

THE GOVERNMENT WE DESERVE - Gene Steuerle
From the Peter G. Peterson Foundation

THE THIRD FISCAL TURNING

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To do what must be done for the nation, and then to finance it. At its core, that's what government fiscal policy is all about. A "fiscal turning" happens when the old ways of doing things obstruct vital government reforms, and new ways—a new paradigm—must be found.

The United States is facing its third major fiscal turning.

The first occurred naturally at the nation's beginning. Unable to finance the Revolutionary War on our own, we sent our most notable and famous statesmen—Benjamin Franklin, John Adams, and Thomas Jefferson—to France in search of loans and support, while at home we also borrowed heavily and relied significantly on the resources of the French armies and navies to bring the British to bay. Success in revolution left a nation too financially weak to finance its needs, much less run a government. Drastic fiscal reforms were required.

And drastic they were. First came the adoption of a constitution that gave the government new enumerated powers. But that was hardly enough. Fights continued over who would pay off enormous state and national debts accumulated from the revolution, while citizens and foreign governments questioned the government's reliability to meet its obligations.

As the new government also struggled to finance its own activities, leaders such as Alexander Hamilton brokered huge compromises that required, among other items, the move of the nation's capital to the south, the federal takeover of state debts, the enhancement of federal borrowing powers, the development of a national tariff, and the strengthening of the Treasury Department.

The second fiscal turning came at the end of the 19th century and beginning of the 20th. Largely identified with "the Progressive Era," the nation began that period with a small federal government whose budget was largely devoted to paying benefits to Civil War veterans. But the new industrial age put enormous pressure on government to protect its citizens and compete with the rising powers that surrounded it—both growing nation-states abroad and rich industrialists at home. Economies of scale in manufacturing, communication and even war-making offered new prospects for advancement and peril.

In response, the nation undertook a second set of dramatic structural reforms: a constitutional amendment for an income tax that would gradually replace the tariff and provide a base on which significant revenues could be raised; the creation of a Federal Reserve System to regulate monetary policy and develop a national banking strategy; and regulatory structures such as antitrust policy to promote a competitive economy.

Both fiscal turnings were forced by events: past practices were not only failing to solve old problems, but were inhibiting the nation from addressing new challenges and opportunities. The first fiscal turning focused on the creation of a federal debt, banking, and taxing powers, so as to be able simply to run a government; the second provided the revenues that allowed the government to grow in dramatic new ways and adopt new programs while increasing the money supply and its complement, loans for business expansion.

Something had to be done then. Something must be done now.

Just as it would have been a drastic mistake near the turn of the 20th century to commence the second fiscal turning by looking to the solutions adopted for the first, so too in this third turning would it be fatal to think that Teddy Roosevelt and Woodrow Wilson can show us the way to reform government today.

Here's the rub. In this third turning, our inability to meet our current needs—to modernize our educational, health, welfare, tax, aged insurance, disability, unemployment, transportation, and early childhood programs—derives not from a lack of resources or institutions to develop and regulate them. No, we are prevented from moving forward largely because of the extraordinary level of commitments we have already made. A revolution to remove this fiscal straightjacket on future action is the first prerequisite for reforming most of what government does.

The third fiscal turning, like the first two, is about far more than fixing programs we know need to be fixed. It's about creating flexibility and slack for government. It's about making possible the resources necessary to modernize and meet new needs, many of which we cannot yet identify. It's about removing automatic and eternal built-in growth in programs—not so much because they failed or succeeded in meeting past needs, but because their constant claim for more and more automatically means less and less for other, potentially more worthwhile endeavors, both public and private.

In sum, the nation's first two fiscal turnings provided the nation with the flexibility it needed through new debt, monetary, and taxing powers. This time, we need to limit and even reverse efforts to preordain the future of our government before that future has arrived.

***The Government We Deserve* is a periodic column on public policy by [Eugene Steuerle](#), vice president of the nonpartisan [Peter G. Peterson Foundation](#).**

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