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How to Balance the Budget in One Easy Step

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A few weeks ago in this space I wrote about 7th District Rep. Dave Brat sounding the alarm on federal spending. Like many others, Brat points out that in only a decade or so, only four programs — Medicare, Medicaid, Social Security, and interest on the national debt — will devour every single dollar Washington collects in taxes. Everything else — from education to national defense — will be funded by further borrowing.

Reports from the Congressional Budget Office show that while the annual deficit has shrunk recently, it will soon inflate to more than $1 trillion a year, and stay there. America's debt is now bigger than America's economy, and still growing. Interest on the debt is now the fastest-growing part of the federal budget. This is a recipe for Greece-like disaster.

Admitting you have a problem is the first step to recovery. But it doesn't do much good if you stop there. Some readers wanted to hear less about the problem — which has been well-known for many a year — and more about possible solutions. How do we avoid the iceberg up ahead? There are several possible ways. Many Americans have long favored a balanced-budget amendment, and by Ronald Reagan's first term a resolution to convene a constitutional convention for that purpose was just a few states shy of sufficient ratification. Then the momentum died.

The idea has two obvious shortcomings. First, it can tie Washington's hands at a moment when deficit spending is urgently needed — e.g., during a war for national survival. Second, it can become a vehicle for raising taxes rather than constraining spending.

Then there's sequestration. Like it or not, sequestration has helped slow the growth of the federal government. Before it took effect, federal spending was on track to consume one-fourth of America's GDP. By last year, Washington sopped up only one-fifth of America's wealth. Unfortunately, sequestration is a meat-ax. Half of its spending cuts come from defense, which is the federal government's first and most important duty. That might have been politically necessary, but it warps national priorities. Fifty years ago defense accounted for 7.2 percent of GDP; now it's 3.5 percent. Mandatory social-welfare spending, meanwhile, has grown from 5.7 percent of GDP to 14.3 percent during the same period.

But there's a third option that could put America in the black and reduce the national debt without raising taxes, hog-tying Congress in an emergency, imposing painful spending cuts, or short-circuiting rational policy with Procrustean brutality. It's even comparatively simple — simple enough, in fact, to be summed up in a single sentence.

Ready?

Hold the growth of government spending to 2 percent per year.

That's it. If Washington did only that, the federal budget would be balanced within six years. Hold the growth of government spending to just 3 percent per year, and balancing the budget would take slightly longer: nine years.

Two or 3 percent growth a year is fairly rapid, but by historical terms it is also quite modest. During the past two decades, federal spending grew 63 percent faster than inflation; mandatory social spending doubled, even after adjusting for inflation. But as the Cato Institute's Daniel J. Mitchell points out, many other advanced democracies have held their spending in similar check. Sweden, Canada, the Netherlands, and Italy did so during the 1990s; Germany, Switzerland, Israel and Taiwan did so in the 2000s. And because their economies grew somewhat faster, their government debt burdens shrank.

Mitchell advocates the "Swiss debt brake." In 2003, a voter-approved initiative took effect that required Switzerland to raise spending no faster than revenue grew. Before it took effect, Mitchell notes, Swiss government spending grew at an average annual rate of 4.3 percent. Since then, it has increased by an average annual rate of 2.6 percent. The actual rate of growth is tied to the growth in government revenue. Because that fluctuates depending on economic conditions, the government uses an average for a multiyear period.

And it works: While other European nations' government debt was growing, Swiss debt shrank. But unlike a balanced-budget amendment, the debt brake does not preclude deficit spending. Nor does it create an incentive to raise taxes. What it does do, generally speaking, is allow the economy to grow faster than the government, rather than vice versa.

Granted, the idea also has downsides. It does little to address wasteful spending, except to the limited extent that it requires a modest degree of fiscal discipline. If Congress wants to lavish hundreds of billions of dollars on a new weapons platform of dubious worth to please defense-industry lobbyists or create jobs building it in every congressional district, Congress can. If Congress wants to eliminate the Defense Department and reallocate all of its funding to a newly created Department of Rainbows, Unicorns and Butterflys, it can do that too.
But then, the proposal is not designed to usher in a golden age of wisdom. Its aim is much more modest: altering the fiscal trajectory of the federal government just enough to avoid the iceberg dead ahead. Given current trends, that alone would be a marvelous achievement.