

THE GRASS ROOTS AGAINST DEFICITS*Republished
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President Reagan may well go down in history as the last great Keynesian. His administration has increased the Federal Government's share of United States Gross Domestic Product from 22.4% to 24.6% and he has financed this increase by borrowing to finance a huge budget deficit after reducing taxes. This policy has been associated with a sharp turn around in economic activity from moderate recession to excellent growth. In the USA, the deficit was associated with ^a falling real wage level and relatively free factor markets. Keynes envisaged markets which were responsive to demand conditions. Markets so stuffed up by government regulation that they do not convey signals to the unemployed capital and labour ~~that they can now profitably compete with the currently employed factors~~ were never part of Keynes' scheme. Market destroying regulation must be attributed not to Keynes but to the post war Neo-Keynesians.

While Reagan has provided circumstantial evidence that under the right circumstances a Keynesian stimulus stimulates, many Americans are now asking if in the long run, when all the deficit has been repaid, whether it will have been worth the price. If creating a public debt stimulates, it is very likely that servicing that debt depresses. It was no part of Keynes' plan to have one deficit piled upon another; that too is a Neo-Keynesian aberration.

In Australia we have experienced something similar. The last Fraser budget and the first Hawke budget were, in the Keynesian sense, stimulatory. They did not cut taxes but they did increase real outlays by 6.3 and 7.2 percent respectively, sharply increasing the deficit. The wages pause caused real earnings to fall. The effect of the breaking of the drought cannot be eliminated even by putting farm product to one side but after reasonable allowance is made for the weather we are left with further circumstantial evidence of a Keynesian stimulus. What we don't know and cannot tell in either case, is what would have been the consequence of falling real wages alone, without government borrowing.

Increasingly rank and file Americans are worrying about the growth of their government and its continual resort to deficit budgeting. Opinion polls show that huge majorities favour a Constitutional amendment which would force the Federal Government to balance its books and prevent it absorbing larger shares of national expenditure. The politicians aren't so sure this is a good idea. It isn't the first time I have marvelled at the superior gut wisdom of a democratic electorate. (Yes, including the one that tossed me out of parliament.)

If the people want smaller and balanced budgets we might expect Congressmen to give them what they want and claim their votes; however they know that they will not win votes. Expenditure in its nature is concentrated on each of many interest groups whose members gain much from a class of government payment and they will punish congressmen who do not support that payment. They have less at stake in tax savings that result from reducing individual programmes. The only hope that Presidents and Congressmen have of gaining votes is to reduce most programmes simultaneously handing back really big tax cuts. Such widespread cuts are politically and administratively too much for one budget.

In an Australian context consider the behaviour of the Liberal and National Country Party Premiers to the Fraser Government. (These Premiers all called for smaller government and lower taxes while demanding larger States grants in general and specifically for each State.) The inconsistency of their individual positions must have been obvious to them but none was prepared to accept a smaller grant for his State lest other States and other programmes did not share the restraint. As a consequence, during the seven Fraser years, the States' outlays as a proportion of total GDP grew from 20.0% to 22.2% or 2.2 percentage points while the Commonwealth's outlays grew from 30.2% of GDP to 31.8% or 1.6 percentage points.

These Premiers had the gall to castigate Fraser for the taxes he was raising -for being too socialistic. Fraser was too socialistic but they were even more so. It is a measure of the political power of Premiers that their hypocrisy went largely unremarked and the Commonwealth was not prepared to cut States grants as it undoubtedly should have done. There is a built-in bias toward bigger government which so far has defied a general desire for less.

If deficits resulted from carefully considered attempts to manage demand they would be interspersed with budget surpluses. The fact that they are not reflects politicians' attempts to buy votes now with their children's taxes. Although deficits may be rationalised by reference to Lord Keynes they are little more than evasion of political responsibility.

In the United States grass-roots opinion is coming close to forcing their Federal Government to take the first step toward amending their Constitution to limit the growth of government and enforce budget balance. The first step must be the calling of a Constitutional convention. Thirty-four States (over two-thirds) can demand a convention and thirty-two have so far petitioned Congress for it.

Playing it tough, Washington has warned that States Grants will be among the casualties and some State officials are reported to be getting cold feet. Several bodies representing people who get large taxpayer support are actively working against the amendment. But four States, California, Washington, Ohio and Montana, which have not yet petitioned, allow voter initiatives. In those States the pro Constitutional amendment lobby can appeal over the heads of the State Legislatures to the people. This is where the effort is now concentrating.

The proposed amendment would prevent fiscal but not monetary means of conducting responsible demand management. But politicians in almost every Western Democracy have demonstrated that they cannot be trusted to use the fiscal tool responsibly. They seem to be far more concerned with the electoral cycle than the business cycle.

The amendment would make it easier for politicians to say No. Pressure groups, unable to squeeze the taxpayer, would then be pitted against each other for shares of a cake that everybody knows is finite. The bias towards bigger government would go. Bigger government would not be impossible but it would no longer be an accidental consequence of the system. A conscious decision would first need to be made.