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3 Essential Facts About the Current Moment: We're Out of Money, The Public Sector is Overpaid, & We Can't Tax Our Way Out of This.

Nick Gillespie | March 11, 2011

"What Michael Moore Gets About Wisconsin...and America," shouts a recent headline for a story at *The Nation*'s website.

The filmmaker Moore, of course, became famous for stalking a feckless GM exec years back and Charlton Heston (in the pro-gun-control *Bowling for Columbine,* which acknowledged that rates of gun ownership don't explain rates of violent crime). More recently, he became infamous for portraying Saddam Hussein's Iraq as an idyllic land where kids flew kites and Castro's island prison in Cuba as a model for U.S. health care reform. Last week, Moore had traveled to Madison, Wisconsin to cheer on students, union members, and other protesters standing up to the Republican-dominated state government that is pushing to increase the amount public-sector workers contribute to health-insurance and retirement benefits and strip down collective bargaining rights.

"America is not broke," said Moore. "Wisconsin is not broke. Saying that the country is broke is repeating a Big Lie."

"Moore does get it," enthuses *The Nation*'s Washington correspondent John Nichols. "He gets it in a fundamental sense, the sense of having waited a very long time for some mass of citizens,

somewhere in America, to say: 'We have had it!'"

Actually, Michael Moore does *not* get it. Neither does Nichols, nor protesters in Wisconsin and statehouses from Idaho to Ohio to New Jersey. Unfortunately, many Americans don't "get it," at least not yet.

[Watch "Are We Broke Yet?: Michael Moore Says No, Reality Begs to Differ." Article continues below video]

Here are three essential facts that we all better face up to, and fast, if we want to maybe not win the future but at least look forward to the next decade.

1. We are in fact broke. We can quibble about semantics - it's not exactly clear what it would mean for the federal or a state govenment to declare bankruptcy - but there's no question that the cash flows at every level of government are more screwed than Moll Flanders ever was. Under President Barack Obama's rosy-till-it-hurts-and-completely-unbelievable scenarios in his 2012 budget proposal, the feds will be running deficits larger than any incurred between 2002-2008 forever and ever amen. And that's best-case, Hail-Mary accounting. And on top of $14 trillion total federal debt, which will double over the next decade under *the best-case scenario*.

At the state and local levels, things are no different. Because they can't print money, states and cities need to balance their budgets annually, so they don't have *deficits*, they have *shortfalls*. Contra Michael Moore, Wisconsin in looking at a $3 billion-plus shortfall over the next two years (many states budget in two-year increments) and $1.8 billion for 2012 alone. The Center on

Budget and Policy Priorities says 45 states (so far) are looking at a combined $125 billion shortfall for fiscal 2012. At the local level, The National League of Cities predicted back in 2009 that combined shortfalls between 2010 and 2012 would be somewhere between $56 billion and $83 billion.

So, are we broke-broke, or just screwed-broke? Call it what you want, but pretending that the mismatch between government revenues and government expenditures at every level isn't a major issue is delusional. Or that the past decade's massive growth in spending didn't happen. Or that we simply can't return to early levels of government expenditures without being reduced to living in Hoovervilles and wearing pickle barrels for clothing.

2. Public-sector workers are compensated better than similar private-sector workers. Nobody contests this claim anymore when it comes to federal workers and similar private-sector employees. They used to, of course, or made sideways explanations for the (nonexistent!) differentials by claiming that federal workers were smarter or did tougher work or had fresher-smelling breath or were congregated in high-cost areas, you name it. The single-largest category of public-sector workers are K-12 teachers (there's more than 3 million). Nationally, they make on average $14,000 a year more than private-school K-12 teachers, a gap that gets even bigger when benefits are added to the total. Studies such as "The Grand Bargain is Dead," by Ohio's Buckeye Institute extensively document "state workers today are paid much more than their private-sector neighbors in 85 out of 88 counties" and *The New York Times*' recent writeup on the issue make it clear that public-sector employees are doing well by any measure:

> Surveys by the Bureau of Economic Analysis show that public workers' annual compensation — salary plus benefits — is higher on average than private sector workers, and they suggest that the gap is growing....Public workers also put in significantly fewer hours per week. According to the Bureau of Labor Statistics, their compensation per hour is much higher....Most of the advantage is in benefits. They cost state and local governments $14 an hour on average, about 70 percent more than private employers pay for their workers.

That's *The New York Times*, mind you. Not the Heritage Foundation, or the John Birch Society, or anybody liberals and progressives want to dismiss out of hand. And what the *Times* is doing is verifying analyses that came out of the Cato Institute and the American Enterprise Institute and Heritage (I don't surf the JBS site, so I've got no idea what they think on the topic).

You don't need to introduce the related but distinct (and, to my mind, largely irrelevant) issue of collective-bargaining rights for public-sector workers to understand why state and local governments are trying hard as hell to reduce employment costs (and why public-sector workers are calling in sick or taking personal days to rally against cuts). There's big money at stake. The

Buckeye Institute estimates that bringing state-worker compensation packages into line with the private sector could erase almost 30 percent of Ohio's projected $8 billion shortfall over the next two years. State expenditures ballooned by 80 percent in inflation-adjused dollars over the last decade and the cutting is going to have be big and ubiquitous. It's going to happen in states with collective bargaining, states without, and in states where the governors are not questioning that sort of activity. That public-sector jobs have been largely shielded from the broad layoffs that took place in the private sector only makes the imbalance greater. Between January 2008 and May 2010, the private sector lost almost 8 million jobs. Over the same time frame, public-sector employment actually increased by a net 590,000 jobs.

3. We can't tax our way out of this. Commentators ranging from Michael Moore to CNN host (and former New York governor) Eliot Spitzer point to any sort of tax cut in the past 60 years as the real reason why governments are cash-strapped today: If we had just kept the top marginal rate at 92 percent like it was in 1953 we could still pay for cowboy poetry readings! Why did Gov. Scott Walker (R-Wis.) cut business tax rates if he says his state is broke? How can Barack Obama extend the Bush tax "cuts," which overwhelmingly go to the rich and richer? Why not just tax the Koch Bros. and be done with this talk of deficits and shortfalls (leave aside for the moment that expropriating all the wealth of all the billionaires in the U.S. would not cover the federal deficit for a single year)?

Such ideas rest upon any manner of empirically shaky assumptions, including the idea that there's an correlation between tax revenues and financial solvency. Between 2002 and 2007, for instance, state governments increased revenues by about 81 percent, or about four times faster than price inflation and population growth. Had the states kept their outlays constant while allowing for inflation and population growth, they would have been sitting on $2 trillion in reserves when the recession hit. Instead, they were broke heading into the recession and are in even worse position now. When governments get more money coming in, they don't pay off debt - they start new programs, increase existing ones, and kick fiscal responsibility down the road a bit more. It's an exceptionally rare case when governments actually balance this year's - and especially the coming years' - budgets because of new revenue. Indeed, if that were the case, states should never have needed bailouts since the 1970s, when most of them started taxing income for the first time. Governments are like compulsive gamblers who never pay off the loan shark with a windfall. Instead, they keep doubling down and find themselves ever-more on the hook. That's one of the reasons federal revenues could grow year-over-year for most of the Reagan presidency while annual deficits continued and national debt grew.

Leaving aside the still-sluggish economy, the notion that tax revenue can be jacked up (or reduced!) with ease is simply wrong. Since 1950, the federal government has passed through periods where Congress raised and lowered all manner of income, excise, and other taxes. Yet whether FICA taxes were relatively low and top marginal income taxes high or vice versa, federal

revenue has clustered tightly around 18 percent of GDP. Some years, it's been higher (as high as 20.9 percent for one year under Bill Clinton) and lower (just around 14.4 percent currently), but it has never strayed far from the 18 percent mark for any length of time. When collections get much higher than that, pressure builds for reductions. In the late 1990s, the too-rare combination at the federal level of relatively restrained spending increases, tax increases (in 1993) and tax cuts (in 1997), and broad economic growth produced at-least-on-paper surpluses. Federal revenue came to a record-high of 20.9 percent of GDP in 2000 while spending came in at just 18.4 percent (see table 1.2). Surplus cash explains why both Al Gore and George W. Bush in 2000 ran on substantial tax cuts, differing on the size and targets (go here for a summary of the budget plans of both candidates; yes, Gore projected smaller spending). What remains most stunning about the Clinton years is not the increases in revenue as a percentage of GDP (though they are notable) but the willingness to substantially reduce spending as a percentage of GDP despite growing piles of cash on hand.

Yet at all levels of government right now, the idea of substantial tax increases to pay for current (read: inflated over the past decade) levels of outlays is legitimately (and thankfully) a non-starter (that's why the Bush tax rates were extended). Contrary to the idea that the tax code is an instrument of incredible precision, able to surgically separate wealthy people from the rest of us, it doesn't work that way. Costs are, alas, fungible and the rich know how to pass along new costs better than most people. Virtually everyone - certainly the Michael Moores of the world - agree that good working people don't deserve to have their taxes raised, especially if such a change would strangle any hopes for economic recovery. States such as New Jersey and New York, already ranked numbers one and two in combined state-and-local tax burdens, have nowhere to go but down when it comes to levying their citizens. Wisconsin is ranked number four nationally, which I suspect is something else that Michael Moore doesn't get, though it helps explain why the Badger State is such a battleground between well-compensated public employees on the one hand and newly elected small-government legislators on the other. It's the battle that is shaping up everywhere, between the roughly 10 percent of public-sector workers with less unemployment, higher compensation and fewer work hours and the 90 percent of private-sector workers who pay increasing taxes for reduced services and who are funding more and more of their own retirements.

Until we face up to the three large truths about the current moment outlined above, it's hard to see how our country, our states, and our cities can move into better positions regarding their balance sheets. More importantly, it's hard to see how we can rebuild not just the economy of the moment but of the future if we don't grapple with what's gone on at all levels of government: a bi-partisan disaster that replaced any and all notions of public thrift and accountability with entitlement giveaways, public-sector largesse, runaway defense spending at the national level and exponential growth in law enforcement at state and local levels, and so much more. We worry, rightly, that the United States is pursuing the same policies that gave rise to Japan's "lost

decade" (now in its in second decade!).

What we need to own up to is that the first decade of the 21st century has already been a lost decade for us. Until we get *that* about Wisconsin...and America and start acting differently, there's no reason things will improve.

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