

Cato Policy Perspectives 2011 – The State of the Federal Budget

by Bill O'Connell on April 11, 2011

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The Cato Institute held its semi-annual Policy Perspectives meeting at New York's Waldorf Astoria hotel. The program included speakers on a number of topics, among them, what is being taught in our law schools; "Obamacare, What a Difference a Year Makes"; "The State of the Federal Budget"; and "The Coming Good News about Market Forces and Education."

Opening his remarks with the greeting, "Happy Government Shutdown Eve!" it was clear that Tad DeHaven was going to present a hard hitting critique on the state of the federal budget.

He began by pointing out that we have doubled federal spending in one decade and that President Obama's plan creates a permanent plateau of higher spending. Ironically, DeHaven points out, a quotation on the White House's Office of Management and Budget's web site says, "Rather than fight the same tired battles that have dominated Washington for decades, it's time to try something new. Let's invest in our people without leaving them a mountain of debt. Let's meet our responsibility to the citizens who sent us here. Let's try common sense. — President Barack Obama." The background for DeHaven's slide showed a rather tall mountain.

He gave a brief summary of the negotiations going on with the observation, "Washington is the one place where the circus never leaves town."

He then gave a critique of the Paul Ryan plan giving it high marks for slowing the growth in spending, getting spending below 20% of GDP, greatly shrinking annual deficits, repealing Obamacare, tackling entitlements and tax reform. His disappointment was in the words around the numbers. Congressman Ryan's plan speaks of many of the federal government programs being core American values, where libertarians find the federal government encroaching in many areas unauthorized by the Constitution.

I later asked Mr. DeHaven his views on the Rand Paul plan that would cut \$500 billion in this year alone, and he said, "What separates Rand from practically every other Republican, including Ryan, is that he is guided by a principled understanding of what limited government really

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The State of the Budget, Ryan and Ran...

means. Others talk about it, Rand is actually serious about pursuing it.”

One other serious issue is that the Obama plan has spending at 24% of GDP for as far as the eye can see. President Obama will be taking another run at his failed budget plan to once again beat the “tax the rich” drum. The problem with his spending is that it runs into Hauser’s Law. As I point out in my book *Liberty’s Lifeline*, W. Kurt Hauser of the Hoover Institution looked at eighty years of tax revenue data and found that tax revenues will not rise above 20% of GDP no matter how high you raise tax rates. Which means that President Obama can talk about taxing the rich all day long but we will continue to have deficits if spending remains elevated at 24% of GDP. So to paraphrase, James Carville, “It’s the spending, stupid.”

That’s my opinion; I’d like to know yours. Please comment below.