

Families and Nations

Hillary Clinton got lots of publicity and made a few bucks writing "It Takes a Village." She is not the first person who tried to show that big issues are simply a magnification of the smaller ones. We study the smallest particles in physics, in order to understand how the big bang occurred. Not too long ago one of my kids came to me asking for help with her budget. After looking at the revenues and expenses, it was clear that she was simply spending too much for her housing. First she moved to a smaller apartment which she rented, selling her first place. When that was still too expensive, she decided to move to another city where the cost of living was less. Revenues also had to be examined. By the time we were all done, it appeared that there would be a lot less stress and anxiety in the family.

It is common to analogize family spending with the federal budget. There is one big difference; the federal government can print as much money as it wants. When it prints too much, we get inflation and economic dislocation. When we do not print enough, the economy collapses. Manipulation of the money supply and other clever Washington tricks have enabled us to overspend our means without imploding the economy. That will not last forever. You can only print so much money, rack up so much debt, and saddle the next generation with obligations before the whole house of cards will collapse.

Some find it to be a radical statement, but our current economic problems cannot have either a liberal or a conservative face. When we cannot any longer pay our bills, the liberal social safety net will be so full of holes as to be useless. Likewise, conservatives who want a strong military will not be able to afford new and exotic weapons systems. Simply slashing spending may be just as damaging _____ try our credit standing in the world as saddling it with unpayable bills.

Just trying to find out what the budget deficit is, what it consists of and where our revenues come from can be a daunting task. Try going on the internet. First, you have to weave your way through the plethora of special interest websites. Second, you need a degree in accounting to understand the financial jargon, and finally you need lots of coffee just to stay awake.

One of the more understandable websites is that which carries information from the congressional budget office. Take a look at the basic numbers in cbo.gov/sites/default/files/...hments/budgetinfographic.pdf. Spending is made up of mandatory spending and discretionary spending. Mandatory spending is \$2.0 trillion, and discretionary spending is \$1.3 trillion. Revenues are \$2.3 trillion. Therefore we are overspending at the rate of \$1 trillion, in 2011. Sites like the Huffington Post are delighted by the fact that our deficit, as a percentage of gross national product, is

actually dropping. All this means is that while the spending gap over revenue grows, the economy is growing as well. Regardless, the bills will still have to be paid.

Mandatory spending, that \$2.0 trillion, consists of the following:

1. Social Security - \$729 billion
2. Medicaid - \$275 billion
3. Medicare - \$480 billion
4. Other, consisting of unemployment compensation, federal civilian and military retirement, veterans' benefits, the earned income tax credit, food stamps and other programs - \$545 billion

Discretionary spending, the smaller \$1.3 trillion, includes the following:

1. Defense - \$700 billion
2. Non-defense, consisting of spending on programs relating to health, income security, education, veterans' benefits, transportation, and other activities - \$646 billion

Oh, I forgot, there is net interest on our debt of \$227 billion.

Where does our revenue come from?

1. Corporate income taxes - \$181 billion
2. Individual income taxes - \$1.1 trillion
3. Other, consisting of excise taxes, estate and gift taxes, customs duties and miscellaneous receipts - \$211 billion
4. Social insurance taxes, consisting of payroll taxes that fund social insurance programs, primarily Social Security and Medicare's hospital insurance program - \$819 billion

According to the congressional budget office, the federal budget deficit is big, real big, and bigger than any year since 1971, which is all the years that the website shows. The U.S. debt in 2011 is clearly bigger than at any time shown on the website.

What is the answer to this problem? What I told my daughter was, match your revenues with expenses. Let's just lop off \$1 billion from our spending. In order for that to happen, discretionary spending will have to take a 10-20% immediate hit, and mandatory spending will have to be cut dramatically. This means that no one can take more out of Social Security, Medicaid and Medicare than they put in. That is going to be a royal kick in the gut for most people who have come to look at the government printing presses as the means of a better tomorrow.

There are those who advocate increasing revenue. No honorable citizen could be happy about the fact that if a rich person makes all their money from municipal tax-free bonds, they will pay zero in federal taxes. As my old friend in Quiggleville would say, "That just doesn't pass the smell test." Everyone has to pay something, and there needs to be a minimum tax regardless of where the dough comes from. We need to get rid of all of the silly credits, deductions and exemptions and have a simple 1, 2 or 3-tiered tax rate. It would not be a bad idea to have a feisty debate about a national sales tax, and do away with all income taxes. Lots of really smart economists think we should get rid of all state and local taxes and simply have one federal tax rate based upon consumption. Those who buy the most toys, pay the most money. The income then gets funneled down by virtue of a simple formula based on population to the states, cities and counties that really need it.

Revolutionary? Much less revolutionary than our continued head-long rush to economic Armageddon.

Notice I manage not to mention liberal or conservative, republican or democrat? It has really become an irrelevant argument. Liberals and conservatives agree on a few basic principles:

1. We don't want to see our country bankrupted;
2. We do not want to spend more money than we have;
3. We want to see every able-bodied person work, contribute to our society and pay reasonably low taxes;
4. We are not thrilled about how the government manages its own finances.

I have never heard any disagreement between reasonable liberals and conservatives about the above principles. The only way to fairly increase taxes on the rich is to make sure that everyone pays some minimum. The rich can afford to pay more than the poor. The rich should pay more than the poor, but those who make their money in the good old-fashioned way, on earned income, taxes are already too high.

Spending has to be cut, and low-hanging fruit should always be picked first. After all, it is the low-hanging ripe fruit which will rot first if it is not taken off the tree. The biggest budget items are those that have the most waste and can be cut with the most savings. Some shared pain today, will benefit everyone in the future.

Therefore, liberals and conservatives can agree on the following principles:

1. Every citizen of the United States should pay some taxes. Fancy overseas gimmicks, tax-free municipal bonds, and tax shelters should never be a way for an honest American to escape his or her obligation to our nation.

2. Cut the fat out of the biggest budget items. The first trillion has to come off the biggest budget items, whether that be defense or other items and simply constitute more spending than revenue.
3. Let's not waste time on the silly stuff that gets headlines and doesn't mean a tinker's damn in terms of actual savings. I personally believe that national public radio and TV should not be publically funded, but we have bigger fish to fry. Let Big Bird fly another day.
4. Let's not make national economic disaster force our hand, but rather let's get ahead of the curve with some reasonable planning.

How do we get politicians to do simple, straightforward and honest work? Take away the money that politicians receive to run for office from those who have the greatest interest in keeping our system discombobulated. So long as we permit our elected officials to be bought by campaign dollars, they will not have the gumption, courage, or even the practical horse sense to change the way they do business. Politicians who receive tens of hundreds of thousands of dollars from oil companies are not going to vote for gas independence. Elected officials who could never win without pharmaceutical dollars are not going to try to cut the pork out of our healthcare budget.

Money used to buy politicians is not free speech; it is money. Money is money and speech is speech. It is a defamation of the Constitution of the United States to suggest that anyone can spend as much money as they want to buy any politician because such behavior constitutes the First Amendment right of free speech. Balderdash! Our system of campaign finance is legalized bribery, as the great, now deceased, Judge Malcolm Muir once said.

Well, there you have it. Conservatives and liberals unite! Drive the money out of the political electoral system, get rid of a trillion dollars in expenditures, and make sure everybody pays their fair share of taxes. With such a plan we will all be standing shoulder to shoulder, singing old Peter, Paul & Mary songs.

Cliff: Decide where you want to put this:

A frequent argument made against quickly balancing the budget is that it may cause economic hardship either to our citizens or to our standing in the world community. General Anthony Clement McAuliffe, United States Army General who was acting Division Commander of the 101st Airborne Division Troops defending Bastogne Belgium during World War II's Battle of the Bulge. He is famous for a single-word reply of "Nuts!" in response to a German surrender ultimatum. The greater danger to our nation is in being a world leader that cannot get its house in order and seems to be sliding into the abyss of economic dysfunction.

The Bowles Simpson deficit reduction plan developed by President Obama's bipartisan deficit reduction commission was a potential starting point. The problem was, of course, that it was unceremoniously rejected by cynical politicians of both parties.