

**A Note on the Budget Impasse**  
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11 Jul 2011

Most of us have heard about the big "budget debate" in Washington between the leaders of the two major political parties. The Washington establishment and the media are telling us that it is necessary to achieve some kind of long-term budget agreement in the next few weeks or else the U. S. will default on its obligations by 2 Aug 2011. Now of course, the government has a lot of money rolling in each month - more than enough to pay interest on the debt that is due each month. So, defaulting on our \$14.4 trillion debt is actually a matter of choice. What the politicians want us to believe is that come 2 Aug they will be able to pay only part of their obligations and renege on the rest; i.e., they will have to "default" on something. But it will certainly not be interest payments on the debt (that would cause real economic problems), what they mean is that some interest groups, some corporate welfare queens, some individual welfare recipients, or some illegal aliens will not get all the free goodies they have been promised out of our pockets.

I for one don't believe it, on the grounds that no one, not even two-bit party-hack politicians, could be stupid enough to delay resolving this issue until a few weeks before the Big Event. If it is true that they knowingly and willfully delayed all this time, recognizing months in advance that such an event would be triggered by their inaction, the proper remedy is for them to resign in disgrace for dereliction of duty. That can never happen.

Mr. Obama and Mr. Boehner, as leaders of their respective parties, have been haggling (we are told) over a long-term "solution". At one point, it was to be a \$4 trillion "solution", involving spending cuts to the largest budget items (Social Security, Medicare, and defense) to be augmented by tax increases on the middle class and the wealthy. Supposedly, Mr. Obama's Democratic allies rejected any talk of reducing those entitlements, while Mr. Boehner's Republican allies rejected any talk of tax increases; hence they are now struggling to come up with a "small" \$2.1 trillion deal. But, we should remember that no one in Washington, regardless of party, ever gets around to actually cutting spending. If they cut a deal, the tax increases would go into effect immediately, whereas the spending cuts would be scheduled for ten years from now and would simply never happen; this is exactly what occurred during the tax increases of the Reagan and G. H. W. Bush eras. It is even worse than that: when the "deficit hawk" Republicans gained control of both houses of Congress in 2000, the first thing they did, and continued to do, was to increase spending just as the Democrats had done. I would be leery of any so-called "solution" according to the usual formulas.

In the end, the big-money, big-vote-getting interests obtain their desires through exemptions, exclusions, subsidies, outright gifts, and unfunded mandates on the states, while the average guy continues to lose ground or stay where he is. That said, I may be fairly conservative, but I would not be opposed to a "provisional" tax increase to help deal with the debt. "Provisional" in this context is understood to mean a tax increase devoted only to reducing the debt. But, to guard against the political trickery of the past, I would remain in favor of a tax increase only under the following caveats:

- a. Revenue increases shall be imposed only by a payroll tax, which may be graduated and scaled for total income (i.e., the rich to pay more, the poor less); this eliminates loopholes to aid the politicians' favorite friends.
- b. In year 1 of the budget deal, spending will be cut by "X" amount, without any increase in marginal tax rates.
- c. In year 2, of the budget deal, tax rates may be increased to approximate "X" from the year before.

- d. The same formula as above shall prevail for all succeeding years, that is, the amount of additional revenue in a given year shall not exceed the budget cuts of the past year, as compared to the year before that.

Only then can we be assured that the spending cuts are real; secondly, we will have a solid metric by which to evaluate the magnitude of the subsequent tax increase. The politicians will complain that the additional revenue will come too late; that people will suffer in the initial cuts. Poor babies; maybe they should have given that some consideration before they ran up our credit card to \$14.3 trillion; just a thought.

Now that I've mentioned tax loopholes, I would also like this budget deal to address the complexity of the tax code, which exists only to benefit special interests and politicians' favorite puppies. Therefore, I require, as compensation of my taxes going up, a reduction in the volume of the tax code according to the following schedule:

- a. 50% reduction in tax code volume within the first four years
- b. An additional 50% reduction (to 25% of current) in the next succeeding four years
- c. An additional reduction (to 12.5% of current) in the next succeeding four years.

In order to ensure Congress and the IRS comply with these restrictions, I require a provision by which all income and payroll tax withholding shall cease if Congress and the IRS refuses or is unable to meet the above reductions.

None of these ideas have any chance of passage, of course. But it will be entertaining to see what our illustrious leaders foist on us this time.