

BOOK REVIEWS

Red Ink: Inside the High-Stakes Politics of the Federal Budget

David Wessel

New York: Crown Business, 2012, 224 pp.

If you want a primer on fiscal policy issues that gives you an establishment perspective, David Wessel's *Red Ink* should be your cup of tea. If you thought the 1990 budget deal was a good thing and if you want something similar today, you should read *Red Ink* to have your views reinforced.

But if you want to understand anything about the economics of fiscal policy, and you get irked by mistakes that conveniently promote a more statist narrative, then you probably shouldn't read the book.

Let's start with the good news. *Red Ink* is very readable, logically organized, and it includes numerous interesting vignettes (I didn't realize that the social disaster we call Prohibition was made possible in the 1920s only because the economic disaster we call the income tax was imposed in 1913).

Moreover, if you read *Red Ink*, you will be better informed than 98 percent of the population. You will know lots of details about defense spending, tax collections, entitlement programs, and the 1974 Congressional Budget Act. I'm not sure that will make you a welcome guest at dinner parties, but at least you'll sort of understand how much the government is spending and how fiscal policy is decided in Washington.

Wessel is not polemical. There's no shrillness and you won't feel that he's trying to enlist you in a campaign. But here's the bad news: You won't have much understanding of good fiscal policy after you

finish the book. Indeed, you may be lured into thinking that the main problem is excessive deficits and that raising taxes is the “responsible” solution. Except, of course, when deficits are too small and spending should be increased.

For better or worse, *Red Ink* reflects the establishment consensus. Based on what Wessel has written, he would make a perfect press spokesman for the Congressional Budget Office, the Committee for a Responsible Federal Budget, or the International Monetary Fund.

Best of all, the press releases almost write themselves. If the economy is weak, you simply insert phrases such as “targeted spending increases to stimulate the economy.” And you’ll never go wrong if you use terms such as “revenue enhancement for fairness and balance.” The fact that establishment thinking has not worked very well—whether in Japan, Europe, or the United States—doesn’t seem to matter.

Is this an unfair portrayal? Well, let’s just examine some of Wessel’s assertions. He writes, “Today’s budget deficit is not an economic problem—tomorrow’s is.” Setting aside the fact that he’s focusing on the symptom of government borrowing rather than the underlying disease of government spending, what he’s really saying is that the right fiscal policy today is Keynesian “stimulus.”

To show this is no exaggeration, Wessel also writes, “Running bigger deficits in a deep recession and sluggish recovery is still Economics 101.” In other words, Wessel is embracing the thinking that the Obama administration used in 2009 (and the Bush administration used in 2008) to justify bigger government.

And what about the fact that the economy has suffered the worst recovery of any business cycle since the end of World War II? Wessel wants us to believe that the economy would have been in far worse shape without Obama’s so-called stimulus, asserting that “the argument that such massive spending had no impact on the economy at all hasn’t much merit.”

Presumably he would also say the stagnation of the 1930s was the result of inadequate stimulus, even though Hoover increased the burden of spending by about 50 percent in just four years and Roosevelt then doubled the budget in the next eight years. Likewise, the pervasive stagnation of the Japanese economy for the past two decades somehow would be unrelated to its dozen or so Keynesian packages.

To be fair, libertarians, small-government conservatives, and classical liberals would agree that massive government spending has an

impact. But they would argue that the impact is negative. Beyond the outlays necessary to finance core public goods, government expenditures generally undermine economic performance by misallocating labor and capital.

But it's not just the pro-Keynesian bias that makes this book disappointing. Like almost everyone else in the establishment, Wessel assumes that the nation's main fiscal problem is red ink and that tax increases should be part of any supposed solution.

That presumption is annoying for those who think good fiscal policy is achieved by reducing the burden of government spending. And it is irritating that he blithely assumes that higher taxes are the right approach when this misidentifies the problem, assumes projected revenue increases will materialize, and overlooks the incentive of politicians to spend any additional revenue.

One doesn't get the sense that Wessel is pushing an ideological agenda or that he's driven by animosity to the notion of limited government. It's more as if he's spent too much time reading CBO reports, CRFB statements, and IMF studies and doesn't realize there are alternative viewpoints.

Or perhaps he simply doesn't take those views seriously, which might be a reasonable assumption since the last two Republican presidents showed they were very capable of fiscal profligacy.

What irritated me most about *Red Ink*, though, were the mistakes, particularly since every mistake seemed to be part of a narrative that advanced a policy agenda of bigger government.

He wrote, for instance, that in the 1930s, "government spending pulled the U.S. economy out of the ditch." Yet the economy suffered a Great Depression for 10 years at a time when government spending expanded dramatically. At the very least, Wessel should offer some evidence before making that kind of assertion.

To be sure, he could make the standard Keynesian argument that the depression would have been deeper. And he could make the case that World War II was an example of successful Keynesian fiscal policy, while somehow explaining away the Keynesian predictions that a depression would reappear once wartime spending was reduced. But he doesn't do those things. He simply wants us to accept the narrative, perhaps because he has never thought to investigate alternative viewpoints.

Wessel also seems to have a poor understanding of the Reagan years. For instance, he writes, "On spending, much of the Reagan

cabinet and a good chunk of the Republican congressional leadership labored to shield their favorite programs from Stockman’s knife. And they succeeded.”

I agree with the first part of that quote, but it would be nice to know what he means by “they succeeded.” Total domestic spending was reduced by 2.5 percent of economic output during the Reagan years, a remarkable achievement given the normal tendency of government to expand.

Wessel also makes the assertion that “when Reagan turned the presidency over to George H. W. Bush, the deficit was 2.8 percent of GDP—and rising.” This is laughably wrong, as he could have ascertained by looking at the Congressional Budget Office’s *Economic and Budget Outlook* for early 1989, which showed that deficits were supposed to shrink as a share of economic output if Reagan’s policies were left in place.

As one might imagine, Wessel praises various tax increases and seems very fond of the 1990 budget deal. He writes, “The final deal cut spending by \$2 for every \$1 of tax increases.” And he favorably quotes Bruce Bartlett’s assertion that “the budget surpluses of the late 1990s owe much to the policies put in place by George H. W. Bush that his son and party later repudiated.”

Having lived through that battle, I can definitely say that spending was increased rather than decreased. Indeed, a major impetus for the deal was a desire to cancel the Gramm-Rudman law that would have imposed genuine spending restraint. The 1990 tax hike enabled bigger government than would have been the case—much as Obama tried to seduce Republicans into a tax increase to replace the fiscal discipline of sequestration.

Unsurprisingly, Wessel also says that Clinton’s 1993 tax increase “worked as promised.” Too bad he didn’t look at Clinton’s own budget 18 months later, which projected perpetual—and gradually rising—budget deficits of more than \$200 billion. The thing that changed that trajectory was the election of a fiscally conservative Congress in 1994. Those lawmakers took office in early 1995 and proceeded to oversee a four-year period where government spending grew only 2.9 percent annually. That’s why projected deficits turned into surpluses.

Even on little issues, Wessel inevitably embraces a pro-government narrative. He writes that “Medicare . . . has increased the odds that a sixty-five-year-old will make it to age seventy by about 13 percent.” Well, maybe that’s true. Life expectancy for the elderly has

increased since Medicare was created. But if he bothered to look at the long-run data, he would see that life expectancy for the elderly was increasing at the same rate in the decades before Medicare was created. This doesn't mean that Medicare didn't have some positive impact, but it certainly isn't obvious from life-expectancy data.

Let's close with one of the vignettes that make the book an interesting read. Wessel quotes Erskine Bowles, who served as President Clinton's chief of staff, saying that Social Security reform was virtually a done deal in the late 1990s: "Gingrich wanted to do it. Clinton wanted to do it. It was a real missed opportunity."

And in contrast to the undesirable options being discussed today, such as "chained CPI" or means testing, Gingrich and Clinton were looking at personal retirement accounts. So why didn't it happen? As Bowles noted, "Monica changed everything" by creating the conditions that led to impeachment and destroying bipartisanship.

So now we're stuck with an actuarially bankrupt Social Security system that is bad for workers and bad for taxpayers, thus making the incident with Monica the most costly intimate encounter that ever took place.

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The Righteous Mind: Why Good People Are Divided by Politics and Religion

Jonathan Haidt

New York: Pantheon, 2012, 419 pp.

The Righteous Mind offers a comprehensive and intriguing answer to that age-old political question, "Why do so many people disagree with me?" After all, I believe what I believe because I think the evidence and arguments are convincing. Otherwise, I wouldn't believe it. So why do others disagree?

According to Jonathan Haidt, the reason you and I can look at the same facts and come to different political conclusions is that we morally value different things. I may place much more weight on preventing harm than you do, while you have a stronger sense of fairness. Because what we value ultimately determines what we think the state ought to do, if our values differ significantly our political ideologies will too.