Let Cyprus be the lesson

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Greece's chronic overspending led to economic near-collapse last year. Now it is Cyprus' turn.

Were it not for years of overspending, Cyprus might have been able to bail out its banking sector. Instead, the EU and IMF are faced with yet another European economy in financial distress. This time, though, the EU has put a price on its aid to Cyprus.

And that price will be paid for by people who have money in Cypriot banks. It turns out that what used to be their money is now collateral put up by Cyprus in order to secure a $13 billion EU bailout.

But this isn't a story about Greece or Cyprus (last year's and this year's casualties) or even about Italy, Portugal or Ireland (in all likelihood next year's casualties). It is a story about nearly everyone, because nearly every Western country suffers from the same disease: governments that spend well beyond their means.

How can the United States avoid the fate that awaits this growing list of countries? The answer to this question is as easy factually as it is difficult politically: The United States must balance its budget.

This means taming all spending to the point where, each year, our government spends only that which it can afford. Runaway debt destroys economies, and it will destroy ours just as readily as it will destroy Cyprus'.

So what will it take to balance the federal budget? The ruling class will not care for the answer given its recent collective convulsion over a 1 percent sequestration cut, but that will not make the answer any less true or the measures any less necessary.

All that is required is discipline, that rarest of all D.C. birds. Our politicians have learned that what they cannot get from taxing the people, they can get by borrowing from future generations — the ultimate in taxation without representation. This behavior will have to be unlearned. So here is what we must do.

Since the 1950s, federal tax revenue has averaged 18 percent of GDP. A few years ago, it dipped to 14 percent, but has been climbing and currently sits at 16 percent.

Assuming that tax revenue returns to 18 percent of GDP, that GDP grows 3 percent to 4 percent a year, and that the Fed holds interest rates at current levels (all of which are reasonable assumptions), a balanced budget is possible within five years. How?

Washington must cut spending by 10 percent next year, then hold it constant — not even adjusting for inflation — for the next four years. This will sound like Armageddon to Washington, but it's a reality that American businesses, workers and families live with all the time. That's how normal people (read: people who cannot borrow money indefinitely) deal with economic downturns.

We can do this and live with the pain now, or we can wait for the government to confiscate our savings later. There will be pain either way.

It would be better to address the problem of a government that spends more than it has ever had right now. Let Cyprus be the lesson.

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