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Mark Landsbaum: What it takes to cut spending, debt

This year's best line, so far, belongs to David Henninger: "In a puckish moment, Angus Maddison did say that income inequality was rather minimal in the 11th century. Now those were the days."

Writing in the Wall Street Journal, Henninger cited Maddison, the "late and eminent" economist to the Organization for Economic Co-operation and Development.

Nevertheless, President Barack Obama and Democrats will try to make the 2014 elections all about the gap between rich and poor, the latest variant of the president's campaign to punish success and transfer wealth to those who neither deserve nor earned it. It's another sleight of hand obscuring what matters, by raising hobgoblins more easily booed and hissed.

Income inequality may be significant in dollar differences between the have-nots and the have-a-whole-lots, but we suspect those at the bottom would be more pleased to move up the ladder than they would be to bring down those at the top. Don't expect Democrats to tell them they can have the first without the second.

In our age of low-information voters whose understanding of economics is gleaned from Facebook and Twitter, Democrats probably have found a persuasive campaign tactic.

But successful campaigns don't necessarily translate to successful economic policy. Those in power a millennium ago had no problem staying in power, but we doubt few today would yearn for the 11th century's narrower income equality if they also had to accept the corresponding deprivation and economic stagnation of the day.

If populist pandering won't save us, except to return some politicians to office, what shall we do?

First, some perspective. The problem is not ours alone. The EU forecasts weak growth, amid warnings of lingering debt and the specter of deflation to further slow a persistently slow economic recovery. China's economic bubble also threatens to burst, amid consecutive months of falling factory demand, hitting a seven-year low.

As any consumer who learned the hard way can testify, you can't spend your way or borrow your way out of fiscal calamity. That only digs the hole deeper.

For five years, the Obama administration has dug furiously, already increasing the federal debt limit by more than any other president, including President George W. Bush, who had eight years to do it. At this rate, the debt limit will soar another $1.2 trillion, and exceed $18 trillion, by the end Obama's term. He doesn't get all the blame. The national debt in six decades has grown a mind-boggling 5,600 percent, from $318 billion.

So, again, what shall we do? How about recognizing what works, jettisoning what makes things worse and letting unfettered economic laws raise all boats?

What works? The John Locke Foundation assembled 528 economic articles published over the past 20 years; only two showed a link between higher taxes and strong economic growth. One study showed raising taxes to add to major state government programs almost always hurts economic growth, and that slowing government spending and lowering taxes led to higher investment and employment.

In 123 articles on regulatory policy, there was a positive economic effect from less government regulation 67 percent of the time. The inescapable conclusion from the review is that limited, not bigger, government is better for economic progress.

What should we jettison? Start with government spending, which at the federal level effectively also can reduce how much must be borrowed by about 50 cents for every dollar not spent.

From 1900-2012, federal government tax receipts went from less than 3 percent of the overall economy to 16.5 percent. Also by 2012, federal spending hit 24 percent of gross domestic product, compared with 2.7 percent in 1900. More than half of what's collected and spent goes for "transfer payments," which means taxes are extracted from one person to give to someone else.

As Cato Institute's Chris Edwards explains, transfer payments discourage taxpayers and recipients of government-redistributed money from being productive, further depressing economic well-being. The 3.7 million workers on the federal payroll cost taxpayers $407 billion a year, and average $114,976 in wages and benefits – 74 percent more than the private sector's $65,917. Federal aid to states also encourages them to overspend, exacerbating the problem.

Unfortunately, hordes of Americans on the receiving end of all this spending, requiring all these taxes and all this borrowing, constitute a formidable resistance to reform. After receiving government-delivered munificence, big-picture economic reasoning seems less persuasive than the benefit or paycheck from the government.

Consequently, we have an unholy alliance of low-information voters, who should but don't know better, combined with direct beneficiaries of government largesse, who may know better but cling to their short-term advantage.

“Balancing the budget,” observed Ronald Reagan, “is like protecting your virtue. You have to learn to say ‘No.’” Unfortunately, even under Reagan, federal debt and spending rose, as government grew.