THE NATION'S PULSE

Happy Deficit Day

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If you listen to President Barack Obama, you'd believe that taxpayers are having an easy time. After all, candidate Obama promised that most of us won't have to pay any more to Uncle Sam and earlier this year he actually cut some levies. In fact, so-called Tax Freedom Day -- when the average American stopped paying government -- occurred on April 13 this year, the earliest date in 40 years!

Alas, the federal government borrowed a little money over the last year. And big government financed by debt differs little from big government financed by taxes. Although people feel the pain of taxes directly, taxes do not reflect the full burden of government. Spending plus regulation is a more accurate measure. By that standard things have never been worse for the American people, except during war time. Today is Cost of Government Day, when we stop really paying for government.

Monika Ciesielska has produced the latest Cost of Government Day report for the Center for Fiscal Accountability, a special project of Americans for Tax Reform. Her paper makes for grim reading. While Tax Freedom Day dropped ten days over the previous year, COGD advanced nearly a month, from July 18 to August 12.

The recent peak was July 20 in 1982, shortly after Ronald Reagan took office. COGD dropped to July 2 in 1988, then rose under President George H.W. Bush, hitting July 18 in 1992. The Republican takeover of Congress and President Bill Clinton's move to the political center pushed COGD down to June 29 in 2000. Unfortunately, the George W. Bush administration plus GOP Congress promoted a steady if slightly irregular rise to July 16 last year. Now COGD has rocketed upward.

The reason is simple: wild government spending and expansive federal regulation. Explains Ciesielska: "The driving factor for this development is that all components of the cost of government -- federal spending, state and local spending, and regulations -- are now increasing faster than national income, which shrunk as a result of the financial crisis in 2008." From bailouts to alleged stimulus, government has been tossing money at just about anything that moves, and quite a few things that don't. As a result, government outlays now account for 28.5 percent of GDP, a peacetime record.

The largest share of the cost of government is attributable to federal spending. Although established as a small entity with strictly limited enumerated powers, the national government has evolved into an institution of general jurisdiction with unlimited authority. Which translates into virtually unlimited spending and regulation.

Writes Ciesielska, "The average American worker will have to labor 111 days just to pay for federal spending, which is now consuming 30.36 percent of national income. This is a considerable leap compared to last year, when the average American worker had to labor 90 days to pay for federal spending." Just think of all of the "benefits" we get for these outlays -- politicians constantly redistributing our earnings to get themselves elected and reelected. Isn't America great!

Next are state and local governments. Because most state governments are legally required to balance their budgets, there is a limit to the financial shenanigans that even the most irresponsible politicians, like those in California, can employ. As a result, Americans actually are working "only" a couple days more this year compared to last year for states and localities, 49 days. Still, that number is far too high. Notes Ciesielska: "That compares to 42.5 days in 1999, 44 days in 2004, and 47 in 2008. This means that in the last ten years alone, state and local spending has grown by almost 14 percent in relation to national income."

Total regulation comes to 65 days, up four days over 2008, "reflecting rapid growth in regulatory costs," writes Ciesielska. Regulation this year consumes 17.7 percent of national income. No doubt, some rules do some good. But even the "good" rules often are overbroad or inefficient. And far too much regulation is merely disguised looting, or what economists call "rent-seeking." Income redistribution can occur in many guises, and regulation is a favorite tool of political and bureaucratic insiders.

Unsurprisingly, Washington is responsible for the largest share of regulatory costs, 42 days worth. States and localities account for the remaining 23 days. Unnecessary regulation is particularly annoying, since we are paying for our officious nanny-state minders.

Unfortunately, August 12 is merely the COGD national average. Some Americans are luckier. Alaskans started working for themselves a month ago, on July 11. Residents of Louisiana and Mississippi stopped paying for government on July 18. South Dakota and North Dakota followed at July 20 and July 24, respectively.

In contrast, people living in particularly big spending, intrusive regulating states have weeks more of government-created pain to endure. The worst state, as always, is Connecticut: COGD won't arrive until September 7. Citizens of New Jersey have to wait until September 6 to finish their servile obligations. New Yorkers will be done on August 31. The burden on residents of the Golden State is mild in comparison, with a COGD of August 23. People in Maryland must work until August 21. In Massachusetts, Virginia, and Washington COGD falls on August 17.

Oddly, despite its reputation as a high-tax jurisdiction -- and the home of the federal government -- Washington, D.C. is just average. COGD occurs today in the District, along with five other states.

The issue is one of federal spending. Observes Ciesielska, "Between 2000 and 2008, we saw a sharp increase in the federal spending burden, but this was just a warm up for the 2009 splurge."

She details how much of the spending was wasted. Many of the "stimulus" expenditures didn't stimulate anything, but were simply used to fund more of what the government already was doing, and doing badly. A lot of the money was pure redistribution, taking from taxpayers and giving to the usual Democratic-oriented interest groups and other lucky people.

Although federal outlays are likely to dip from the post-bail-out peak, they are unlikely to contract much. Certainly the 2010 Obama budget, despite being called "A New Era of Responsibility," offers little hope. Explains Ciesielska:

> "According to a report by the Congressional Budget Office (CBO), it would have increased total spending by $2.7 trillion over ten years over the current baseline, including interest. This would amount to an increase of $9,000 for every American. Furthermore, federal spending under the President's budget would increase from 23.6 percent of GDP in 2011 to 24.5 percent in 2019, significantly above the 40 year average of 20.7 percent. In 2009 alone it would total 28.5 percent of GDP and reach 25.5 percent in 2010."

Indeed, the presidential budget is merely a starting point. Historically outlays always end up well above projections. Moreover, a number of financial storm clouds continue to billow around us, likely to lead to new proposals for additional bailouts, stimuli, and other forms of spending.

For example, despite the Bush administration's fevered demand that Congress approve $700 billion to buy up "toxic assets," the so-called TARP program purchased no toxic assets, instead providing cash to banks and bailing out the auto industry. Yet the problem of bad investments remain, as much as $4 trillion worth, according to the International Monetary Fund. Should the economy head back down, calls for another bailout are inevitable.

Freddie Mac and Fannie Mae continue to lose money. Another mortgage institution, focused on agricultural land ("Farmer Mac"), has lost money on financial derivatives. Defaults are rising for the Federal Housing Administration, leading to talk of a bailout. The Pension Benefit Guaranty Corporation, which insures private pension programs, has been running a deficit and likely will need more money as more companies fail. The FDIC has been shutting banks at a record rate -- 72 as of Monday, compared to 25 last year and three in 2007 -- and will require a cash infusion. And on it goes.

Congress continues to debate health care "reform," conservatively estimated to cost $1-$1.5 trillion over the next ten years. However, Stephen T. Parente of HSI Network LLC figures that the legislation currently under consideration likely would cost between $2.1 and $2.4 trillion over the coming decade. Moreover, the Congressional Budget Office (CBO) acknowledges that its forecasts run for only a decade; future costs are likely to increase at a faster rate, destroying whatever budget discipline Congress might attempt to impose on the program at the outset. Indeed, estimates for social programs and especially health care initiatives almost always have proved to be ludicrously low. Which is how Social Security and Medicare have come to have an unfunded liability of $107 trillion. Without reform, these two programs will eat up an ever larger share of the budget.

In June CBO declared:

> Under current law, the federal budget is on an unsustainable path -- meaning that federal debt will continue to grow much faster than the economy over the long run. Although great uncertainty surrounds

> long-term fiscal projections, rising costs for health care and the aging of the U.S. population will cause federal spending to increase rapidly under any plausible scenario for current law. Unless revenues increase just as rapidly, the rise in spending will produce growing budget deficits and accumulating debt. Keeping deficits and debt from reaching levels that would cause substantial harm to the economy would require increasing revenues significantly as a percentage of gross domestic product (GDP), decreasing projected spending sharply, or some combination of the two.

It is time to panic.

The news at the state and local level is better, but only because it is harder for these governments to deficit spend. They can play accounting tricks and float bonds, as has hyper-profligate California, but there is a limit to use of these tactics. None compare to running the federal printing press.

Nor is the federal regulatory burden likely to ease. To the contrary, the administration is pushing a new financial regulatory system. Passage of health care "reform" would add another layer of federal dictates to American medicine. New energy and environmental rules also threaten: the so-called "cap and trade" program would impose an enormous load on the economy.

Finally, the usual regulatory cost estimates underestimate the impact on the economy. Explains Ciesielska:

> Not counted are the negative economic effects of regulatory requirements. These hidden costs stifle the growth of the economy because they introduce inefficiencies and distortions and reduce the economic reward left over for productive activity. Regulations may prevent new firms from entering the market or stop existing ones from expanding. They may even force some existing firms out of business altogether. The end result is a reduction in overall output, fewer jobs, lower wages and suppressed economic growth.

The total losses likely are huge, as much as another $1.5 trillion a year, according to regulatory economists at Washington University in St. Louis. The amount of lost economic output will continue to grow over time.

Unless we change course, COGD is headed skyward. Even if COGD dips next year after the bailout flood ebbs, the date will remain historically high. And it is only likely to rise again in the future. "The era of big government is over," intoned Bill Clinton more than 13 years ago. In truth, the era of big government was only beginning.

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