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Can America Afford to Maintain Its Position in the World?

Richard Lachmann, State University of New York at Albany

The United States, we are frequently told, is headed for fiscal disaster – and will be unable to sustain vital social programs, fund national defense, and make the investments in education, research, and improved systems of communication and transportation needed to compete with China and other rivals on the world stage. Many doomsayers attribute rising deficits to runaway social benefits, while others point to high defense spending and the costs of wars. But neither view squares with the facts. A more accurate diagnosis clarifies the choices for America's fiscal future.

Stable Spending and Shifting Priorities

Despite a growing population and new national challenges, federal outlays have remained remarkably stable for decades. In 1969, U.S. federal spending equaled 19.4% of the gross domestic product (GDP), and it inched up to 21% of GDP in 2008. Within the stable total, however, there have been big shifts in where the money goes:

- **Military spending has trended sharply downward.** In the 1960s, the United States devoted up to 9.4% of GDP to defense spending, and then the share headed downward despite upward blips. At the height of the Reagan military buildup in 1986, defense claimed 6.2% of GDP; after further reductions, the wars in Iraq and Afghanistan raised spending to 4.3% of GDP in 2008. Money may have been wasted, but defense spending is a declining burden on the economy and a shrinking part of the total federal budget.

- **The U.S. has spent more on health care and the elderly.** Between 1965 and 2008, no major social programs were enacted. But expenditures increased to cover higher prices for health care, the needs of an aging population, and a Medicare prescription drug benefit.

- **Investments in America's future have been sharply reduced.** Between 1964 and 1979, the United States spent between 2.4% and 2.7% of GDP each year on education, research, and infrastructure. But the Reagan administration reduced this by a third, and investments remained below 2% of GDP through 2008. Spending on basic research fell by a whopping 75% between 1967 and 2008. The results of all the cuts are plain to see. Roads and bridges are crumbling; water mains and sewer systems are failing; and delays abound on roads and at airports. America's students have fallen behind on international science and math tests, and our engineers and scientists have a diminished presence at the cutting edge, to the detriment of U.S. economic growth and innovation.

Tax Cuts Drive Rising Deficits

As we have seen, spending is not the prime cause of U.S. deficits. Instead, **repeated tax cuts have increased debt, and are set to cause U.S. deficits to grow long into the future.**

- Federal debt fell steadily from the end of World War II, dropping to the very low level of under a third of GDP in 1981. But tax cuts launched by GOP President Reagan caused debt to climb to 67.3% of GDP in 1996.

- Modest tax increases under President Bill Clinton trimmed debt to about 57% of GDP.

- In 2001 and 2003, another Republican president, George W. Bush, sponsored very large tax cuts even as costly wars were launched. Debt quickly grew to exceed 70% of GDP in 2008. As long as the Bush tax cuts remain, they will cause ever-larger revenue gaps.

When the Rich Stop Paying Their Share, Most Americans Suffer

- Corporate taxes and charges on wealthy estates plummeted after 1969. The estate tax alone dropped by an amount that would cover college tuition for all U.S. students each year.
- The tax rate for the very highest incomes dropped from 77% to 35%. Additional tax dodges let Wall Street hedge fund operators pay an effective rate of just 15%.
- Each year, U.S. fat cats illegally hide wealth in overseas tax havens like the Cayman Islands. The federal government loses about $70 billion in tax revenue – almost enough to restore funding for basic scientific research to 1967 levels.
- Most Americans live on wages and salaries, and payroll taxes have gone up. In 1967, payroll taxes generated 22% of federal revenues; the share grew to 36% in 2008.

The Bottom Line

The United States does not have to suffer mounting debt and endless budget cuts. The income share going to the wealthiest one percent more than doubled after 1969 (from 10% to 22%). The rich can afford modestly higher taxes. If they do their share, programs like Social Security can be maintained, even as we reduce the national debt and fund investments in education, scientific research, and a growing national economy. Everyone will benefit.

Read more in Richard Lachmann, "The Roots of American Decline." *Contexts* 10, no. 1 (2011): 44-49.