

Ryan budget a good step on the road to prosperity

Washington Examiner

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Op-Ed Contributor

House Budget Committee Chairman Rep. Paul Ryan's "Path to Prosperity" proposal starts off well, identifying the root of the U.S. debt and deficit problem: The government spends too much. The proposed cuts are of the right size. But the plan waits too long to take action, making it unlikely to forestall the coming crisis.

When it comes to budget planning, we know two things:

* From 1956 to 2009, on average, each 1 percent increase in government spending (relative to gross domestic product) has been followed a year later by a 0.2 percentage point increase in unemployment and a 0.3 percentage point decline in economic growth.

* On its current path, the federal debt, currently 98 percentage of GDP, will soon reach a point at which default or monetization become the government's only options.

Prior to the president's health care plan, the Medicare board of trustees anticipated that Medicare would be bankrupt within the next few years, followed a generation or so later by Social Security.

That means that we have very little time, perhaps less than a decade, to force our government to get its financial house in order. If Americans do not demand that our political leaders fix this mess, we may be leaving a very different America to our children.

The first step is for Americans to understand the dire straits we are in. The second is to insist on substantial spending cuts because an increase in taxes won't close the deficit. Even if raising taxes did not create a drag on the economy (and it does create a drag), almost all tax rates would have to double in order to balance the budget.

The Republicans' proposal seems to understand the need for substantial cuts. It cuts \$6.2 trillion from the president's proposed budget over the next 10 years. At an average of \$620 billion per year, this plan contains the right number of zeros for a serious fiscal discussion. Congress would have to cut around \$1 trillion to balance the budget in 2011.

But government projections rarely hold beyond six months, let alone 10 years. Cuts that span a 10-year period are largely symbolic. Whether the budget proposal has real teeth depends on whether those

proposed cuts are spread evenly over the 10 years or are back loaded. If it were the former, then the Republican proposal would have been the first real attempt to rein in Washington's spending binge.

The bad news is that the proposal is mostly symbolic since it backloads the cuts: Serious cuts do not kick in until 2015. Projecting cuts four years into the future is an interesting mathematical exercise, but the only cuts that are real are the ones that occur in the next fiscal year.

The Republicans have started the right conversation -- a conversation in which annual cuts are in the half-trillion dollar range. But they do not seem to realize how dire our straits actually are. To balance the budget, they need to cut \$1 trillion in a single year, not over 10 years.

If that sounds extreme, remember that balancing the budget today merely stops the debt pile-on. We would still be facing a debt that the same size as the European Union's entire economy, but at least a balanced budget would have stopped the debt's growth.

The Path to Prosperity's chief benefit lies in admitting that the Emperor has no clothes. Now that we can admit that the right fiscal conversation involves multi-hundreds of billions of dollars in cuts, let's turn the conversation to admitting the dire situation we are in and making those cuts as meaningful as possible. Antony Davies is a professor of economics at Duquesne University and a member of the Mercatus Center's Spending and Budget Initiative at George Mason University.