



The Responsibility to Resist Irresponsible Politicians

BY RICHARD W. RAHN

FISCAL PRUDENCE MUST BE CARRIED FROM THE KITCHEN TABLE TO THE VOTING BOOTH

Are you more responsible than your government? If so, what can you do about it?

If your personal spending rises faster than your income each year, you eventually will go bankrupt. Responsible people understand this and thus refrain from taking on more debt than their income can support. This basic fact is true of individuals, businesses and even governments — look at Greece and Detroit.

President Obama presented his budget proposal for 2015 last week. As the accompanying chart shows, it calls for increasing government spending from \$3.6 trillion this year to \$5.9 trillion in 2024. Much of this whopping increase is to be funded through more deficit spending — and thus increasing the debt-to-gross domestic product ratio, which is already at a record high for peacetime. Many good economists also think that the president is being overly optimistic about anticipated economic growth and government revenues.

There is nothing new about governments overspending and accumulating fatal amounts of debt. A quote attributed to Cicero warned: "The national budget must be balanced. The public debt must be reduced. The arrogance of the authorities must be

moderated and controlled. Payments to foreign governments must be reduced if the nation does not want to go bankrupt. People must again learn to work, instead of living on public assistance."

The people and the political class ignored the advice. The bread and circuses continued, the political leaders became increasingly corrupt, and the formerly invincible Roman army became so weakened that it was easily toppled by "barbarians." In the two millennia after Cicero, empire after empire rose — and fell, often as a result of excess government spending.

The American Founding Fathers understood the pressures on governments to overspend, and did their best to design a system to make spending difficult — but the political class has increasingly been ignoring the Constitution. In his classic book "The Road to Serfdom," published in 1944, the brilliant F.A. Hayek vividly described how the utopians always end up bankrupting the society and destroying liberty.

Vito Tanzi, distinguished economist and former Italian undersecretary for economy and finance, perhaps said it best in his new book, "Dollars, Euros, and Debt": "It is important for citizens to recognize that resources are always scarce, and the function of government should be to prevent hell on earth, rather than try to establish heaven. When the state tries to do too many things, it inevitably brings excessive complexity in its actions and becomes inefficient."

A couple of other economic maxims are worth remembering. The first is Mitchell's Golden Rule of Fiscal Policy, which says, "Good fiscal policy exists when the private sector grows faster than the public sector, while fiscal ruin is inevitable if government spending grows faster than the productive part of the economy." The second is the Fundamental Law of Public Expenditure Growth, which, in essence, states that when new government programs are created and require an increase in government spending as a percentage of GDP, they have a tendency to grow continuously and spontaneously, always becoming more expensive. Finally, we have Baumol's Law: "The productivity of the public

sector's activities tends to grow less rapidly than the rest of the economy."

There is also considerable empirical evidence that when the size of government exceeds approximately 25 percent of GDP, economic growth and job creation tend to slow. Almost all major economies in the world now have government sectors that exceed that size. This fact, coupled with the three maxims cited above, if properly analyzed, leads to the conclusion that over the long run, tax increases in countries that already have big government sectors and high levels of debt only will make things worse.

Mr. Obama and many members of Congress should and probably do understand that the higher levels of spending and debt they are proposing is long-run poison to the economy. They also understand, though, that many of their voters are more concerned about getting immediate benefits from the government than the inability to find a well-paying job.

The situation can only get better if voters start demanding their elective representatives refuse to vote for any tax or budget increase that raises government spending as a percentage of GDP.

Voters then must be prepared to vote against those politicians who deviate from those simple principles. Politicians will resist such constraints because it would force them to seriously consider spending priorities.

If voters refuse to discipline their elected officials and continue to buy the "feel-good" line, economic stagnation, inflation or worse will occur. Voters who say they are personally responsible in managing their own finances are not being responsible if they vote for politicians whose policies will ultimately destroy their and everyone else's financial well-being.

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