

Economic Judgment Day

by *Richard W. Rahn*

FORCED END OF SPENDING IS CLOSER THAN WE THINK

The current debate about the debt vote is minor league compared to what will happen when the government literally cannot spend more than it is taking in. That time may be nearer than you think. It is true that the U.S. government can always "print" money to pay its bills, but at some point, printing more money becomes self-defeating because the resulting increase in the government bond interest rate and required interest payment will spiral out of control. At that point, the government will be forced to operate on a pay-as-you-go basis, as any individual or business is forced to do when they can no longer get credit. Several California cities are now in this situation.

The U.S. government now receives about \$200 billion a month in revenue and spends about \$320 billion a month. Any responsible business or individual faced with a situation where receipts are only 60 percent of expenditures would make changes before their credit was cut off or, at the very minimum, have a plan for which bills to pay first -- but not the U.S. government.

It appears that President Obama is once again going to produce a budget that assumes very high levels of deficit spending can go on forever. It also appears that Senate Democrats will continue to not bother to pass a budget. Note that the purpose of a budget is to allocate scarce resources (your money) and to make sure that spending does not exceed the funds that are available. Senate Majority Leader Harry Reid is the ultimate spoiled child, accusing the taxpayers of engaging in child abuse by not giving him an unlimited allowance.

It is not likely Republicans are going to be able to get real spending restraint, even with their leverage of a debt limit, a sequester and a continuing resolution. They should be able, however, to force the Obama administration to provide a plan for spending priorities once the next debt limit is reached and when the government will no longer be able to issue any more debt at reasonable interest rates. It might force a national debate on what the government should and should not be doing.

Many government programs could be eliminated or could and should be self-funding. Social Security was set up to be self-funding through the payroll tax, which was supposed to fund a trust fund. The problem is that the monies in the trust fund were long ago spent by Congress (Al Gore's famous lock box was empty). Social Security can be made sound again by adopting a defined contribution system (similar to a 401(k) plan), which more than 30 countries have done. To protect those dependent on the current system, U.S. government assets, like federal land, could be sold to replace the money that Congress stole from the trust fund over the past half-century.

For example, consider the Department of Agriculture. Why do we even have a Department of Agriculture? It doesn't produce food -- farmers do. It is not mandated by the Constitution, and many of its activities might be unconstitutional. For fiscal 2013, it is estimated that the Agriculture Department will spend about \$155 billion and make loans of another \$22 billion and additional loan guarantees of \$34 billion.

The biggest single item in the Agriculture budget is food stamps and other food subsidies (\$110 billion). These are welfare payments. Shouldn't they be under the Department Health and Human Services? The next biggest items are the farm subsidies (\$29 billion). Why are we subsidizing farmers? They have much higher than average incomes and much wealth in land and equipment, and most of our food is grown on large

farms. They used to say we need to preserve the small family farm. There are very few of these left -- and many small farms are hobby farms owned by people who have other sources of income. We have also been told farming is "risky" due to weather factors. Most businesses are risky. An unexpected disaster or innovation by a competitor has killed many businesses. Consider what digital photography did to Kodak or what cellphones did to phone booth manufacturers. Farmers can get private crop insurance, so why is the government providing it? Farmers can hedge their crops on commodity exchanges. High-tech firms, airlines and many other businesses don't have that option.

The fact is the private sector could and probably should do most of the things the Agriculture Department is now doing, and this is true with most government agencies. Those few things that are purely government functions within the Agriculture Department could be funded largely with user fees.

The Departments of Defense, State and Justice are authorized by the Constitution and are generally accepted legitimate federal government functions. Most of the rest ought to be done at the state and local levels or by the private sector. The current spending and debt crisis eventually will force debate on the role of the federal government -- which programs necessitate taxpayer funding and which can be eliminated. The time is closer than most think -- just ask any Greek citizen or resident of Stockton, Calif.

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