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How to balance budget in five years

By: Antony Davies & James R. Harrigan - March 30, 2013

Today begins the 50 days of Easter — a time of renewal and hope. It is a fitting time to consider the renewal of our government. Economists have long warned what awaits our country if politicians don't get the fiscal house in order. We offer a message of renewal and hope — a path out of our collective spendthrift ways that leaves a healthy and sustainable government for our children, rather than one mired in debt.

Contrary to politicians' warnings, last month's sequester did not cause the sky to fall. The political howling that ensued was over a measly 1-percent budget cut — year one of a 10-year plan. Howling aside, if politicians manage to stick to the full 10-year plan, the budget still will not be balanced.

So what would it take to balance the budget? Some say we should just cut military spending and be done with it. But here's the rub: If we shut down the entire military, plus threw in the Department of Homeland Security for good measure, we would still have a \$220 billion deficit. Military cuts alone are not the answer.

If we cut all discretionary budgets in the entire federal government, including the departments of Agriculture, Commerce, Defense, Education, Energy, Interior, Justice, Labor and all the rest, we would have to cut every one by 85 percent to balance the budget. Clearly, that is not going to work, either.

What about cutting mandatory spending? We spend \$2.3 trillion on Social Security, Medicare, veterans' benefits, welfare and interest on the debt. To balance the budget, we would have to cut all of these by half. That's not going to fly.

How about across-the-board cuts? Spending has become so profligate that, to balance the budget, we would have to cut every single thing on which the government spends money by 30 percent. Balancing the budget this year is simply impossible. But there is hope — we can do it in five years. Here's how.

The economy is growing and, as it grows, tax revenues increase. If we cut every line item by 10 percent this year and then held spending constant for each of the next four years, five years from now, the economy will have grown enough that we will have our first balanced budget. To make this work politically, the cuts must be across the board — no exceptions. Exceptions are a clarion call for special interests. Before you know it, one or two reasonable exceptions blossom to hundreds. Then, you're no longer cutting 10 percent, if you're still cutting at all.

A 10-percent cut means reducing discretionary spending by \$150 billion. The Cato

Institute estimates that corporate welfare (excluding bailouts) was over \$90 billion in 2007 — that's two-thirds of what we need. Politicians just aren't used to looking. Ask any small business owner if he can cut his spending by 10 percent. In a pinch, most of them can — and they are running far leaner budgets than the government runs.

The fly in the ointment is always mandatory spending. A 10-percent cut in mandatory spending means cutting \$88 billion from Social Security. There are 2.5 million people over age 65 earning at least \$100,000. If only half of them can afford to give up their Social Security benefits, we can save about \$40 billion. The rest can come from increasing the retirement age a year or two.

Politicians won't like telling Medicare and Medicaid recipients that they will have to scale back their consumption of medical services by 10 percent, and some will see such cuts as cruel and unjust. But the injustice occurred when the United States government promised all manner of things that it could not afford.

The message of hope this Easter is that, with five years of pain on our part and fortitude on our politicians', our children can inherit a renewed, sustainable and financially secure government.