The Washington Times

EDITORIAL: Beyond waste and fraud

Jettisoning Depression-era economic ideas key to restoring prosperity

January 8, 2013

Democrats are united in their fiscal message. Throughout the "cliff" negotiations and again with the pending debt-ceiling debate, their argument has rested on a single, flimsy premise: Cutting government spending would push the economy into recession. In a Cato Institute study released Tuesday, Harvard economist Jeffrey Miron argues slashing unproductive government spending and lowering tax rates simultaneously is the only way to achieve a brighter economic future.

That's heresy to the followers of John Maynard Keynes, the British economist whose ideas came into vogue in the 1930s, inspiring Franklin Roosevelt and his successors, Jimmy Carter and Barack Obama. Keynesian devotees argue that lack of demand is the cause of slow growth, and therefore, government must create the demand with government spending. Spending can come in the form of direct outlays, tax credits or subsidies. Keynes also believed tax increases reduce aggregate demand by reducing the income left at the disposal of households, and therefore are harmful to economic growth. So a nation has to choose between reducing growth and limiting debt — it can't do both, according to Keynes.

This is a false dilemma. The Keynesian analysis never bothers to evaluate whether the costs of tax-and-spend policies exceed their benefits. By definition, each dollar of federal spending adds $1 to the nation's gross domestic product (GDP). Spend a billion on a bridge to nowhere, and the accounting measure of the nation's productivity automatically increases by a billion. It's a bit misleading.

Mr. Miron provides a list of programs, large and small, where spending inhibits the creation of wealth. These include special-interest boondoggles such as agricultural subsidies or wasteful endeavors like high-speed rail, and jettisoning them would yield $100 billion in savings by his calculation. That's an amount greater than the $60 billion in annual spending "cuts" promised by the "fiscal cliff" deal (reductions that will never actually happen). Getting European nations and Japan to pay for their own military needs, instead of depending on the U.S. military, could add another $100 billion in savings without compromising America's defense. These billions represent greater efficiency that could create real productivity if left in the hands of the private sector.

There can be no truly meaningful savings, however, without addressing entitlement spending. When Social Security started in 1935, the eligibility age was 65 and life expectancy was 63. Today, the average individual lives until age 78. Boosting the eligibility age would impose little hardship on retirees while trimming the program that currently consumes more than a fifth of the federal budget. Similarly, increasing the Medicare deductible to $6,400 per person would save $250 billion annually while encouraging consumers to better balance costs and benefits. The government could also use some of the savings to raise limits on reimbursements, which will encourage the influx of health care professionals, reducing wait times and further enhancing efficiency.

Our public debt is already at 100 percent of gross domestic product, and further downgrades of the nation's credit rating are on the horizon. Cutting spending reduces debt and increases efficiency. As the debt-ceiling talks take center stage in the weeks ahead, it's the perfect opportunity to lay the groundwork for replacing the Depression-era, Jimmy Carter alchemy with economic ideas that actually work.