

## BOOK REVIEWS

### **America's Fiscal Constitution: Its Triumph and Collapse**

Bill White

New York: Public Affairs, 2014, 539 pp.

When politicians write policy books, they are often shallow affairs full of party talking points. Bill White's *America's Fiscal Constitution* is different. It is an excellent and scholarly book.

White was mayor of Houston from 2003 to 2009, a candidate in the 2010 Texas gubernatorial election, and a Department of Energy official under President Bill Clinton. He is currently chairman of Houston Banking and an advisor to Lazard. I don't know where White found the time to author a fiscal history of the United States, but he has done so in a detailed and polished manner.

White begins his history in the early years of the Republic. Debates over fiscal issues were as central to politics back then as they are now. In the 1790s, battle lines were drawn between anti-debt and small government advocates led by Thomas Jefferson and the relatively pro-debt and big government advocates led by Alexander Hamilton.

White quotes Jefferson explaining to George Washington in 1792: "This exactly marks the difference between Colonel Hamilton's views and mine, that I would wish the debt paid tomorrow; he wishes it never to be paid, but always to be a thing wherewith to corrupt and manage the Legislature." White's book generally takes the Jeffersonian side on debt.

Since 1790, federal debt as a percentage of gross domestic product has spiked during the Civil War, World War I, the Great

Depression, and World War II. There were also smaller debt bumps during other wars and recessions. In all cases, the debt was paid back steadily in the years following the crises—that is, until recently. White’s book traces the ups and downs of federal debt and discusses the politicians and economic forces at work in our fiscal history.

White’s main theme is that early American leaders developed an “informal constitution” for federal fiscal management, which he variously calls the “Fiscal Constitution” or the “American Fiscal Tradition.” The main component of the tradition is that if debt is issued during crises, such as wars or deep recessions, it should be paid back fairly promptly. During normal times, the federal budget should be balanced.

White points to other budget traditions that have served the nation well. For example, budgets should use clear accounting, an idea going back to Jefferson’s Treasury Secretary Albert Gallatin. Also, wars should be partly funded by current taxes, not just by debt. Jefferson favored a constitutional limit on federal debt, which would force politicians to raise taxes for new spending and, as one beneficial effect, help put a leash on the “dog of war.”

White argues that the general anti-debt stance of policymakers—the Fiscal Constitution—lasted from 1790 through Bill Clinton’s presidency, but then it “collapsed” during the presidency of George W. Bush. Bush fought expensive wars entirely funded by debt, and he pushed for tax cuts when the government was running large deficits.

My view is somewhat different. Bush was a fiscally irresponsible president and a big spender, but that’s true of numerous presidents since the frugal Calvin Coolidge occupied the White House in the 1920s. I’ve calculated that between 1790 and 1929 the federal budget was in surplus 68 percent of the years, but between 1930 and 2014 it was in surplus just 15 percent of the years.

So I would place the real historical divide in U.S. fiscal policy at about 1930, not 2000, as White does. Two developments during the 1930s that shifted the government toward profligacy were (1) the rise in Keynesianism, which informed politicians that deficit spending was good for the economy, and (2) the creation of “entitlement” programs, which allowed for automatic spending increases without politicians having to vote for them.

In the post-1930 era, White points to President Dwight Eisenhower for his anti-debt governing philosophy. But, while Ike

expressed concern about debt, he also ran deficits for five of his eight years in office. More importantly, Ike was a big spender. Aside from defense, total nondefense spending more than doubled during his tenure, from \$23 billion to \$48 billion.

White focuses almost exclusively on debt and deficits in assessing the soundness of fiscal policy. But there is a huge divide in federal spending policy before and after the 1930s. To steal White's phrase, a central part of "America's Fiscal Constitution" before the 1930s was low spending. From 1790 to 1929, total federal spending averaged just 2.7 percent of GDP. From 1930 to 1980, the spending share quintupled from 4 percent to more than 20 percent, and it has gyrated around that higher figure ever since.

All that said, I very much share White's—and Jefferson's—loathing of federal debt, and it is sad that so few politicians today work to reduce it. White reminds us that balancing budgets and reducing debt used to be a bipartisan affair. During the post-Civil War period, for example, the government balanced its budget every single year from 1866 to 1893.

The divide between the parties back then came on the spending side. White notes that "before the 1920s Democrats—not Republicans—were generally identified with the cause of smaller government." Republicans, for example, supported extensive spending on "internal improvements" and overly generous veterans' benefits. Meanwhile, Democrat Grover Cleveland was a defender of fiscal prudence and limited government during his two presidential terms in the 1880s and 1890s. He sought to cut spending even when the budget was already balanced.

White concludes his book with some ideas on reforming the budget process. Unlike many Keynesians today, who want deficit spending now but claim to want restraint later, White wants restraint now: "Long-term 'deficit reduction plans' that push hard choices into the distant future are no substitute for plans to balance the budget within several years. . . . In common life experience, few pressing problems are best solved slowly over decades." White further rejects Keynesianism when he says, "American economic history does not support the idea that a strong economy depends on chronic federal borrowing."

White's book is a great read with many interesting facts. For example, did you know that the federal government's debt has been completely paid off only once in American history? In his first inaugural

address, Andrew Jackson promised to “extinguish” the debt. He succeeded in 1835, and then threw a big party to celebrate. White provides other interesting details on America’s monetary history, the creation of the income tax, battles over tariffs, civil service reforms, and many other things.

In sum, the strength of White’s book is not the soundness of his “Fiscal Constitution” theme. Rather, it is the lively and informative history of two centuries of fiscal policy written in a fair-minded and concise manner.

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### **The Great Debate: Edmund Burke, Thomas Paine, and the Birth of Right and Left**

Yuval Levin

New York: Basic Books, 2013, 296 pp.

The French Revolution changed politics forever—in part, of course, because nearly everyone believes that it did and because we have generally acted accordingly. Since 1789, Western political views have been understood to fall into two broad camps: The left bases its claims on reason, a universal notion of human rights, and the pursuit of direct, immediate reform; the right privileges tradition, the continuity of the social order, and change only when absolutely necessary for that order’s upkeep. Both profess to love liberty. Post-1789, one can hardly do otherwise.

Yuval Levin’s *The Great Debate: Edmund Burke, Thomas Paine, and the Birth of Right and Left* is a product of, and a commentary on, this admittedly fertile terrain. The book traces, with copious reference to original source material, the sharply divergent worldviews of Thomas Paine and Edmund Burke, writers who have since become avatars of left and right. Anyone who wants a thoughtful, well-organized picture of these two remarkable public intellectuals should pick up Levin’s book, which maps their disagreements in a set of clear, thematic chapters (“Nature and History,” “Justice and Order,” “Choice and Obligation,” and so on). Levin’s lucid exposition shows even the casual reader why left and right have been such intellectual touchstones. Here you will find a powerful set of tools for analyzing both the French Revolution and the world of today.