 50 percent on Chart 5 pay virtually no income taxes at all. The bottom 50 percent get roughly 15 percent of the nation's wealth and pay less than 5 percent of the nation's income taxes. They do, however, pay payroll taxes, and their payroll tax burden is inordinately high. My colleague from Nebraska, Senator Robert Kerrey, summarized this problem superbly well in *The Washington Post* for April 15, 1997, pointing out that people in the bottom half of

income earners actually pay a higher effective rate on their income than many people who pay income taxes. They do it in the form of payroll taxes—just one of the reasons why a complete restructuring of the tax code is absolutely necessary.

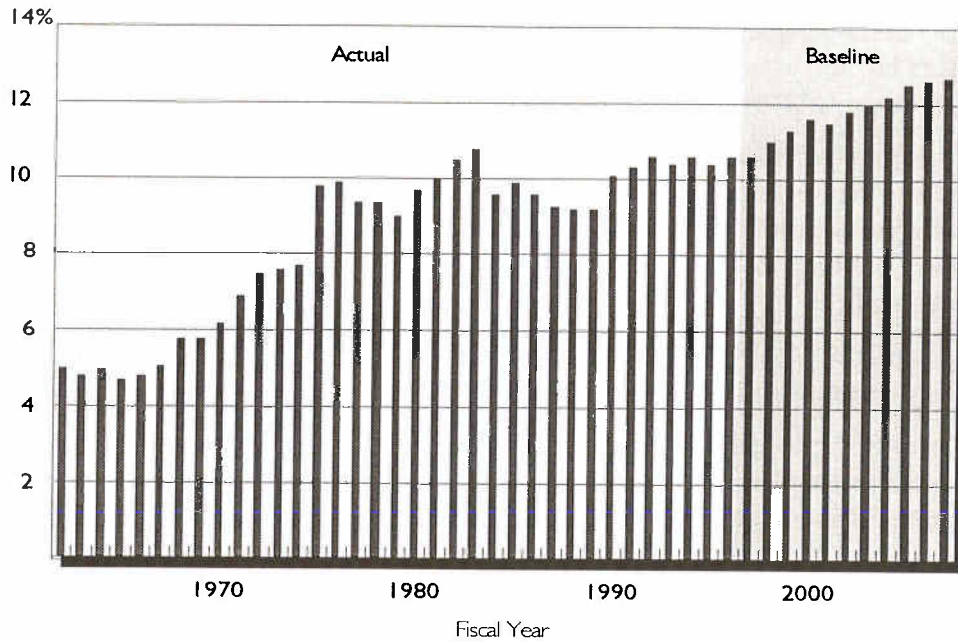
If the deficit is not caused by income tax policy, since tax policy is producing roughly the same amount of income regardless of what we do with it—and since the signs indicate that tax policy can cause GDP to increase rapidly, raising revenues—then we must look at the spending side. There are those who say, "Well, it is all defense spending" and that "Reagan caused the problem because of his runaway spending for defense."

Chart 6 looks at defense spending by our same measure—a percentage of GDP. The white bars represent spending during the Second World War and the aftermath of the Second World War. Then comes the Korean War. The dark bars start with Eisenhower, then Kennedy, Johnson, and so on.



Note what we were spending in the defense budget in the Korean War. When the Korean War was over, it dipped off. Starting in the mid-1960s, we had spending for the Vietnam War. There was a peak in 1968, the last year of Lyndon Johnson's presidency. Then spending again tapered off, going down still further in the Carter years. Then Ronald Reagan called for a Cold War buildup in his attack on the Soviet Union, and we see a bulge. But notice: At the highest point of spending for the Cold War buildup, it was substantially lower than the Vietnam War, and less than half the spending in the highest year of the Korean War.

Now, with the Cold War buildup having produced the destruction of the Soviet Union, we are reaping the "peace dividend" that people talked about for so many years. Defense spending



came down during President Bush's administration and continues to come down during President Clinton's. It is now at the lowest level it has been since 1940 as a percent of gross domestic spending.

Spending on defense, even in the years of Ronald Reagan's buildup, could not be responsible for our deficit problems. It simply was not that significant, in historic context. It was below the levels of the other conflicts we have examined. So if our problem is not defense spending, it must be non-defense discretionary spending.

Chart 7 shows non-defense domestic discretionary spending from 1962 to what is projected for 2002. Notice where it hits its highest point during the Carter years. Look at 1976, the year Jimmy Carter is elected; 1977, his first year; and 1978, the highest point. In 1979, it tapers off a little bit.

If we go back in history, we find that this was a time of great domestic spending expansion. Again, it started in the Nixon–Ford years, carried over into the Carter years, and then began to come down. It is back up in 1992, 1993, 1994, and 1995—the Clinton years. While not competing with the Carter years, Clinton's spending is coming back up after having gone down. But this is not the picture of disaster; this is a picture of some stability in spending in this area.

But if it is not defense spending, and if it is not non-defense spending, what is it?

Chart 8 deals with entitlements as a percentage of GDP. The unshaded portion of the chart shows actual entitlements. The shaded portion is the baseline projected for the years ahead

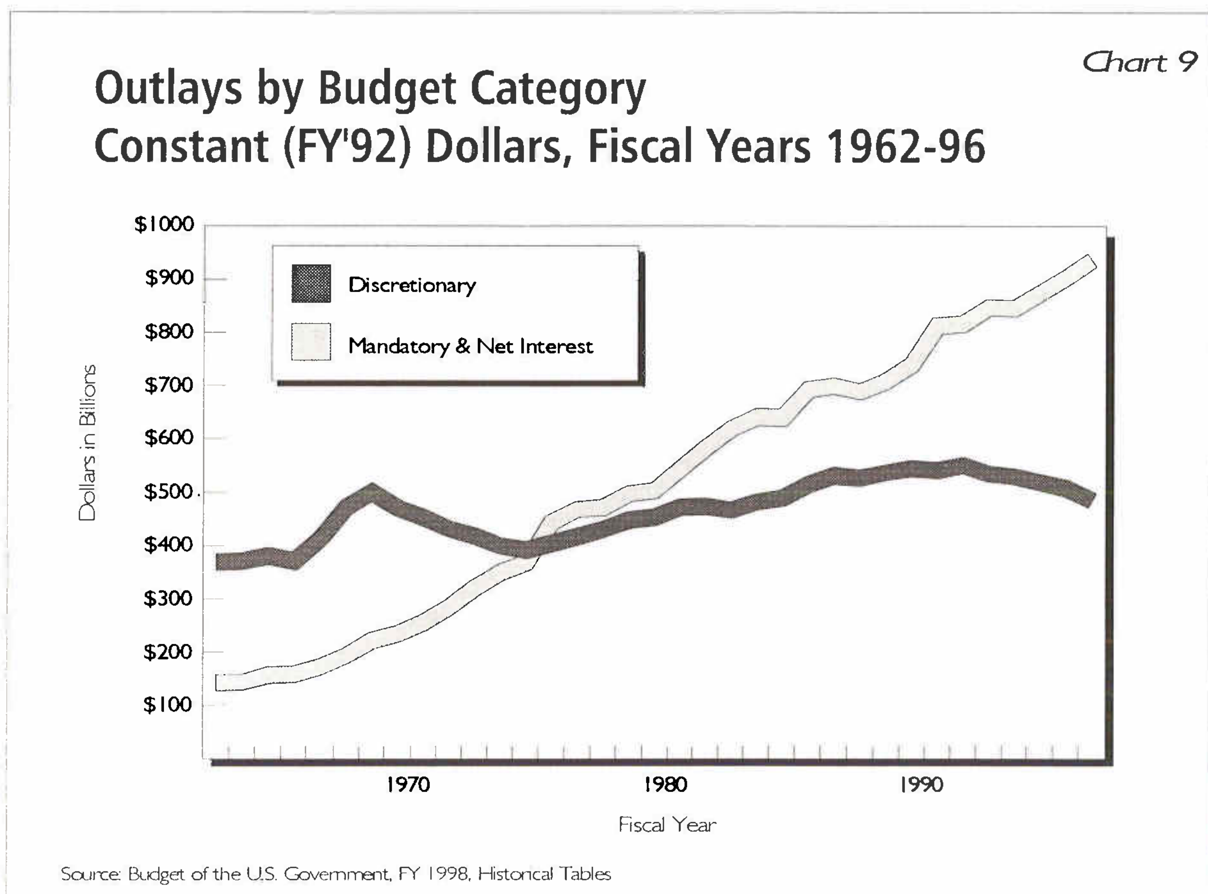
through the year 2007. You will notice there is a serious increase in the late 1970s. This, again, was a period when Congress significantly expanded Social Security, SSI, and Medicaid.

It was, at the same time, a period of recession, and you find that the GDP is shrinking. Congress is authorizing more spending while the economy is shrinking, and that produces these spikes. When the economy recovered, it starts to come down. But you get another recession in the first part of the Reagan term, and now it becomes even more serious. Then the Reagan growth takes off, and you get that rapid growth period and a period where entitlement spending as a percent of GDP begins to come down.

When the growth slows down and you get into the recession that hits in the end of the Bush presidency and the beginning of Clinton's, what happens? Entitlement spending goes up. Then you realize what is built in and what is happening to our demographics, and you see the baseline that the Congressional Budget Office says is going to occur from here on in, when you are into historic highs.

This is where the problem lies. It is not in defense spending. It is not in non-defense discretionary spending. It is in entitlements, and here is where it is showing up.

Chart 9 shows the contrast between discretionary spending, represented by the black line, and entitlement spending, represented by the gray line. In this gray line, we have added another component that has not been in any of these figures until now: interest on the debt.



In the 1960s, John F. Kennedy is President. The amount of mandatory spending is substantially less than half the amount of discretionary spending. The lines cross just about the time that we have been talking about, in the mid-1970s, when the debt started to go up instead of down as a percentage of gross domestic product. They stayed pretty much the same. Then, with the recession that hit in the early 1980s, the gray line starts to take off, leaving the black line somewhat constant, going up but not all that much.

Clearly, the problem is in the gray line. Clearly, the challenge that is creating the deficit is not on the tax side, not on the spending for normal government activities, represented by the black line. Clearly, the problem of the deficit is mandatory expenditures combined with interest—which is, in and of itself, a mandatory expenditure.

Our challenge is to get the economy growing as rapidly as it did during the Reagan years and then, on the other hand, begin to turn that gray line down so it can become a little bit flat. That is the combination that can bring us a balanced budget. How do we do that? How do we get GDP growing more rapidly and get expenditures under control—our twin challenges?

Go back to the image we had at the beginning of this presentation, back into the boardroom where the CEO is sitting with his experts and they are telling him what he can do to manage his company more intelligently and solve the company's deficit problem.

Remember the first recommendation he had: "Raise prices." At the risk of offending some of the members of my own party, I think there are places in this government where we can raise prices. I think there are things we can do—if we want to use the Reagan euphemism, "revenue enhancements"—to charge more for the services we are rendering. That is heresy to people who say "Never, ever, raise taxes." I am one who says I will never vote for an increase in the marginal tax rate. But there are, all around the government, things that could be raised to get a little more revenue into the government.

The second expert told the CEO, "Cut prices." We are being told, "No; if you try that in the government, that is dessert, not spinach. There is no nourishment to that." I think we have shown clearly that, properly done, cutting tax rates in the right places and in the right way can do what we need to do to increase the revenue of the government by increasing GDP. Where is the best place to start on that? Clearly, for me, it is capital gains.

"Oh," say some, "if you cut the rate on capital gains, you are going to benefit the rich because only the rich have capital gains." As we have seen, however, the "rich" pay most of the income taxes. The issue is not "Are you going to benefit the rich?" The issue is "How are these people going to allocate their capital in the way that will produce the greatest benefit to the economy as a whole?"

I like to say to my friends in Congress, "Go back home. Gather the venture capitalists, the real estate investors, the people who are involved with moving capital around in your home state, and ask them this question: 'Are there deals that should be done that would improve the economy in this state that are not being done because of the current capital gains tax rate?' If you ask that question, as I have asked it in my state, the answer will be: 'Every day, deals that should be done are not being done because of the capital gains tax rate.'"

You have capital locked into mature investments that, if the capital gains tax rate were to come down, would immediately flow into entrepreneurial investments, thus creating new jobs. Alan Greenspan, who has been praised by members of both parties for his deft handling of the

monetary policy in this country, has said repeatedly, on the record, that the best capital gains tax rate for maximum benefit to the economy is zero. I would be happy to see that, but I am not going to put that proposal on the floor of the Senate because I realize it will not pass. But if we were to do something about the capital gains tax rate, we would see the proper allocation of capital in the economy to produce the kind of growth that we need.

People say, "Oh, no, the stock market is going crazy and a capital gains tax adjustment would simply drive the stock market still farther and still higher, and the only people that get rich are the rich." Some portions of the stock market are going up. The Dow is going up. The Dow consists of 30 stocks. The NASDAQ, which consists of substantially more, is not going up nearly as rapidly as the Dow. Now consider the Russell 2000, which consists of 2,000 companies down at the lower level that are not in the Dow, that are not in the Standard and Poor's 500. This index of companies where the entrepreneurs are investing their money, and where the real new job growth in the future is going to come, is down substantially.

The Russell 2000 index hit its peak in January of this year at around 370. It is now down to 340. If that drop were on the Dow rather than the Russell 2000, we would have financial analysts jumping out of windows, saying, "Look how much trouble we are in."

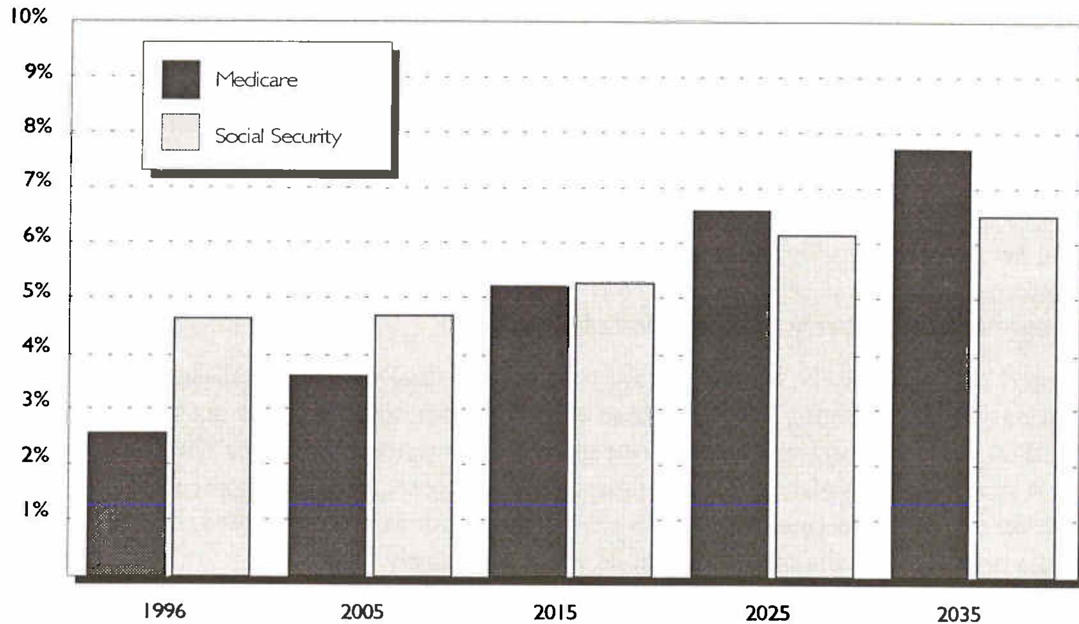
What all this tells us is that people are taking their money out of entrepreneurial activity and putting it into the huge stocks that they think can weather the coming storm. If we were to do something about the capital gains tax rate, people would be willing to put their money into the entrepreneurial sector of the economy, and we would be building a base for future growth in GDP. That would be enormously beneficial for us in the long run.

To return to my example, the first person said to the CEO, "Raise prices." I say yes, there are places where we can raise revenue in the government, even now. The second person said to the CEO, "Cut prices." I say yes, there are areas where we can cut tax rates and get benefit, where it is not dessert; it has just as much nourishment as spinach and probably tastes a good bit better.

The third expert said to the CEO, "Increase your spending, because you have an aging plant and aging equipment." The fact is, we need to increase spending in the government in some areas. Our highways are in trouble; our airport and airway system could use some infrastructure spending. We are taking the money that is in the trust funds for both of those functions and spending it for something else. I think we need to take a long look at places where we are being penny-wise and pound-foolish in the long term as far as some spending initiatives are concerned. I know that to some this sounds like heresy, coming from someone on the Republican side, but it is sound management and for the good of our country.

Finally, we come to the fourth recommendation that was given to our CEO, and that we hear around Washington a great deal: "You have to cut spending." The answer is yes, we clearly have to cut spending, and the cuts must include spending on mandatory programs. Chart 10, the best estimate we have, demonstrates the challenges we face in dealing with our two largest entitlement programs: Medicare and Social Security.

In the first 1996 set of bars, you see that Medicare (the black) is between 2 and 3 percent of GDP; Social Security (the gray) is between 4 and 5 percent. Ten years later, in 2005, Social Security remains stable, right about the same place; but Medicare, if nothing is done to deal with it, will have grown significantly. Then go out 10 years more. Social Security has now grown fairly significantly, and Medicare has caught up with it. In 2025, Social Security has grown again, very



dramatically, but Medicare has outstripped it. In the year 2035, Social Security has grown some more, and Medicare is going way past it.

I will not be here in 2035, but today's young people will be at the height of their earning years, and they will be facing entitlements—in these two programs alone—which will eat up 15 percent of GDP.

Remember the line on revenues on the previous chart: 19 percent of GDP. That is all we get with our tax system. If 15 percent of GDP goes to two programs alone, that means there will be nothing left for anything else. And as the debt goes up as a percent of GDP, interest becomes an increasing problem. You quickly will be at the point in these years—the years in which these young people will be looking for jobs or hoping to support families—in which the government will not have any money for anything other than entitlements. That is the future if we do not do something to get this under control.

This is not a speech to lay out detailed solutions. It is an attempt to put the debate in the right context, to get it out of the context of the family sitting around the kitchen table. Nonetheless, we can touch on solutions in general terms.

We have seen that we must get entitlements under control or we cannot solve this puzzle. I would be willing to vote for means-testing of entitlements—for changing the definition of an entitlement, if you will, to this: "You are entitled to this money if you need it. The government is holding it for you; and as soon as you need it, the government will give it to you." Instead of

saying, "You are entitled to Social Security payments, Ross Perot; you are entitled to Medicare, Donald Trump," I would say, "Ross Perot, if you ever fall on evil times, Medicare will be there for you. Donald Trump, if you ever go back into bankruptcy, you can draw your Social Security check, absolutely. You are entitled to it if you need it."

Another issue we have to face is the question of cost-of-living adjustments. Built into this projection (Chart 10) is the assumption that the present cost-of-living adjustment formula is accurate and fair. The Boskin Commission has looked at that and says the cost-of-living adjustments are overstated by at least 1.1 percent. There are many people on both sides who say that, politically, it would be crazy to try to do something about the way cost-of-living adjustments are calculated; let us just leave it as it is. The numbers say we cannot leave it as it is; we have to deal with reality.

Social Security is a wonderful program. It was put in place in the 1930s. Medicare is a wonderful program. It was put in place in the 1960s. We now live in the 1990s in an entirely different economy, facing an entirely different kind of future.

I suggest that, ultimately, what we want to do, as we deal with the challenge of our budget and our nation's fiscal sanity, is take a clean sheet of paper and say, "The tax system that was designed 60 years ago no longer meets our needs; let us write a new one. The retirement program that we put in place for our senior citizens 60 years ago no longer meets our needs; let us write an entirely new one. The health care plan we put in place for our senior citizens 30 years ago no longer meets our needs; let us write an entirely new one."

Let's see if we cannot, as good managers, devise systems that will take care of the poor, take care of the elderly, deal with the challenges of the flow of capital in our country, and at the same time see to it that we get back to the rate of growth that we enjoyed during the Reagan years, while holding the spending down.

All we need to do is see that the economy grows more rapidly than the government does. That is all we need to do. That has to be our lodestar.

We do not have to freeze the government. We do not have to dismantle the government. All we need to do is say that we will follow policies that cause the economy to grow more rapidly than the government will grow. When that happens—once the economy grows more rapidly than the government—the debt will start to come down as a percent of GDP in peacetime, as it historically has, and our children can have confidence that we will have discharged our governmental stewardship intelligently.

I hope those who disagree with me will respond. But I hope their responses will be in terms of intellectual analysis and fact rather than political sloganeering. The issue is too important to be left to sloganeering and posturing for the 1998 elections. The issue has to do with generations of our children and grandchildren yet to come. We owe it to them to do more than shout political slogans to each other; we must address this issue on the basis of the reality of where we are and where it is that we can go.