BY ROBERT J. BARRO

EVEN ECONOMISTS CAN'T WAIT TO SPEND A SURPLUS

JAY REED

MICROCOSM? When the American Economic Assn. had cash to spare, its leaders vetoed a "tax cut." Congress will no doubt act the same way

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The U. S. government is in the midst of a debate over how to use its current and prospective budget surplus. Congressional Republicans seem to differ little from their Democratic counterparts. They have not pressed strongly for tax cuts or resisted proposals to raise federal spending.

Economists have diverse opinions about the best way to use the surplus. Ideas include new spending programs, bolstering the Social Security trust fund, cutting taxes, and paying down the national debt. We can gain some perspective on these opinions by seeing how economists dealt with a budget surplus in their own professional society, the American Economic Assn.

Many years ago, while president of the AEA, Milton Friedman worried about how to deal with the association's large accumulated surplus. Friedman's view was that an association with lots of money was dangerous because the money was likely to be spent on someone's concept of a "socially worthwhile purpose." Friedman solved the problem by providing the members with an expensive new journal, with no balancing hike in dues. Hence, he eliminated the surplus by raising spending in a relatively harmless manner. (Dues did rise later to match the increased spending.)

This problem has now recurred. Mostly because of the exuberance of the stock market, the AEA has assets of more than $8 million, compared with annual spending of about $4 million. Historically, the association has regarded a reserve of one year's expenses as prudent. Hence, the remaining $4 million of its current funds can be regarded as excess. My worry, similar to Friedman's, is that this money will be spent on someone's vision of a socially desirable activity.

DUES CREDIT. My preference is for the excess to be returned to the membership through some kind of tax cut. Hence, at the Jan. 2 meeting in New York of the executive committee, I proposed that the dues be cut in half until the level of assets at the beginning of a calendar year was close to matching the budgeted expenditures for the coming year The spirit of this proposal was that a windfall of funds did not provide sufficient reason for instituting new spending programs. Instead, the extra money ought to be given back to the owners.

It was clear during the meeting that this tax-cutting proposal was in trouble. Many committee members thought that the association was well off financially and could there fore afford new expenditures. One person wanted to expand the size of the association's main journal. Another wanted to fund a series of symposiums. Other ideas for spending involved research on economic education, an expanded study of the role of women in the economics profession, and providing information over the Internet. One observer said that this inclination to spend the excess on something was reminiscent of the way corporate managers tended to spend their free cash flow.

In the end, my proposal went down to a crushing defeat. I have several hypotheses about why this happened:

- Officers, like managers, relish the idea of having lots of cash on hand so they can fund various pet programs without much financial restraint.
- The members' interest in getting a tax cut does not translate into the officers' self-interest in making such a cut. This is partly because the officers have short terms and do not run for reelection. (For instance, my tenure as vice-president was for one year.)
- Some of the officers liked the notion of using the windfall to make tax cuts, but they wanted these cuts to be small in size and extended over many years. This idea has merit, but it works only if future officers are not tempted to raise spending when they have lots of money available. The same idea applies to the accumulation of a large fund for Social Security- This idea is attractive only if the government does not react to the existence of the fund by 'increasing Social Security benefits.
- Some officers thought that the association's world had become more uncertain, especially because of the growth of electronic publishing. Thus, the prudent level to hold in reserve is now more than $4 million. This idea may also have merit, but again, it works only if future officers do not spend the reserves.

My own inclination is toward the first hypothesis. That is, the society of economists acted pretty much the same as the U. S. Congress in focusing on current and future ways to spend a windfall of cash. For me, this is cause for despair. After all, if one cannot trust a group of economists for fiscal restraint, then whom can one trust?