

US finally starts debate on budget fundamentals

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MITT Romney's choice of Republican congressman Paul Ryan as vice-presidential running mate is a reminder that ideas still motivate some politicians somewhere.

It made me a little envious. While Australian political debate revolves around asylum-seekers and foisting ghastly pictures on cigarette packets, Americans are set to enjoy a salutary few months of serious political debate about whether their federal government has become unsustainably large.

For Ryan, the answer is an emphatic yes; he wants to dramatically curb government spending. Surging health, retirement and defence costs threaten to push the ratio of debt to national income in the US above 120 per cent by 2020, not far below Greece's level today.

Federal spending in the US has doubled to \$US3.6 trillion (\$3.4 trillion) since 2001 while the economy has grown by half.

The country's gross debt has risen to \$US12 trillion, about 73 per cent of the US economy or almost five times the annual revenue of the federal government.

Despite the ominous outlook the populist Barack Obama has proposed a reckless budget that never once balances, adds \$US6.7 trillion to US total debt over the next decade and will send public debt rapidly out of control within a decade.

Meanwhile, he proposes to raise taxes by almost one-third as a share of the economy.

With unemployment stuck above 8 per cent and growth barely above 1 per cent, shackling the US economy with more taxes makes it less likely the economy will grow out of its predicament. Tough decisions are required.

Ryan wants to reduce the company tax rate from 38 per cent to 25 per cent, and replace four income tax rates with two lower rates of 15 per cent and 25 per cent, partly funded by closing a slew of loopholes that benefit the top 1 per cent of taxpayers.

He wants to create efficiencies by passing social programs to the states, which are better placed to tailor them, and make greater use of market pricing within the public health systems.

Despite the attacks from Democrats, his proposals would only slow the rate of government spending rather than cut it. "Ryan, who is being accused of thinly veiled social Darwinism, would actually increase federal spending from \$US3.5 trillion to \$US4.9 trillion by 2022," says Michael Tanner, a senior fellow at the Cato Institute in Washington, DC.

Ryan writes: "It is so rare in American politics to arrive at a moment in which the debate revolves around the fundamental nature of American democracy and the social contract."

If it's rare there, it has never existed here.

Once the tidal wave of demand for our resources recedes, Australia's public finances will look little better than America's.

Former prime minister Kevin Rudd's record "emergency" deficit of 2009 will become routine unless spending, especially on health and ageing, is subject to greater discipline. The Treasury's Intergenerational Reports consistently show this.

Making people pay a little more for services they receive is one obvious way to do this. For instance, why should it remain free for many in Australia to visit the local GP, when per-person incomes here are higher in real terms than they have ever been?

Not only is discussion about how to make the existing welfare system more efficient entirely absent, politicians are blithely proposing more social spending.

A National Disability Insurance Scheme, however laudable its intentions, will add \$8 billion a year to public spending.

The federal opposition wants in addition a "paid parental leave" scheme, costing another \$4.5bn a year, albeit partly funded by raising company tax to 31.5 per cent.

Only a fool would draw a conclusion from one data point.

Yet ever since John Hewson's close-run loss of the 1993 federal election, governments and oppositions across Australia have recoiled from presenting detailed reforms close to election time.

That trepidation must change.

John Adams, the first US vice-president, quipped the vice-presidency was "the most insignificant office that ever the invention of man contrived".

Obama promised "hope and change" in 2008. If Ryan succeeds in convincing enough Americans of his plans, the country might finally have grounds for it.