

Fiscal Cleansing: The Unheralded Economic Accomplishment of George W. Bush

by Steven F. Freeman

Democrats have predictably charged the Bush Administration with economic mismanagement. Sadly, they often focus on the President's single greatest, but least understood, achievement: record deficits leading to \$7.3 trillion national debt.

National debt may seem irresponsible because we falsely analogize to family debt, picturing for example, an unendowed family running up debt to enjoy the good life, rather than accept their station in life. The US, however, is not a family, but rather a hierarchy of families, some debtors and others, debtees. National debt helps to clarify the distinction.

Moving beyond misleading metaphor, the Bushes and Cheney, like Reagan before them have been divine

receptacles of five insights that have instituted a fundamental cleansing of our economic system:

➤ **Insight #1: We are not in Debt; the Government is**

Most government debt becomes obligations to wealthy Americans, those of us who have proven that we know what to do with money. In the right hands, debt is a win-win-and keep-on-winning proposition. By cutting taxes, generously funding contractors, and borrowing, Bush has let us eat our cake, given us a new one, and promised to keep replacing it! We get the contracts, keep the money we would otherwise pay in taxes, and the \$7.3 trillion debt serves as a black hole sucking up money so that we earn more on our capital regardless of where we put it. Moreover, debtors pay more for

capital, restricting competition from would-be start-ups. And just in case a future populist is tempted to forego payment, US treasury bonds are backed by federal assets including national forests and wildlife preserves.

➤ **Insight #2: Government Debt is Good**

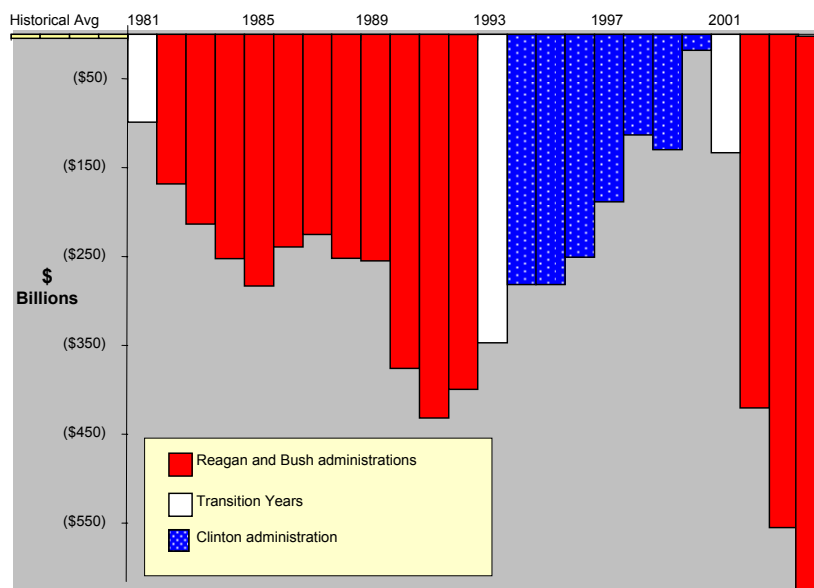
With money in our hands, we can do exactly as we see fit, which is not the case if it is in the hands of future politicians. Americans have often elected representatives ready and willing to spend public money for essentially private matters such as education, welfare, election reform, and health care. Had it not been for crushing interest payments on the debt, who knows whether the Clintons' misbegotten attempt to establish national health care could have been defeated?

Of course, we don't have *all* the money. Some critics question the consequences of the Chinese, for example, holding \$1 trillion of US debt. But Chinese businessmen know what they're doing, running productive factories paying wages under \$2 dollars a day (and a day's work in China means a real day – 15 hours). Chinese government has proven equally capable. When students were too free with their thoughts, the government forcefully and remorselessly took control of the situation at Tiananmen Square.

➤ **Insight #3: Work is Good**

Liberals unhappy with current spending cry that today's kids and

Annual Budget Deficit under Reagan, Bush, Clinton & Bush II



A Brief History of the National Debt

For most of its history, the US carefully husbanded its debt, often taking pride in the contrast between responsible US government and profligate Latin regimes. Despite Revolution, Civil War, two World Wars, Korea, Vietnam, the Cold War and dozens of smaller military escapades around the world, after 198 years of nationhood, the national debt in 1974 was under \$500 billion -- an apparently large number but one we now realize is small in comparison with national borrowing power.

In the aftermath of Watergate, the national debt "ballooned" with average annual deficits of \$80 billion under President Ford and \$74 billion under Carter. Ronald Reagan ran in 1980 on a balance-the-budget platform, famously decrying a national debt then approaching \$1 trillion (enough \$100 bills, which if stacked in a single pile, to reach all the way to the moon.)

Once in office, Reagan did not let rhetoric interfere with policy; by his second year in office, the deficit reached \$150 billion and continued to grow to over \$250 billion annually. Bush Sr. outdid even Reagan; increasing the national debt by \$1.4 trillion in his single term.

During the Clinton administration, deficits steadily declined; despite having to pay \$360 billion annually just in interest on the debt, Clinton balanced the budget in fiscal year 2000. In 2001, the current Bush administration promptly reversed this trend, producing torrential deficits that dwarf even the floods of red ink produced by his father.

future generations will have to work to pay the debt. Please, So now work is bad? Look to the Kennedys and Clintons to see what happens in its absence: Drugs, crime, sex... or worse, politics. Kids, like other debtors, should be thankful if they have a job. (If not, why all the complaints about jobs being outsourced to India? ☺)

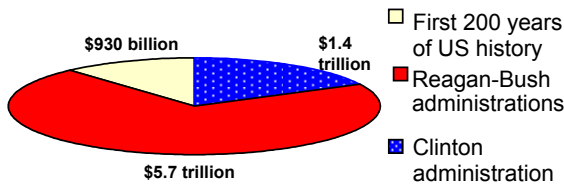
➤ **Insight #4: A Good Party Deserves a Good Party**

There's nothing inherently wrong with the good life—for those entitled to it—nor a party, when celebration is in order. Long ridiculed as knaves and fools even among Republicans, Conservatives *deserved* to celebrate their hard fought victory in 1980. Even more so, after managing to snatch the prize in 2000. Halliburton and other military contractors may be well paid now, but most suffered relatively flat earnings during the eight long years when Clinton failed to expand military contracts.

Once we appreciate the Bush-Cheney-Reagan insights into deficit spending, we can begin to appreciate their accomplishments. Many US problems of the past half century are directly attributable to **too low** a national deficit. The US could establish a GI Bill, Medicare, Medicaid, and Social Security only because government assets exceeded liabilities. Johnson's Great Society with its Pandora box of civil rights, women's rights, aid to education and other giveaways could be launched only because the national debt in 1965 was a paltry \$310 billion (far less than the current *annual interest* on the debt).

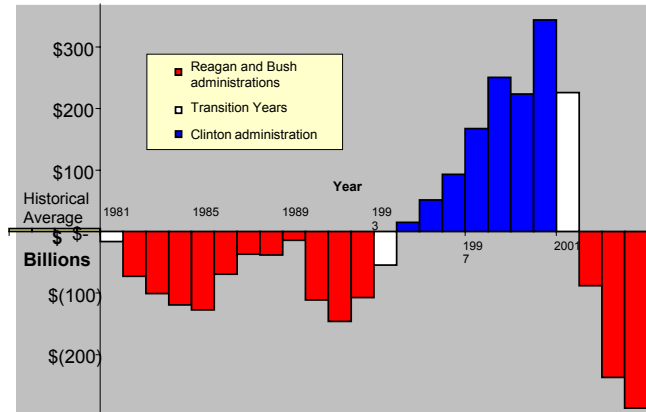
Such initiatives were checked during the Clinton administration and will be held in check for the foreseeable future thanks almost entirely to Reagan-Bush stewardship. These 16 years will have generated six times as much national debt (\$5.7 trillion) as the first 200 years of US history!

Portion of National Debt attributable to:



Even the Clinton administration's \$1.4 trillion is more appropriately attributable to Reagan-Bush. During Clinton's eight years, the federal government paid 2.8 trillion in interest on the debt; \$2.2 trillion of that was directly attributable to Reagan-Bush deficits. Had it not been for these interest payments, Clinton *surpluses* would have paid off *in full* the \$1 trillion pre-Reagan national debt.

Annual Budget Surplus/Deficit (minus Interest Expense)



The reader may imagine it's easy to spend more than you earn and leave others to pay. But consider the challenges the Bushes faced. It's easy to justify debt by pandering to the poor, or when faced by a real enemy like Hitler or Stalin.

Bush Sr., however, recorded the greatest deficits ever produced by *any* organization in world history, despite the collapse of the Warsaw Pact and the Soviet Union, and none of it went to further the welfare state.

Impressive as this may be, his greatest contribution was still to come – through his progeny. W is the Barry Bonds of deficit spending. He smashed his dad's four-year record in less than three years, while *eliminating* programs for the down-and-outers. And in 2004, W will again break his own single year record.

Like a man on a double dose of super-steroids, W has already cleaned out all the gold in Fort Knox (\$60 billion worth) 29 times over. Another term of fiscal cleansing and those coffers won't ever be replenished. Indeed, W may have found the "final solution" to public spending. With four more years, he will have so thoroughly picked clean the bones on the American eagle that she may never untowardly soar again.

Steve Freeman is on the faculty of the University of Pennsylvania Center for Organizational Dynamics; his expertise includes creativity, innovation, and resilience in work and organization.