

Here We Go

President Obama has called for new tax cuts for businesses. Democrats are declaring the need to attack the deficit. Republicans are promising budget cuts and a review of spending

Are we in some parallel universe? Or have we died and gone to fiscal heaven? Should we believe our ears?

Maybe, maybe not. That said – let's make *all of them* be true to their words. Let's make them become a responsible government. Let's make them cut the deficit.

This year the federal deficit will hit and likely surpass \$1.47 trillion, tripling since 2007. That means each America's share of the budget deficit is \$40,000 – and rising. SO what do we do?

We get out of the fiscal junk food aisle and go to the health food counter. We start making wise choices, reduce our intake, better measure our portions and begin to slim down.

The deficit problem results from unsustainable spending, not the gap between revenues and need. The consequences of a continued spending gluttony will be fiscal uncertainty and relegation to a beaten down dollar for decades.

History shows moments where citizens have demanded an end to the torrent of fiscal flooding -- and leaders have responded. It can happen again. It must start happening again now.

There is an alternative to sudden and dramatic increases in taxes. The prescription for better fiscal health reads: "You can't spend what you don't have and if you do, you are in trouble."

So here we go with some first steps:

(1) Create an independent deficit reduction commission, similar to the Base Realignment and Closing (BRAC) commissions of the 1980s and 1990s. A spending commission could curb discretionary spending successfully if it embodies the lessons of BRAC (where no member of Congress ever had to vote for shutting down any

particular military base) and is composed of independent members whose recommendations become binding without congressional action. The Mercatus Center at George Mason University suggests a start by submitting \$1.16 trillion in discretionary spending out of the entire budget of \$3.8 trillion for possible reduction or elimination – one third of the federal budget.

(2) Return to 2000 spending levels, the last time the U.S. had a balanced budget, a suggestion by John Garen of the University of Kentucky's Gatton College of Business and Economics. In essence, a pre-war budget of lower spending.

(3) Cut federal payments to states, which are increasingly dependent on federal funding. Federal grant spending in constant dollars shows that grant outlays increased from \$285 billion in – again -- fiscal year 2000 to \$493 billion in fiscal year 2010, a 73 percent increase, according to Veronique de Rugy of the Mercatus Center. As Mercatus shows, when decisions are made and paid for by the people who benefit from them, they tend to be better decisions and less wasteful. By comparison, decisions made and paid for by Washington are less accountable and more wasteful.

(4) Reform Social Security by boosting the retirement age to 67 and increasing eligibility by 13 years, reflecting the remaining life expectancy rates. Make Medicare into a voucher program plus catastrophic insurance.

(5) Copy Canada's budget triumph. In a study of how Canada defeated its deficit, performed by the Mercatus Center, the cornerstone was unflinching cuts in government spending. There were no major tax increases. There was the political discipline that was needed to achieve true deficit reduction.

Canadian Finance Minister Paul Martin's policy speech in the House of Commons in 1994 spoke to the problem his nation then faced – and what America faces today: "It is now time for government to get its fiscal house in order," Martin said. "For years governments have been promising more than they can deliver and delivering more than they can afford. That has to end and we are ending it."

He continued: "Canadians have told us that they want the deficit brought down by reducing government spending, not by raising taxes, and we agree. The era of tax and spend government is over."

Programs were cut in absolute terms, and not just in the rates of spending. Instead of meeting with each interest group individually and getting their budget demands, government officials had four regional consultations in which the various groups,

experts, and citizens met with each other and hashed things out. They, in effect, came up with many budget proposals by a tough love consensus – a softer, Canadian version of BRAC. This included cuts in defense spending and promises to reform the Unemployment Insurance Program.

More ideas are needed. But we can't go anywhere without taking a first step, for without significant spending cuts we will see major tax increases.

The promises we hear today are doubly important. Congress already plans an after-election lame-duck session. The chief task then is enacting gigantic catch-all spending bills with the goal to stimulate the economy. One thing is clear – those bills, approved by House and Senate members who no longer fear voter wrath, will add to the deficit.

No one is talking about a great day of reckoning when the debt becomes due and has to be paid off, but it is wise for us to understand what just is happening. Growing deficits and public debt affect the performance of the entire economy – private and public. As the private sector become relatively smaller, real GDP growth become less vibrant.

You can't spend what you don't have and if you do, you are in trouble. We need responsible government now.

