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OPINION



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Posted on Wed, Sep. 22, 2010

Tax hikes not needed to balance the budget

Simply reduce the rate at which spending is growing.

By Daniel J. Mitchell

Washington insiders say that tax increases are unavoidable because deficits are too large. Since these often are the same people who supported "Obamacare" and the so-called stimulus, their crocodile tears about red ink probably are not very sincere. But hypocrisy is not necessarily the same as inaccuracy, so let's look at whether it is possible to balance the budget without higher taxes.

According to the Congressional Budget Office, the federal government this year is spending almost \$3.5 trillion. Tax receipts are estimated to be less than \$2.2 trillion, which means a projected deficit of about \$1.35 trillion.

So can we balance the budget when there is that much red ink? And is it possible to eliminate deficits while also extending the 2001 and 2003 tax cuts?

The answer is yes. One approach would be to get rid of counterproductive forms of spending such as the Department of Agriculture, energy-subsidy programs, Department of Housing and Urban Development, Small Business Administration, Department of Education, National Endowment for the Arts, and Department of Transportation. In other words, embrace the tea-party agenda and get rid of programs, agencies, and departments that don't mesh with the Founding Fathers' vision of a limited federal government.

For much of America's history, when such restraints were honored, federal spending was on average only 3 percent of economic output. If we did the same thing today, federal spending would be about \$450 billion. We'd not only have a balanced budget; we'd have a giant surplus and could easily afford to abolish the income tax.

But while radical downsizing of the federal government would be desirable, the budget could be balanced with much more modest forms of fiscal restraint. Indeed, there's no need to cut spending. Politicians simply need to reduce the rate at which spending is growing.

It's a simple matter of mathematics. The Congressional Budget Office estimates that tax revenue will grow by an average of 7.3 percent annually over the next 10 years. Reducing the budget deficit is easy - so long as politicians increase overall spending by less than that amount. And with inflation projected to be about 2 percent over the same period, this is an ideal environment for some long-overdue fiscal discipline.

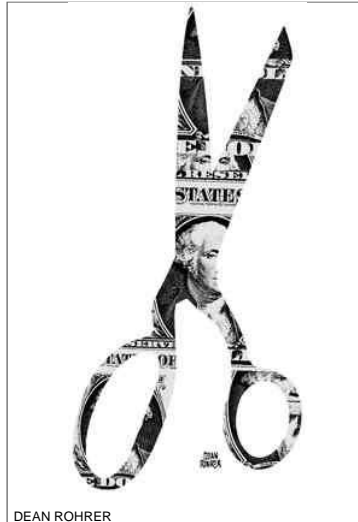
If spending is simply capped at the current level with a hard freeze, the budget is balanced by 2016. If we limit spending growth to 1 percent each year, the budget is balanced in 2017. And if we allow 2 percent annual spending growth - letting the budget keep pace with inflation, the budget balances in 2020.

Let's look at a real example. From 1994 to 1998, total spending grew by an average of 2.9 percent annually, and this modest bit of fiscal restraint led to a budget surplus. The deficit is much bigger today, so it would take a bit longer to reach fiscal balance. But the deficit would fall to just 1.3 percent of GDP by 2020 if politicians today were as prudent as they were in the mid-1990s.

Balancing the budget is not difficult. Getting rid of red ink is easily achievable with fiscal restraint. Obviously, we can - and should - do much more than simply limit the growth of federal spending. But I'm simply debunking the assertion that it is impossible to balance the budget without tax increases. Indeed, it can be balanced while making all the tax cuts permanent.

Interest groups that are used to big budget increases will be upset if spending growth is limited to 1 or 2 percent each year. It means entitlements will need to be reformed. It means we might need to get rid of programs and departments that are not legitimate functions of the federal government. You better believe that these changes will cause a lot of squealing by lobbyists and other insiders. But that complaining will be a sign that fiscal policy is finally heading in the right direction.

The key thing to understand is that there is no need for tax increases. Politicians might not balance the budget if we say no to all tax increases. But the experience in Europe shows that oppressive tax burdens are not a recipe for fiscal balance either. Milton Friedman was correct many years ago when he warned that, "In the long run government will spend whatever the tax system will raise, plus as much more as it can get away with." That's why spending restraint is the only effective, pro-growth way to balance the budget.



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JAntares

This article is right on the money. The only way to reduce the deficit is to reduce the size of the Federal government. No more business as usual.

Posted 07:04 AM, 09/22/2010

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tr88

Bingo. The question the liberal press and the DNC do all they can avoid like the plague. Are taxes too low or is spending too high? Tea being served in 6 weeks no matter how hard you try to hide from it.

Posted 08:44 AM, 09/22/2010

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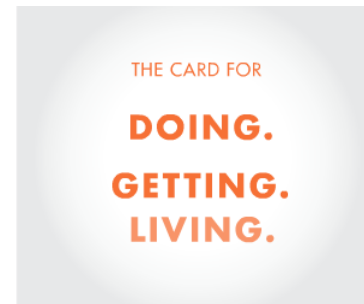


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