

SNG-Nowlan-Squeezing 12%-8-21-11

Squeezing 12 percent out of our lifestyle

By Jim Nowlan

The recent Iowa Straw Poll is a piece of Americana, with big tents, country music, socializing and politicking—plus a huge dollop of disingenuousness, that is, lack of candor. The GOP presidential wannabees all declared fervently for no tax increases to their devoted supporters. The declarations represent either a lack of grounding in reality or studied dissembling.

Democratic lawmakers have been no better, often vowing to protect Social Security and Medicare to their dying breaths.

Maybe the respective positions of the two parties represent negotiating positions, with candor the victim of strategy and tactics.

A strong majority of the American public appear to be more realistic, telling pollsters that a combination of cuts and tax increases will indeed be needed to right the fiscal ship of state.

The magnitude of the budget imbalance is awesome, far beyond what most of us think to be the case.

The federal budget deficit this year (spending minus revenue) is \$1.4 or \$1.5 trillion. Total Gross Personal Income (all that individuals earned) is about \$12 trillion. So the overspending (which has to be borrowed) amounts to 12 percent of all our individual income.

This 12 percent is roughly the amount we would have to pay in additional taxes or reduced services (like Medicare services and Social Security benefits), or a combination of the two, in order to balance our budget.

For a family on a \$50,000 income, that 12 percent would represent a reduction in income and/or services of \$6,000; for an income of \$100,000, a \$12,000 reduction. Of course, not everyone would see the same reduction in income/services, and that is what the battles would be over, should our elected officials ever come to terms with the problem.

And if they don't address the problem, woe betides the future of the U.S. Either the value of the dollar will depreciate dramatically at some point, reducing our purchasing power, or the cost of borrowing will become prohibitive and the interest payments on the debt will eat up more and more of our budget resources.

An attendant problem is that of how fast should we achieve something close to a balanced budget? Public demand for goods and services is already soft, threatening a double-dip recession. If we cut spending and increase taxes too rapidly, we will depress demand further. For example, defense spending now appears to be on the chopping block, which shows you that seriousness is creeping into the budget deficit debate. But if we cut spending too fast, scores of thousands of defense contracting jobs will be lost.

We're in a real pickle.

And there are areas where we just have to spend more, even as we cut elsewhere, or we will fall further behind our competitors. Our aging infrastructure must be upgraded and more money must be invested in our research laboratories.

As I see it, the ideal approach would be a “grand agreement” that would invest more in the next couple of years to spur demand, followed in subsequent years by a step-by-step, very painful ratcheting of tax increases, and not just for the wealthy. This would have to be combined with equally unattractive reductions in outlays for Social Security, Medicare and Medicaid, and Defense. This is the only way to save the social welfare programs.

The magnitude of our fiscal problems puts our country’s future in as much peril as if we were in wartime. The unanswered questions are, first, whether our elected officials have the courage both to be straight with the public—and maybe to fall on their swords to address the problems—and, second, whether the public has the will to save the country.