

Economists: Higher taxes answer to solve U.S. debt

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Economist and Webster University economics teacher Paul Rochette believes there's a solution to the U.S. debt and deficit-spending challenge. He stopped short of calling the issue a crisis, and he suggested all citizens could pay more taxes to bring the federal government closer to a balanced budget.

"Solutions exist, but everybody needs to experience a little bit of pain," Rochette said.

Director of Tax Policy Studies Chris Edwards of the Cato Institute said the federal government is facing a budget crisis.

"The federal deficit is over half a trillion dollars and rising rapidly," Edwards said, adding that projections show the deficit will surpass \$1 trillion by 2022.

Budget specialists expect the federal budget to go into deficit spending during recessions, but because the country is in the seventh year of an economic expansion, the spending should have swung back, Edwards said.

Rochette, a partner with Summit Economics, taught a two-hour course recently on how to solve the U.S. debt challenge. Students were given the task of balancing the federal budget.

His business partner, economist Tom Binnings agreed with Rochette.

"We curtail our future flexibility in the event of a serious economic downturn or an unavoidable war," Binnings said. "I do think it's incumbent upon us to manage our debt prudently. We just have to bite the bullet. Everybody has to take a cut."

Government and businesses not challenged by the marketplace to maintain efficiency, "become overburdened with bureaucracy at the top," Binnings added.

In addition to cutting expenditures, Binnings said the nation should encourage immigration to solve the aging population issue.

“The U.S. is in a very strong position globally; we’re in a position to recruit the best and the brightest because so many people around the world recognize this great economical/political realm of freedom,” Binnings said, adding that many companies in this country are “totally frustrated in the inability to find high-tech talent.”

Edwards said that the United Kingdom, China and Japan are still willing to loan money to the United States’ government because of its ability to levy taxes.

To balance the budget, Edwards said he would cut funding to each of the federal departments, starting with the “lowest-hanging fruit.” Edwards has outlined his ideas, which are included [here](#).

Because the interest rates have been so low, payments made to U.S. creditors have also been low. But as interest rates increase, the federal costs “will soar,” he said.

THE NUMBERS

The U.S. government will receive \$3.36 trillion in revenue and spend \$3.9 trillion, the Congressional Budget Office predicted for this fiscal year. Simple math shows the difference — \$534 billion will be added to the federal deficit.

The federal government sells bonds to pay off interest and principal from previous loans.

“The real danger of the debt is we pay interest on the debt as we pay on the debt,” Rochette said. If the government continues its current rate of spending, “debt will increase.”

EXPENDITURES

Simplistically, the country’s expenditures are split into two areas: required spending as mandated by federal law and discretionary spending.

Required spending includes entitlements such as Medicare, Medicaid and Social Security, which together total nearly \$2 trillion, the largest non-discretionary items in the budget.

Required spending totals 69 percent of the budget, while Congress can spend the balance as it chooses.

Discretionary spending totals nearly \$1.15 trillion, and nearly half of that — \$583 billion — goes to the Department of Defense.

Other items of discretionary spending include health and human services, \$78 billion; Veterans Administration, \$75 billion; education, \$69 billion; State Department, \$31 billion; foreign aid, \$22 billion; Homeland Security \$47 billion; Housing and Urban Development, \$38 billion, Energy, \$30 billion; Justice Department, \$18 billion; NASA, \$18 billion.

Edwards suggested cutting every department, and move some spending to state governments, including food stamps and education.

“K-12 education is a very good example because historically and constitutionally, it is a state responsibility,” Edwards said. Furthermore, state governments are required to balance their budgets annually, and “they are more responsible” than the federal government.