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The Deficit Is a Symptom, Spending Is the Disease

We cannot tax or grow our way out of this hole.

Sometime in the next week or so, the U.S. national debt will exceed $13.4 trillion.

To put that in perspective: If you earned $1 every second, it would take you 425,000 years to earn enough money to pay off that debt. And it's not likely to get much better any time soon. According to the Congressional Budget Office, the United States will run up more than $1 trillion in debt next year as well, and for years to come. And with entitlement programs like Social Security and Medicare facing more than $100 trillion in future unfunded liabilities, we may look back on this level of debt as representing the "good old days."

Yet, as frightening as those numbers are, focusing on the deficit and debt is to confuse the symptom with the disease. As Milton Friedman often explained, the real issue is not how you pay for government spending — debt or taxes — but the spending itself. In other words: Don't just look at the deficit, look at why we have a deficit. And the reason we have a deficit is pretty simple: Government spends too much.

Traditionally, federal spending has run around 21 percent of GDP. But George W. Bush and (even more dramatically) Barack Obama have now driven federal spending to more than 25 percent of GDP. And as the old joke goes, that's the good news. As the full force of entitlement programs kicks in, the federal government will consume more than 40 percent of GDP by the middle of the century. That doesn't even begin to count state and local-government spending.

As any doctor knows, getting the diagnosis wrong leads to the wrong treatment. Thus Democrats pose as deficit hawks by calling for more taxes. But think about how high taxes would have to be raised to pay for all the government spending to come. Federal taxes have traditionally run at around 18 percent of GDP. Currently, they are down somewhat, around 15 percent of GDP, mostly as a result of the recession. Would we really be better off if, in 2050, federal spending reached 40 percent of GDP but we doubled taxes to pay for it? There would at least theoretically be no deficit, but we would be both poorer and less free.

Of course it is almost as silly for Republicans to argue that the answer is simply to cut taxes in order to grow our way out of the problem. There are many good reasons to cut taxes — not the least of which is that the money really is ours — but too many Republicans argue that tax cuts would generate so much additional revenue that spending cuts aren't necessary. They harken back to Jude Wanniski's "Two Santa Claus Theory," which holds that "if the Democrats are going to play Santa Claus by promoting more spending, the Republicans can never beat them by promoting less spending. They have to promise tax cuts *in order to grow the economy* — not to 'starve the government of revenue.'"

Yes, tax cuts — at least some types of tax cuts — will stimulate economic growth. But no amount of economic growth is going to enable us to afford the levels of spending to come. And even if it did, would that be a good thing? Do we want that big a government, even if we *could* pay for it?

The fact is, there is no Santa Claus — not a Democratic spending one, and not a Republican tax-cutting one. Spending is going to have to be cut — *really* cut: The old "fraud, waste, and abuse" line is not going to do it.

Cutting spending is never easy politically. In an election season like this one, being honest about spending is liable to get you labeled as an "extremist." But it is time for someone to step up and show the courage to tell the American people that Santa Claus isn't coming to town.

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