

Charles M. Arlinghaus: Here is one idea we should take from Canadian liberals

By CHARLES M. ARLINGHAUS

7 hours, 35 minutes ago

Government spending at the state and federal levels is increasingly financed by politicians who ignore any normal restraints on their activity and run up the debts of generations yet to come. Without structural constraints, lawmakers become so numb to debt that it ceases to matter and begins to infect every level of government.

Just 10 years ago, deficits seemed to matter and were hated with bipartisan vigor. Republicans took over Congress partly because they claimed Bill Clinton wasn't planning on eliminating the deficit as fast as they would. A few years later, President Clinton ended his tenure in office proudly touting debt repayment: "by dedicating the entire budget surplus to debt reduction, the United States can eliminate its publicly held debt by FY 2009."



For those of you keeping score at home, Fiscal Year 2009 ended on Sept. 30. The one-year deficit was \$1.4 trillion, and the total public debt was \$7.6 trillion (more than \$12 trillion counting debt the government owes itself, gross debt).

We now seem to have a bipartisan consensus supporting deficits and ever-escalating debt. President Bush increased public debt from \$3.3 trillion to \$7.6 trillion. One-third of that increase comes from the last of Bush's eight budgets. The always-interesting fiscal analyst Dan Mitchell of the Cato Institute points out that the record-breaking deficit this year is from the last Bush budget. President Obama's additions amount to about 5 percent.

Not that President Obama promises us anything different. In fact, he's upping the ante. Current projections have his budget adding another \$6 trillion in debt over eight years before settling in at about \$600 billion for the foreseeable future.

In 10 short years, we've been desensitized. We don't even notice. What was once obscene to think about is now "not nearly as bad as 2009." Increasing deficits is easier than making difficult decisions, so it is rationalized. Each year there's a different excuse, a new "unusual circumstance."

When debt doesn't matter, there are few structural limits on your activity. Government doesn't have to balance competing priorities with a sense of what it can afford. The lack of discipline at the federal level is then transferred to the state level.

Unfortunately, New Hampshire is not immune from this trend. We are required to balance our state budget, but we have a separate budget for borrowing called the capital budget. In the last 20 years, our debt has doubled from \$379 million to \$740 million, and it's getting worse.

State law quite sensibly prohibits borrowing money for operating expenses. However, in the budget crisis two years ago we were desperate and decided to pay for building aid with borrowed money. Everyone agreed it was a really bad idea, but desperate times required desperate measures. Then in the next budget, we decided to do it again, and for two years instead of one. It became easy.

Each year the debt gets a little worse as it gets a little easier to put off the tough decisions. The

current state budget is another example. We had a budget deficit. Spending was much higher than the regular tax revenues coming in. In the short term, we fixed the problem not by reducing spending to the amount we raise, but by taking the borrowed bailout from the federal government and spending it as if we were going to get it every year.

We didn't use it as a stopgap to help us transition the budget gap slowly down to zero. Instead, we just spent it without reducing the budget gap and are hoping for the best next year.

Both the federal and state governments should adopt Canadian discipline. Canada's deficits were worse than ours in the 1990s. Then the Liberal Party government decided to make tough decisions. The liberals cut spending from 53 percent of gross domestic product to less than 40 percent. They now only spend what they raise and have been able to reduce debt from more than 70 percent of GDP (close to where we are today) to a very manageable 19 percent.

They've also fixed and fully funded their pension plan (their version of Social Security) without spending any more than we do on it.

That fiscal discipline has allowed them to improve their competitiveness. Their top individual tax rate is the same as ours, but they have a lower capital gains rate to spur investment in jobs. They've also managed to steadily reduce corporate tax rates to 25 percent. The average U.S. rate is 40 percent, the second-highest in the industrialized world.

Bad habits can be changed. Fiscal common sense has its benefits.

Charles M. Arlinghaus is president of the Josiah Bartlett Center for Public Policy, a free-market think tank in Concord.

YOUR COMMENTS

It's always interesting when the big-government party is the one to slam on the brakes--whether to appeal to their adversaries or to deny their adversaries a juicy line of attack. "Only Nixon could go to China."

Lower taxes to spur job creation and growth is a helpful and obvious policy suggestion. As a modest first step, remove much of the uncertainty that is stalling the recovery by making the 2002 tax cuts permanent. Of course, the crowd in Washington would never do this--It directs benefits to the wrong people--the people who don't vote Democratic--and those tax cuts have Bush's name on them. We didn't vote for common sense but "hope and change." Let me know when we get it.

- Spike, Brentwood NH

Very insightful!

I see a few differences between the USA now and Canada back then.

This government is less about "we the people" and more about "we the political party", making it difficult to reach consensus on even the most trivial of decisions.

I am full in favor of universal health care, but I have heard numerous unsavory stories about Canada's health care system. Perhaps there are a few things we can learn from their pioneering efforts.

- pete, portsmouth nh

I couldn't agree more. Unfortunately, we are not likely to see any change to this cycle, anytime soon. Not in Washington, and not in Concord.

- **Joe, Madbury**

As Charlie is certainly aware, the corporate tax rate during the Eisenhower administration was over 90%. Did the world end? No, in fact it started one of the biggest economic run ups ever. He probably also knows but won't tell you that the effective corporate rate now is in fact under 17%. There are so many loop holes and dodges in the tax law that corporations spend more on lawyers to avoid paying taxes than they do on the taxes themselves. On top of that, all the moving of corporate headquarters to rooms in the Caiman islands (its another corporate scam to shift tax burdens onto you) where there are thousands of "corporate headquarters" located together. You are getting cheated. Congress passes taxes and you pay them as corporations avoid them. That is the Republican Cantservative program.

- **Robert, Deerfield**

NOTE: If you have visited this page before, newer comments may be hidden. Press F5, or hold down the Ctrl key while reloading or refreshing the page. (Another option for Firefox users is the [Clear Cache add-on](#).)

© 2009, Union Leader Corporation. All rights reserved.
All trademarks and copyrights on this page are owned by their respective owners. © 1997-2009.