



Executive Memorandum

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HOW TO SUSTAIN PROSPERITY IN AN ERA OF BUDGET SURPLUSES

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The United States is enjoying the longest peacetime expansion of the economy in its history, and with it a record surge of tax revenues that has lifted the federal budget into surplus. The question of what to do with this extra revenue consumes public discourse. How the Congress and the President choose to use the surplus can, in fact, undermine the very prosperity that produced it.

Washington should not launch new entitlements or other spending, as the Administration seems determined to do. Many experts warn that the economic boom may not continue to sustain such new spending. The more prudent course would be action now to (1) hold down spending and establish priorities while eliminating waste and inefficiency, (2) reduce taxes and expand global markets through free trade to provide a foundation for continued growth, and (3) use the extra revenue to modernize and strengthen Social Security. Americans want to see this level of prosperity sustained for many years to come. Washington must take steps to make sure that this happens.

Today's robust economy has little to do with what the federal government is doing and more to do with what it is not doing. The high-technology sector—a sector that has remained largely untouched by government—is the real driving force behind the record growth. But as this new sector gains momentum, bureaucrats seem eager to impose new regulations and to keep taxes high. This will siphon off resources that could create new jobs and

increase wages and retirement income.

In addition, while Americans worry about the long-term viability of Medicare and Social Security, the President proposes to squander some \$2 billion of next year's surplus on pork-barrel, high-technology projects and at least an additional \$22 billion next year to launch new entitlements and programs. This is the quickest way to jeopardize future economic growth.

The budget surplus, which could run as high as \$4.2 trillion over the next 10 years, cannot continue without leadership from Washington. There is no better time than now to make the right decisions to help American workers and businesses invest in the future and to get federal spending under control. Specifically, Washington should:

- **Hold discretionary spending in fiscal year (FY) 2001 to FY 2000 levels.** The federal government operates too many programs and wastes too many tax dollars. Since 1990, entitlement

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spending has surged, and non-defense discretionary spending has increased by more than 50 percent. Now the White House and Congress want new programs and entitlements. Although it is politically easier to make new commitments during good economic times, supporting them during economic downturns is costly and painful. No sensible parent who has earned overtime pay this year would use that extra income to purchase a larger house and mortgage and risk putting the family on the street when the overtime pay dries up. Congress and the President should be no less responsible.

Projected surpluses are just that—projected. Irresponsible spending habits and a slowing economy can easily cause them to evaporate. If Washington allows non-defense discretionary spending to rise as fast as it has over the past three years, projected surpluses could be eliminated entirely. To protect and sustain the strong economy, Washington should act during this temporary budget breathing space to avoid future deficits and fund appropriate federal priorities, such as a strong military.

- **Lay the foundation for continued economic growth and opportunity with tax cuts and the elimination of trade barriers.** As every successful business knows, it is precisely when sales revenues are high that investments must be made for the future. An era of surpluses is the time for Washington to encourage business to create the next wave of products and jobs. This means taking such steps as ending the double taxation of savings, reducing capital gains taxes, ending the pernicious death tax, and removing trade barriers. Government also should encourage Americans to save for the costs associated with raising children, retirement, long-term care, and other family obligations. This means such things as repealing the marriage penalty, expanding individual retirement accounts, and providing other tax cuts to empower Americans with more resources and the freedom to choose their own priorities—such as saving or paying for education and health care. Enacting these tax cuts would still leave a majority of the sur-

plus for other purposes.

- **Protect and reform Social Security.** Workers should be free to plan for their retirement income by placing some of their Social Security payroll taxes in private investments. Social Security's trustees have said that the program will not have the projected funds it needs to pay all the promised benefits. Most young workers will get a meager retirement income in return for the taxes they pay into the program. A portion of the surplus could be used to ensure full funding of promised benefits while giving younger workers the option of putting some of their payroll taxes into personal retirement accounts.

The right way to shrink the debt burden. Some policymakers suggest that the surplus should be used to pay down the national debt. This seemingly sensible suggestion would be a mistake, both strategically and economically. Any effort to pay down the debt inevitably will be thwarted by the tendency of politicians to spend every available dollar. The best way to pay down the debt is to keep the economy growing through such steps as reducing taxes and reforming Social Security.

In fact, the best option is Social Security reform. The program is running a long-term deficit in today's dollars of nearly \$20 trillion. Allowing workers to place some of their payroll taxes into private accounts would reduce that long-run deficit dramatically, since they would retire with bigger nest eggs.

Conclusion. Reckless spending will jeopardize the nation's future prosperity. Today's surplus offers Washington an opportunity to address some of America's most pressing needs by giving families greater control and choice about their resources devoted to health care, education, retirement, and personal and community responsibilities.

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