



Government Spending

By Rod Blum

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Admitting that the federal budget is wildly out of control? Not hard to do. Figuring out if we have a revenue or spending problem? Also not that difficult if one sets aside class warfare. Actually making the budget cuts that will fix the problem? Not as easy with career politicians and their traveling entitlement show involved.

The budget facts are indisputable. Fiscally speaking, we're hemorrhaging. In FY2010, the federal government collected \$2.2 trillion in revenue while spending almost \$3.5 trillion. The result was a \$1.3 trillion deficit – in other words we racked up debt at the staggering rate of \$3.6 billion per day in 2010. If our government were an average American household, its annual income would be about \$50,000 per year and it would spend around \$79,000 per year. And sadly its credit card debt would be \$318,000.

America's national debt now stands at over \$14 trillion which amounts to roughly one hundred percent of GDP. Most economists agree that debt levels this high pose a significant problem for long-term economic growth. Leading authors and economists Carmen Reinhart and Kenneth Rogoff, recently examined debt levels in forty-four countries over the course of two-hundred years. They found that as debt-to-GDP ratios increase from thirty to ninety percent, economy growth rates tend to halve. Sound familiar?

Cut spending or raise taxes? Over the last fifteen years annual revenues to the federal government grew from \$1.4 trillion to \$2.2 trillion, a 57 percent increase. However, during the same timeframe, annual federal spending exploded from \$1.5 trillion to \$3.5 trillion, a whopping 133 percent increase. History has shown us that increased taxes are always met with increased spending – IF WE SEND IT THEY WILL SPEND IT. Additionally raising taxes during a recession is never a good idea. I've never been employed by a poor person - business owners risk their own hard-earned capital to create new businesses and jobs. Raising their taxes impairs job creation – something we sorely need. According to the IRS, the top ten percent of wage earners earn about forty-six percent of the total income but pay seventy percent of total federal income taxes. My friends, America has a spending addiction.

The long term answer to restoring stability to our budget is two-fold: America needs to reform entitlement programs and we need to adapt to the realities of a global economy. The entitlement programs of Social Security, Medicare, Medicaid and welfare need to be reformed. If politicians had actually put the monies withheld from American's paychecks over the years into an actual trust fund we wouldn't have nearly the problems with funding Social Security and Medicare today. Instead they spent the money in a Ponzi scheme that makes Bernie Madoff look like a piker.

To compete globally more effectively, our K-12 education system needs to raise its standards instead of lowering standards to make results look better optically. Washington also needs to reduce the regulatory and tax burdens on American businesses so we can compete on a more level playing field with other countries. And speaking of “level” playing fields, we need to examine our trade practices.

According to the U.S. Department of Labor, in 2008 the average manufacturing labor cost in China was \$1.36 per hour. Ross Perot warned of the “giant sucking sound” of our jobs going to other nations. “Free” trade that is not “fair” trade is to our detriment. I think it’s time our leaders re-evaluate our trade policies to determine if our strategies are achieving their intended goals. It’s been a race to the bottom and we all lose when that happens.