



## Blessed Debt

**S**hould we cut taxes or pay off the national debt?

What's missing from this picture?

Aside from the fact that paying off the debt need not be a priority (there is no connection between the debt and economic growth), the question is a classic case of the Fallacy of the False Alternative.

If we accept for argument's sake that the debt should be paid off at once, there's a way to do it *and* cut taxes? And it doesn't take magic. It's really quite simple.

The way to do it is to (houselights out, drum roll, spotlights wash the stage):

Cut government spending.

Duh.

Aside from a congressman or two, apparently none of your brilliant, highly educated, extravagantly paid, and securely tenured representatives in Washington—Republican or Democrat—thought of that. Kind of makes you wonder what you're paying them to do, doesn't it?

The federal budget is closing in on \$2 trillion a year—nearly 20 percent of GDP. (Tax revenues are at a record 20.4 percent.) The government is so big, no one can possibly know all that it is doing. In the nation's capital every nook and cranny has an office with federal bureaucrats ladling out your money to some favored constituency for things you'd never dream of spending your money on yourself.

And yet: every penny is apparently being so

wisely spent that we cannot even consider cutting the budget, even for something allegedly so important as paying off the debt. Not only that, the 106th Congress, controlled by Republicans, thought *too little* was being spent. So they increased spending by even more than Bill Clinton had asked!

This is all just a bit too convenient. The taxpayers—remember them? the people who produce whatever the government has to spend?—can go without relief indefinitely. But do not ask the politicians, bureaucrats, and their dependents to forgo even a buck out of two trillion. Forgo? Heck, don't even suggest they make do with what they had last year!

And let's not hear yet again that everyone is for tax cuts, but responsible ones would be "targeted to those who need them." Those aren't tax cuts; that's social engineering through the IRS.

There's always a reason for not cutting taxes. A few months ago the reason was that it would overstimulate the booming economy. This is long-debunked Keynesian claptrap. Now that the economy isn't booming quite so much, the story is that the tax cut will do *nothing* to stimulate the economy in time. We don't need tax cuts: we have Alan Greenspan. When exactly *is* it time to let people keep what they produce?

The main reason to cut or repeal taxes isn't economic—it's moral. The money belongs to its producers. The taxpayer should get first—not *nth*—consideration. That is true in good times or bad. Full stop. End of paragraph. End of story.

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Most Washington folks don't see it that way. To them, cutting taxes is merely another form of government spending, competing with all the other forms of government spending. From this perspective, an income-tax cut that would "give" rich people—the same people who pay most of the income taxes—more money than poor people—who pay little or no income tax—is bad policy because the rich don't need the money. ("To each according to his . . ."—well, never mind.)

The implications of this outlook are astounding. If cutting a tax is equivalent to spending that money, then it must be true that the government is also spending whatever money it does not *now* take from the taxpayers. After all, it *could* have taxed that money and used it in other ways.

In other words, the government's real budget is the entire Gross Domestic Product of the United States—more than \$9 trillion. The government owns all the income, but the amount it spends in the form of tax forbearance is subject to change at any time.

## Dubious Credibility

The big-government types who suddenly care about the national debt have dubious credibility. They don't really care about it. It has value to them in only one respect: it can be used to stop tax cuts. Let me amend that. They have another reason to hate the debt. They drool at the social engineering they could be doing with the money—about \$200 billion a year—that now goes to paying interest.

And that means there's a darned good reason to maintain the debt. During the Reagan years, when the government was running up record deficits by outspending the revenue gusher, no one could seriously propose big new spending programs without being dismissed as out of touch with reality. When F. A. Hayek visited in Washington in the early 1980s he told the *Washington Post* that this was the strategy explained to him by Reagan

budget director David Stockman. Whether or not that was actually the strategy, deficits had a blessed chilling effect on those who live by spending other people's money. Surpluses have the opposite effect.

Clearly, we taxpayers cannot afford surpluses.

We need not feel guilty about not paying off the debt. The holders of debt aren't complaining. Also, we are not "stealing from our children," as conservatives used to say. For one thing, you can't steal what won't be produced until many years from now. Moreover, government borrowing consists not of an intergenerational transfer of wealth, but of two separate *intragenerational* transfers. When the debt is first incurred, money goes from creditors to government workers, dependents, and contractors. When the debt is paid, money goes from taxpayers to bondholders, overlapping groups.

Thus, while it is true that government borrowing—especially repayment—is a form of coercion, it is little different from other forms of government coercion. There is certainly no reason to prefer other forms over this one. On the contrary, interest payments are less mischievous than other forms of government spending.

So let's bring back deficits and protect the debt. The economy can do just fine with them. Interest rates are higher now than when we had deficits in 1993. (See Russell Roberts's "Don't Fear Deficits" in the December 2000 issue.)

But not all deficits are equal. It would be a mistake to create one by raising spending. Let's cut spending, but create deficits by cutting taxes—big time.

To that end, I proclaim the founding of the Committee to Restore the Deficit through Tax-cutting (CRDT, pronounced "credit"). Like the venerable Nockian Society, there'll be no dues, meetings, or officers. All you have to do is recite the motto: Tax Cuts Now—Debt or No Debt!

There, you're a member. Now get out there and find new members. □

# Overreacting to Terrorism

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by James L. Payne

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**I**n politics, said Gustave Le Bon, things are less important than their names. His dictum applies with special force to the word “terrorism,” especially today. The impression is, of course, that something called terrorism has to be, almost by definition, terrifying. A sensible analysis needs to move away from this semantic trap and examine what the word “terrorism” refers to, namely, politically motivated violence.

Once we focus on the thing itself, we discover a wide gap between perception and reality. Policymakers believe that domestic terrorism represents a major threat to American society, and they have launched costly new programs to hold it in check. In actuality, as threats to civilization go, politically motivated violence has not been a large problem to begin with, and in recent years it has been diminishing markedly. According to the FBI’s tabulation, the number of incidents of domestic terrorism peaked in 1982 with 51. Since 1993, which had 12, the number of incidents has remained in the single digits.

This is not to say that terrorism is no problem. The most serious case on record, the 1995 bombing of the Murrah Federal Building in Oklahoma City, killed 168 people. The typical terrorist incident is much less dramat-

ic, however. For example, in 1998, the latest year for which the FBI report on domestic terrorism is available, there were five incidents: three bombings in Puerto Rico, one of which injured a police officer; a case of arson in Vail, Colorado, that caused no injuries; and a bombing of an abortion clinic in Alabama, which killed a security guard. In the same year, the United States saw 16,900 “ordinary” homicides.

It may be that terrorists haven’t actually caused much harm, but what about the hypothetical dangers of terrorists using weapons of mass destruction? Such an attack is always possible, of course, and the dangers call for prudent defenses by the respective authorities. But fears need to be tempered by the facts. Weapons of mass destruction—chemical, biological, and nuclear—have been available for over half a century, and there have been plenty of terrorists over the same time. The combination of the two has made for much profitable fiction, but very little real-world terrorist destruction. The worst case in this category was the 1995 poison gas attack by the Aum Shinrikyo sect in Tokyo, which killed 12 people. This sect, it should be noted, had funds, expertise, and manpower that no other terrorist organization seems to have. Considering all the hurdles—technical, social, and motivational—a large-scale, successful terrorist attack with weapons of mass destruction seems extremely remote.

Government officials ignore the data and analyses that reveal terrorism to be a minor

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