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T. M. Power

Creating a Budget and Deficit Crisis for Partisan Purposes

It now looks like a last minute political deal has been reached to avert the first ever default on US government debt or an immediate 40 percent reduction of government spending that would prevent the government from paying its bills.

This high drama of crisis and brinksmanship that was already damaging the economy was entirely contrived by the right wing of the Republican Party who, against overwhelming evidence to the contrary, sought to blame the current Democratic president for profligate deficit spending that had suddenly built up a national debt that they asserted was so unsustainable that it was threatening the current economy and future generations.

To stop further growth in that national debt, they insisted that the debt ceiling on how much the federal government was authorized to borrow should not be raised unless commitments were made to cut spending by an equal amount and a constitutional amendment was passed to forbid deficit spending by the federal government.

The irony or dishonesty here is that the debt ceiling was regularly raised without serious objection by both the Republican conservative hero Ronald Reagan and the less than heroic George W. Bush. In fact the debt ceiling has been raised 74 times over the last 50 years, about once every year and a half during Republican and Democratic administrations. Republicans have controlled the White House for twenty of the last 30 years. Those Republicans ran up the deficit with great enthusiasm. Reagan boosted

military spending dramatically while cutting taxes. George W. Bush initiated two foreign wars and sponsored the Medicare drug benefit program while also cutting taxes. It was the Democratic administration of Bill Clinton that balanced the budget and began to generate a surplus. Republican George W. Bush quickly ended that foolishness, devoured the federal surplus, and then ran up massive deficits. Despite the magical mantra that cutting taxes would stimulate the economy, Bush ended his reign with the worst economic collapse since the Great Depression. That cut federal revenues dramatically just as his administration was forced to sponsor massive bailouts of financial firms to keep the financial system from collapsing. The deficit ballooned further.

It was that history of Republican deficit spending and the Great Recession that President Obama inherited and has had to cope with during his first term in office. The Republican strategy is to lay this long history of Republican financial and economic irresponsibility on Obama's door step.

The Republican bumper-sticker analysis of the source of the problem bears little connection to reality. They tell us the "Washington" has been on a binge of "taxing and spending." Yet federal tax revenues now represent only about 14 percent of the total economy. That is the lowest tax burden on the American economy since 1950. Among the 29 developed countries of the world, only Japan and Spain take in less tax revenues as a percentage of the total economy. Rather than over taxing, we dramatically under-tax ourselves, which partially explains why our roads, bridges, schools, and other public infrastructure are in decline.

Another Republican bumper sticker is that the federal government should operate on a balanced budget just like every household has to do. Say what? American

households engage in massive deficit spending: We borrow hundreds of thousands of dollars to buy our homes, we borrow tens of thousands of dollars to buy our cars, we and/or our kids often borrow 50 to 100 thousand dollars to pay for their education, and then we use credit cards to maintain our spending above our current income levels.

The fact is that all households, businesses, and government agencies borrow money to finance investments that they hope will pay off in the future. The objective is not to be debt-free but to make sure that the debt is financing productive investments that will pay a dividend in the future.

Until the right-wing of the Republican Party decided to purposely attack the value of the American dollar by threatening to default on federal obligations, loans to the US government were considered the safest and most productive place in the world to invest money. Individuals, businesses, and governments around the world were eager to invest their money in US Treasury bonds. That was a sure sign of the confidence they had in the American economy as opposed to other nations' economies. Investors around the world did not see a debt crisis in the US until right-wing Republicans created one for their own misguided ideological purposes.

This is not to say that we have no serious financial problems. Because medical costs in the US are very high and rising and our governments have taken responsibility for assuring access to health care for senior citizens and young children living in poverty, these health care costs are eating a huge hole in federal and state budgets and are expected to continue to do so. But here again this is a problem of our own making as we have been shackled by ideological beliefs that keep us from acting to control those rising medical costs. As a result we spend a larger share of our national income

on medical care than any other developed nation and get poorer medical outcomes despite all of that excess spending. The average share of national income that other developed countries spend on medical care is 9.5 percent. We spend almost twice that, 17.4 percent.

The real obstacle to a balanced budget and a reduction in the federal deficit is skyrocketing medical costs. That is what is out of control. But conservatives do not want to try any of the methods other developed nations have used to provide both broadly available and effective health care at a much lower cost because all of those effective methods of managing the health care system involve government agencies playing an active role.

As a result, because we cannot reach consensus on the proper role of government in our society, we remain trapped in an ideological stalemate unable to maintain the health, safety, education, energy and transportation systems that are central to any modern prosperous economy.