PERSONALLY SPEAKING

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TWO PARTISAN PROPOSITIONS ON ECONOMIC AFFAIRS: DON'T BELIEVE EITHER ONE

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Paid partisan strategists are pushing two propositions regarding economic affairs in the run-up to the midterm elections to make their party and its candidates look good by making the other party and its candidates look bad. The first is that the Bush presidency squandered the budget surpluses achieved at the end of the Clinton administration. The second is that the wages of American workers "flat-lined" during Bush's service as president. Though offered emphatically as true, both propositions are false.

For FY 1999 President Clinton submitted a balanced budget in which a $95.7 billion *on-budget deficit* was more than offset by an *off-budget surplus* of $105.3billion. The off-budget surplus originated principally in Social Security. The $9.5 billion left over was assigned to a "reserve pending Social Security reform." For FY 2000 Clinton proposed a budget with a $167 billion surplus most of which also originated in Social Security.

In like manner Clinton proposed a FY 2001 budget with a $184 billion surplus based chiefly on a projected surplus in the Social Security trust fund. His FY 2001 budget message is so optimistic about future economic developments that he forecast the total elimination of the *debt held by the public* by 2013. He proposed doing this by using future Social Security trust fund surpluses, estimated at more than $3 trillion, to purchase the debt held by the public. His proposal would *transfer* debt from one account to another, from (a) debt held by the public to (b) debt held by government agencies which is "money the government owes itself." It would do absolutely nothing to reduce the public debt outstanding.

Clinton's proposal lays a trap, perhaps intentional, for future presidents who would look fiscally irresponsible if they do not follow through with his proposal. Eliminating the debt held by the public was no mere aside. It was stated 12 times in his budget message. One of the assumptions made in support of this debt reduction sleight of hand was that unemployment would not rise above 5.2 percent through 2010.

When the books were closed on FY 1999, the *actual* surplus of $125.5 billion was attributable almost entirely to the operations of the Social Security program. In 2000, the *actual* surplus amounted to $236.4 billion of which 149.8 billion came from Social Security. In the following

year, the $127.1 billion *actual* surplus was achieved through a $160.5 billion surplus in Social Security.

At the same time, the public debt outstanding climbed by $251.2 billion to $5.8075 trillion. There is only one way in which the public debt outstanding increases – more Treasury securities are issued than redeemed. And the Treasury issued more securities during this period because on-budget tax revenues were insufficient to cover on-budget government expenditures.

	SURPLUS			PUBLIC DEBT OUTSTANDING
	Budgeted	*Actual*	Social Security	
	(billions of dollars)			
FY 1999	$ 9.5	$ 125.5	$ 123.7	$ 5656.3
FY 2000	167.0	236.4	149.8	5674.2
FY 2001	184.0	127.1	160.5	5807.5

The first partisan proposition is based on creative accounting. In Washington this spin is business as usual. The Treasury Department's own published data on the public debt outstanding indicates that there has not been a real budget surplus since Eisenhower's second term.

Regarding the second partisan proposition, the Bureau of Labor Statistics reports that productivity climbed by 18.8 percent between 2001 and 2008 and at the same time real hourly compensation at all nonfarm business establishments rose by 7.1 percent. A7.1 percent increase in real hourly compensation means that the typical person working year round full time who was paid $30,000 in 2001 was earning $32,100 in inflation-adjusted dollars in 2008. Year-round, full-time employment rose by 3,621,000 between 2001and 2008.This performance hardly qualifies as "flat-lining."

A rise in productivity makes possible increases in real hourly compensation without raising prices because productivity holds down the cost of production thereby producing gains to be shared among the factors of production. In 2001-2008, the gains in large measure went to other factors of production including interest, dividends and rent that account in part for the widespread increase in stock prices during this period. Some of those gains in stock prices were shared with wage-earners through expanded participation by Americans in the stock market either through their own personal portfolios or their stake in pension funds that were invested in financial instruments. A $20,000 annual pension today is the equivalent of holding a $1,000,000 income-generating asset with a stated annual return of two percent. It would take a $2,000,000 income-producing asset to replace that pension if the asset returned one percent. By keeping interest rates low, the Federal Reserve in effect has increased the value of worker pensions.

The lesson for the wary voter this fall is to fact check any claim made by a candidate for public office or his/her backers. Even a budget deficit that forces the Treasury Department to borrow more can be made to look like a budget surplus. With the high-stakes mid-term elections only six weeks away, partisan strategists are likely to pull other creative-accounting propositions out of their bag of dirty tricks.

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