

# National Post

## The next Greece



The Bush-Obama spending binge, combined with demographic forces, is leaving America awash in red ink.

Reuters

**Daniel J. Mitchell, Financial Post** · Aug. 4, 2011 | Last Updated: Aug. 4, 2011 3:08 AM ET

America is on a path to becoming a Greek-style welfare state. Thanks to the Bush-Obama spending binge, the burden of federal spending has climbed to about 25% of national economic output, up from only 18.2% of GDP when Bill Clinton left office.

But that's just the tip of the iceberg. Because of a combination of demographic forces and poorly designed entitlement programs, federal spending could consume as much as 50% of economic output by the time the Baby Boom generation is fully retired.

One symptom of all this excessive spending is that Washington is awash in red ink. The United States is now in its third consecutive year of trillion-dollar deficits and the politicians just had to increase the nation's US\$14.3-trillion debt limit.

But it wasn't easy getting there. Just as happened with the "government shutdown" debate in March, Republicans and Democrats had fierce disagreements over the right approach. They bickered until the last minute and then finally agreed to more than US\$900 billion of supposed spending cuts and the creation of a "super-committee" charged with proposing another US\$1.5-trillion of deficit reduction.

So which side won this fight? Republicans are bragging that they got spending cuts today, a promise of spending cuts in the future, and no tax increases. Democrats, meanwhile, are chortling that they took the debt issue off the table until after the 2012 elections, protected their favourite programs and created a super-committee that will seduce the GOP into a tax increase.

Ignore that bragging. The easy answer is that politicians of both parties were the victors and taxpayers are the ones left in the cold.

In other words, the budget deal was a victory for the political establishment.

Here's why Republicans are winners. They get to tell their Tea Party activists that they forced Obama to cut spending. It doesn't matter that federal spending will actually be higher every year and that the cuts were based on Washington math (a spending increase becomes a spending cut if outlays don't climb as fast as some artificial benchmark).

They also get to tell their anti-tax activists that they held the line. Perhaps most important, the super-committee must use the "current law" baseline, which assumes that the 2001 and 2003 tax cuts expire at the end of 2012. But why are GOPers happy about

this, considering they want those tax cuts extended? For the simple reason that Democrats on the super-committee therefore can't use repeal of the "Bush tax cuts for the rich" as a revenue raiser.

This means that most Republican incumbents are well-positioned to win re-election.

Here's why Democrats are winners. Thanks to the magic of government math, despite all the talk of budget cuts, discretionary spending will be more than US\$100-billion higher in 2021 than it is this year. And since defence spending in Iraq and Afghanistan presumably is winding down, this means even more money will be available for domestic programs.

In addition to telling the pro-spending lobbies that the gravy train is still on the tracks, they also get to tell the classwarfare crowd that there's an improved likelihood of higher taxes for corporate jet owners and other "rich" people. Notwithstanding GOP assertions, nothing in the agreement precludes the supercommittee from meeting its US\$1.5-trillion target with tax revenue. The 2001 and 2003 tax legislation is not an option, but everything else is on the table.

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It's worth pointing out that this doesn't mean all Republicans and all Democrats are happy about the deal. The hard-core conservatives are upset that the deal is mostly smoke and mirrors on the spending side and that there may be a tax-increase trap on the revenue side.

The hard-core liberals, by contrast, are angry that there are any spending cuts, even ones based on Washington math. Moreover, they want higher tax rates on upper-income taxpayers today, not a super-committee that may or may not follow through on soak-the-rich policies in the future.

One group of people, however, unambiguously got the short end of the stick in this budget deal. Ordinary Americans are caught in the middle. They're not poor enough to benefit from the federal government's plethora of income-redistribution programs. But they're not rich enough to have the clever lobbyists and insider connections needed to benefit from the high-dollar handouts like ethanol subsidies and bank bailouts.

Instead, middle-class Americans play by the rules, pay ever-higher taxes, and struggle to make ends meet while the establishment of both parties engages in posturing as America slowly drifts toward a Greek-style fiscal meltdown.

- Daniel J. Mitchell is a senior fellow at the Cato Institute, a think-tank based in Washington.

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