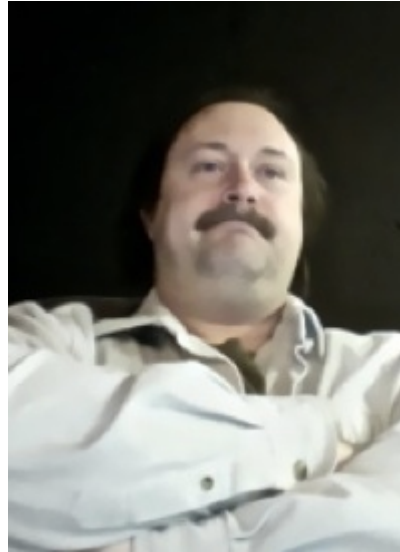




To Fix the Economy, Let's Try the Constitution

David Stockman, who served as director of the Office of Management and Budget under President Reagan and who is working on a book about the financial crisis, is one of those who is now spreading the word that government deficit spending is at the root of the problem.



"The nation's public debt — if honestly reckoned to include municipal bonds and the \$7 trillion of new deficits baked into the cake through 2015 — will soon reach \$18 trillion," [he pointed out in an editorial for the New York Times](#). "That's a Greece-scale 120 percent of gross domestic product," he notes.

Along with Stockman, who blames the Republicans for the mess, is Laurence Kotlikoff, professor of economics at Boston University. [In a column for Bloomberg.com](#), Kotlikoff goes one better than Stockman. "Let's get real," he writes, "The U.S. is bankrupt."

Kotlikoff points to an International Monetary Fund assessment of the U.S. economy that found that the "fiscal gap" for the United States is "equal to about 14 percent of U.S. GDP." Fiscal gap, Kotlikoff explains, "is the value today (the present value) of the difference between projected spending (including servicing official debt) and projected revenue in all future years."

Using data from the Congressional Budget Office, Kotlikoff came up with a dollar value for the fiscal gap. "I calculate a fiscal gap of \$202 trillion, which is more than 15 times the [official debt](#)," he reported.

Kotlikoff and Stockman are not the only analysts warning that however bad the last two years have been, the future looks worse still. [Peter Schiff](#), president and chief global strategist for Euro Pacific Capital, Inc., was one of the few who predicted the current crisis, and he continues to warn of problems in the offing.

"We're in the early stages of a depression now. It's going to be a horrific experience for average Americans who are going to watch their standard of living plunge," he told *The Motley Fool's* Jennifer Shonberger [in an interview](#) on August 9. "Millions of more Americans are going to lose their jobs, and all of us are going to lose our freedoms and our rights. As the government gets bigger, it tries to end the crisis; but its policies are creating, perpetuating, and making it worse," he warned.

If these and other economists who share similar concerns are right, and right now the preponderance of evidence suggests they are, then unless changes are made we are in for a very bumpy ride. But what, exactly, can be done to prevent the nation from falling off the economic cliff?

Stockman and Kotlikoff seem to think the answer is taxes, and much more of them. For his part, Stockman blames the current crisis on Republican tax cutting. In the 1980s, he claims, The GOP got "hooked ... for good on the delusion that the economy will outgrow the deficit if plied with enough tax cuts." So successful have they been in their delusional efforts to end the fleecing of taxpayers, he says,



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that "by fiscal year 2009, the tax-cutters had reduced federal revenues to 15 percent of gross domestic product, lower than they had been since the 1940s." This unfunded spending, Stockman rightly insists, has to stop. But the implication is that it is not necessarily the spending that is the problem, but the lack of funding.

Kotlikoff, however, doesn't just bemoan previous tax cuts, but says new, steep taxes are probably needed, if not inevitable. Paraphrasing the IMF on the U.S. economic situation, Kotlikoff writes: "So the IMF is saying that closing the fiscal gap, from the revenue side, requires, roughly speaking, an immediate and permanent doubling of our personal-income, corporate and federal taxes as well as the payroll levy set down in the Federal Insurance Contribution Act."

If, by its verbosity, that assessment doesn't sound bleak enough, Kotlikoff puts it in starker terms. We can expect, he says, "astronomical tax increases that leave the young with little incentive to work and save...." We can also expect, he says, "the government simply printing vast quantities of money to cover its bills."

Fortunately, the solution to the crisis does not require theft from taxpayers in the form of taxes and monetary debasement — though these, admittedly, are the preferred "solutions" sought by most politicians and pundits alike.

A much better solution would be to roll back the federal apparatus to something more in keeping with the size and scope of government envisioned by the Founding Fathers and the U.S. Constitution.

What would that look like? First it would mean pulling troops out of Afghanistan and Iraq, and that could save billions of dollars, maybe hundreds of billions. [According to a study by the Federation of American Scientists](#), "If the Administration's FY 2010 war request is enacted, total war-related funding would reach \$1.08 trillion" for costs associated with military operations in Iraq and Afghanistan for the post-9/11 period. Scaling back our unconstitutional operations could save nearly \$11 billion per month, the current amount of monthly DOD obligations for contracts and pay, according to FAS.

What else could be cut? Once, Republicans sought to disband the federal Department of Education. That was true as recently as 1996 when [the GOP platform announced](#): "The federal government has no constitutional authority to be involved in school curricula or to control jobs in the workplace. That is why we will abolish the Department of Education, end federal meddling in our schools, and promote family choice at all levels of learning."

For this year, the Department of Education is funded to the tune of \$46.7 billion. That rises to [\\$49.6 billion for 2011](#). If that level were to stay static for the period 2011-2020, taxpayers could save \$496 billion in that time if the department were eliminated.

Another federal department that stands on shaky constitutional ground is the Department of Labor. It provides for such things as "job training and employment services" and for "community service employment for older Americans," and sundry other things never contemplated by those who penned the Constitution. It's "discretionary budget authority" for 2011 is \$13.9 billion, or \$139 billion over 10 years if future budgets stay static.

These, as they say, amount to the proverbial tip of the iceberg. Take the constitutional axe to the government and trillions upon trillions of dollars will be saved, returned to their actual owners, and put to use in productive capacities. We could, and should, end what Kotlikoff correctly calls our "massive Ponzi scheme" of stripping money from the young to pay for the retirement and other benefits of the old. Kotlikoff says that these will end up costing us "about \$4 trillion in today's dollars" annually.



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Instead of making an attempt (and, ultimately, a futile one) to keep the ponderous bulk of the government's sword of Damocles above our heads by stripping more and more wealth from the already suffering taxpayer, its time try something novel.

Let's blow the dust off the Constitution and give it a try.

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