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The Charlotte Observer

A-Section

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'Drown it in bathtub' wrong economic plan

America's deficits are our problem, not the federal government's

BOB PERKOWITZ
Special to the Observer

After an era of liberal excess, Americans elected a conservative Republican president, a principled man of moral certainty. Backed by a Republican House and Senate, he was able to exercise almost complete control over America's national agenda. Our president believed that the business of America is business. He sharply lowered taxes on the wealthy and staffed the federal bureaucracy with businessmen who sought to assist corporations rather than regulate them.

That president, Calvin Coolidge, left office in 1929, just months before his laissez-faire policies culminated in the Great Depression.

There are some parallels between Presidents Coolidge and George W. Bush. They share the same pro-business attitudes as well as a desire to shrink the size of the federal government. Coolidge, though, was a traditional Republican. He believed fiscal responsibility was the foundation of stable economic growth and reduced federal spending and debt.

Ultimately, Coolidge's economic strategy backfired. The economy collapsed. Americans booted the Republicans out of office. Franklin D. Roosevelt and the Democrats largely took over for the next 70 years, expanding the size and scope of the federal government dramatically.

President Bush is not about to make the same mistake. His strategy is to shrink the federal government by "defunding" it. The theory is that sharp reductions in tax revenues coupled with profligate federal government spending will result in something akin to national bankruptcy. Saddled with almost incomprehensible debt and without financial reserves or credit, there will be no choice but to radically scale back government.

I am not making this up. This "cut government down to a size where we can drown it in a bathtub" strategy is coordinated by Americans For Tax Reform, a Washington-based lobbying group. Most Republicans in the House and Senate have signed on to ATR's tax pledge, including our own U.S. Rep. Sue Myrick. Formerly a fiscal conservative, Myrick now proudly displays her awards from Americans for Tax Reform in her Washington office and is featured on the organization's Web site.

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If you believe in this "drown it in a bathtub" strategy for America, things seem to be going your way. Our federal and foreign trade deficits are now greater than 10 percent of America's gross domestic product and growing. Americans and foreigners are becoming less willing to buy our debt, so the value of the dollar is plummeting and interest rates are rising. The planned crisis is on the horizon.

Authoritative economists on both sides of the political spectrum, including Paul Volker and Robert Rubin, now express concern about the deficits. The problem, as Volker stated last month in his column "Skating on Thin Ice" in the Washington Post, is that "it is more likely than not that it will be financial crises rather than policy foresight that will force the change." Rubin says we are confronting "a day of serious reckoning." Even our current Federal Reserve Board Chairman, Alan Greenspan, has begun to advocate for increased taxes.

There are a couple of big problems with this "drown it in a bathtub" plan. The first is that the federal government is not in the bathtub. We are, and it is not likely that this drowning thing is going to be fun. The second problem is that, if the impending economic crisis occurs, it's not clear how we are going to solve it this time.

The U.S. federal government doesn't exist as a separate, extraneous entity. It consists of our elected officials, its workers, the companies that provide it with goods and services, and we citizens who benefit from the national security, farm subsidies, air traffic control, social security and all the other goods and services the government in turn provides to us. Defunded or not, the U.S. government will persist. We will suffer.

Cyclical economic recessions have always been a part of the American economy. Since the Great Depression, we have learned how to manage them fairly well. The standard economic medicine is for the federal government do some deficit spending and lower interest rates to encourage spending and investment. This time though, we have spent all our national savings and maxed out our federal credit card.

At some point America will not be able to afford continued economic growth based on borrowing. Something may soon trigger an economic crisis. China and our other large creditors could decide to rebalance their foreign exchange reserves away from the dollar. The domestic housing bubble could collapse. Congress could pass a costly Social Security bill. Investors in the stock market could simply lose confidence. Any one of these, or some combination of them, could induce a period of hard austerity for Americans.

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