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WHO GAVE US THE SURPLUS

"Since you get blamed for a lot of bad things you didn't do, you might as well take credit for some of the good things you didn't do," is sage political advice. I do not know how much President Clinton and Al Gore were blamed for things they did not do, but their own numbers show they are taking credit for a budget surplus they "didn't do" and that totally surprised them.

In 1993, shortly after the Clinton/ Gore administration took office, they made their first five-year budget projection. This projection was based on the tax and spending programs the administration was proposing. They told the American people the Clinton-Gore policies would likely result in a budget deficit of $202 billion in 1998. In 1995, they made their last projection before the congressional Republicans took at least partial control of the budget process. They were still projecting yearly budget deficits of approximately $200 billion through fiscal 2000, even though they had obtained their tax increase in 1993.

This past week, Mr. Clinton announced they now expect the budget surplus for fiscal 2000, which just ended, to be $230 billion. Now that is a swing of more than $400 billion, or more than 20 percent of the federal budget.

Politically smart Republicans running for the House or Senate are claiming these figures prove the budget surplus was their doing. Given that expenditures for fiscal 2000 were a bit more than $100 billion less than the earlier Clinton-Gore projections, the Republicans can justifiably take credit for a substantial portion of the budget surplus.

The remaining part of the budget surplus, about $300 billion over the earlier Clinton-Gore estimates, came from an unexpected increase in tax revenues. These unexpected tax revenues came primarily from increased payroll receipts, a surge in tax receipts from the elderly withdrawing money from their IRAs, and an approximately fivefold increase in capital gains tax receipts, despite (and in truth, because of) a drop in the capital gains tax rate which the Republicans had pushed.

What these errors clearly demonstrate is that the Clinton-Gore administration did not understand what was happening in the American economy or why. In part, they may have started to believe their own rhetoric, and that may have muddled their thinking. Mr. Gore and some of his parrots in the news media keep talking about the "deep recession" they inherited. Such statements are no more factual than the cost of his dog's and mother-in-law's pills. The real fact is the U.S. economy has had real growth every year since 1982, with the exception of a tiny 1.2 percent dip in 1991, by far the longest growth run in American history. There were three down quarters, the last two quarters of 1990, and first-quarter 1991. When Clinton-Gore took office, the mild recession had been over for almost two years.

Clearly something happened eighteen years ago that fundamentally altered the U.S. economy for the better and, to this day, is providing dividends. That change was a sharp reduction in the cost of labor and capital, primarily because of the steep cut in marginal tax rates and improved depreciation allowances, coupled with the end of high rates of inflation. These policies and the reductions in capital gains taxes unleashed the shackles that had bound entrepreneurs and venture capitalists. The high-risk investments of the entrepreneurial class are now providing the surge in productivity that is resulting in both rapidly rising living standards for most Americans and the surge in government revenue. Could the computer, information, communications revolutions have made the same progress under the old policies? Clearly, no.

The big deficits of the 1980s were primarily a result of the collapse in inflation and the necessary increase in defense spending which, in part, ended the Cold War. Reviving incentives to work, save and invest, ending inflation and the Cold War, by any measure, were well worth a temporary and non-destructive deficit. We now are enjoying and benefiting from these policies of the Reagan administration. Remember all those who laughed when Ronald Reagan, Jack Kemp and their allies said we would "outgrow the deficit"? Where are the apologies?

The irony is that Al Gore is claiming credit for the results of, and is the beneficiary of, policies that he opposed — he voted against the Reagan tax cut in 1982, which reduced the maximum tax rate from 70 percent to 50 percent — and still does not seem to understand. The amount of any future surplus is highly dependent upon future economic growth rates. We know the economy is more likely to grow faster when the high marginal tax rates on work, saving and investment are reduced. The Bush tax plan reduces these tax disincentives, while the Gore plan, relying primarily on targeted tax credits, does not. The Clinton-Gore administration forecasting errors primarily came from the fact they treated variables (i.e., the relationship between tax rates and the incentive to work, save, invest and take economic risks) as constants, a conceptual mistake that continues to characterize the new Gore tax and spending plan.

Perhaps the voters would be better off listening to those economists who largely got it right for the past couple of decades, such as the supply-siders, including former Reagan budget official Larry Kudlow and the Cato Institute's Steve Moore, who both had been predicting the surplus in their columns.

In reality, it was the American entrepreneurs, investors, and workers who were able to perform the economic miracle that resulted in the budget surplus, once the foot of government was slightly raised from their windpipes.

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