

HOW DO CLINTON'S 'BALANCED BUDGET' LOOPHOLES IMPACT US TODAY?

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Right off the bat I will admit I've always been distrusting when former president Bill Clinton (D) and former speaker of the US House Newt Gingrich (R) praise their respective parties for balancing the federal budget. I have those problems because despite promises from current president Barack Obama, our government has yet to become a model of transparency when it comes to fiscal and other issues.

Fact is that famously 'balanced budget' had loopholes that in my opinion and in the opinions of others impact us today.

Even the left of center AARP admitted as much, although I don't think the magazine editor realized what his writer had done. The admission came in the column 'Ask Lee,' a feature in the May/June issue of the org's magazine permitting readers to ask questions that AARP's president responds to.

A reader expressed legitimate concern s/he might lose her doctor if the Medicare reimbursement was cut and asked, "Can you explain what the 'Doc Fix' problem is all about?"

The response was telling:

*"In 1997 Congress passed the Sustainable Growth Rate (SGR) Formula for paying doctors who treat Medicare patients. **This system designed to hold down physician costs by setting limits on spending, underestimated how much Medicare would spend on tests and procedures for patients.** As a result, it called for reducing physician fees to stay within spending limits—and in 2011 the SGR mandated a decrease of more than 20 percent in payments to doctors." [pg. 75]*

I added the boldface font there, and I'd also edit the first sentence to begin, "In 1997 President Clinton and Congress..."

What would happen if no doc fix passed? Docs would leap from the sinking Medicare ship because no one wants to work for less than an acceptable rate. Would you?

What do Congress and the president do? They put off the cuts. And that postponement always led to spending that was not officially anticipated, even in a

so-called 'balanced budget' although everyone responsible knew the spending would grow.

Harvard professor of economics Martin Feldstein had other concerns about Clinton's 'sleight of hand.' In an article originally published at *The Wall Street Journal*, Feldstein wrote, "*To keep Social Security on track through 2055, **the president arbitrarily transfers another \$2.8 trillion**--the remainder of the \$4.5 trillion surplus--from the Treasury to the trust fund over the next 15 years. The president described this as equal to 62% of the projected budget surplus but it is not part of the surplus at all. The entire surplus is already spoken for by the new spending, the savings accounts and the automatic additions of Social Security surpluses to the trust fund.*"

Feldstein's article is worth reading for many reasons. Chief among them was a prediction he made—"Mr. Clinton's proposed sleight of hand commits us to massive future deficits or tax increases or both."

At the Libertarian Cato Institute, Stephen More declared neither Clinton nor Gingrich deserved runaway praise although More conceded both men did deserve credit for not impeding growth. A key revelation is important—Clinton and those rascally Republicans did keep the EPA from enacting costly mandates. More said if enacted those mandates would "cripple the economy" and deliver "a severe body blow."

Courtesy of Obama, who guaranteed us utility rates would skyrocket, More's prediction came true. The cost of energy impacts everything in our lives and in the national economy.

In 1997 More built a case for the real reason America saw prosperity under Clinton—President Ronald Reagan. More wrote:

"Reagan's legacy affects us dramatically today in two ways. First, Reagan's anti-Communist foreign policy and his military buildup hastened the disintegration of the Soviet Union. In the past eight years, America's victory in the Cold War generated a half-trillion-dollar peace dividend. That peace dividend grows every year, and it fell like manna from heaven into President Clinton's lap. The budget deficit is falling, not primarily because Clinton raised taxes and not primarily because the congressional Republicans committed themselves to a balanced budget, but because the defense budget is nearly \$100 billion lower today than when the Berlin Wall came down.

The second effect of the Reagan years was to launch America into what is now widely regarded as a remarkable 15-year low-inflation, high-employment bull market (the Dow was at 800 in 1982, 8,000 today)--interrupted only mildly in the middle Bush years."

Clinton's legacy includes the dot com bust and the implementation of the home mortgage bust because his economic adviser Larry Summers (who also served Obama) took credit for the most sweeping deregulation of all time. How fast can you say "toxic asset?"

Furthermore, no president has booked the losses from Fannie Mae or Freddie Mac, the two scandal plagued government sponsored enterprises that effectively socialized the housing market. The losses of these two disastrous GSEs have never been put on the books. In the corporate world, a CEO cooking the books goes to jail. US Treasury Secretary Tim Geithner recently [admitted the GSE role in the financial crisis](#).

The only way we are going to see a truly balanced budget will involve the president and Congress being honest about how much we truly owe. Partisanship comes from the White House and the Congress—one of my Florida senators has turned his [government Web page into something resembling a campaign ad](#). The only way we will avoid escalating debt is to curtail spending and borrowing.

Clinton knew that—one reason *The NY Daily News* said he supported letting social security "bet hundreds of billions on the stock market." I'll bet you something—you probably thought President George W. Bush came up with that idea.

The US federal budget process has been clouded by accounting gimmickry (not putting the cost of wars on the books comes to mind), outright deception and an emphasis on spending via tax increases that affect every single American. If you think a tax increase on the wealthy is the ticket, remember that every time Congress and the president raised taxes, they committed to spend more in the future just as our current president is doing.

Downsizing this government is our only option, one reason the CATO Institute started an organization and Facebook page for that effort. This is not the first time Americans would do well to listen to some advice from those [Libertarians](#) whose policies are closer to the intent of the founders and the Constitution than most give the third major political party in the U.S. credit for.

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(Commentary by Kay B. Day/April 14, 2011)

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