THE ORANGE COUNTY
REGISTER

More bipartisan budget bloat

By: Doug Bandow – December 17, 2013

In the previous fiscal year, Uncle Sam had some budget good news. After running $1 trillion-plus deficits four years in a row, Washington had to borrow “just” $680 billion in 2013. Victory was at hand!

True, that was the fifth highest deficit in history, 50 percent greater than the pre-financial crash record. But it's only the taxpayers' money, so what's the big deal?

Now Republicans and Democrats have come together on Capitol Hill to increase both outlays and taxes. Bipartisanship in action!

That the Democratic Party wants to spend more is hardly surprising. But the GOP has demonstrated yet again that its principal role in Washington is to hold the coats of Democrats when the latter raid the Treasury.

The legislation adopted by the House drops sequestration, which actually trimmed federal outlays, and hikes spending over the next two years by $62 billion. In return, Congress promises to lower the collective deficit over the next decade by $85 billion – while spending tens of trillions of dollars.

The accord raises revenue, including a very real $12.6 billion in airline taxes. There are a few spending reductions – kind of. The bulk of them are entitlement caps slated to take effect after two presidential elections and four congressional elections. However, in the same bill the House GOP voted to drop discretionary spending cuts for 2014 approved just two years ago. The reductions will never occur.

Of course, holding only the House means the Republican Party has to compromise, as it learned during the recent health care battle. But a budget fight would have been far easier. The GOP merely had to support the fiscal status quo, sequester included, unless the Democrats offered equivalent alternative cuts. Alas, the GOP tossed away its best weapon.

Today the national debt exceeds $17.2 trillion and runs nearly $150,000 per taxpayer. Before the GOP cave-in the Congressional Budget Office figured that in the best case Uncle Sam would add $6.3 trillion more in red ink over the next decade. The annual deficit would drop to “only” $378 billion in 2015. But then deficits would begin another inexorable rise. By 2023, federal ink would be $895 billion.

Unfortunately, CBO expected Congress to act like Congress – meaning to abandon fiscal discipline and avoid making hard decisions. The agency's “alternative” fiscal scenario assumes a loosening of restrictions on discretionary spending, as Congress is doing. In this case the added red ink over the coming decade would run $8.8 trillion.

Of course, the biggest long-term issue is entitlements. Absent serious and meaningful reforms in this area, “debt will rise sharply relative to GDP after 2023,” explained the CBO.

Putting everything together – Social Security, Medicare, Medicaid, government pensions and health care benefits, endless credit guarantees, and much more – yields a mountain of liabilities. Economist Laurence Kotlikoff figured Uncle Sam's total unfunded obligations exceed $220 trillion, around 14 years of our current GDP.

The only alternatives to spending reform are confiscatory taxation and irresponsible borrowing. Both hurt the economy. “Increased borrowing by the federal government generally draws money away from (that is, crowds out) private investment in productive capital because the portion of people's savings used to buy government securities is not available to finance private investment,” the Congressional Budget Office warned. “The result is a smaller stock of capital and lower output in the long run than would otherwise be the case.”

While higher interest rates would raise the incentive to save, higher federal borrowing would lead to lower national saving. The agency estimated that every additional dollar increase in government borrowing would cut private saving by 57 cents.

Ultimately, this means a smaller economy and lower incomes even as government obligations increase. Higher debts and marginal tax rates would “reduce real GDP by about 4 percent by 2038,” and as much as 6 percent, according to the CBO. The more pessimistic but realistic “extended alternative fiscal scenario,” which presumes $8.8 trillion more in red ink, yields even worse results, most likely a seven percent drop in GDP, and perhaps more.

As usual, the GOP is putting party politics before national interest. The Democrats do the same, of course, but at least they are less sanctimonious when doing so. Republican dishonesty and hypocrisy may be even more galling than Republican budget irresponsibility.