12-2013

We Need Truth in Spending

David Schoenbrod

David Schoenbrod, Contributor
Trustee Professor Of Law, New York Law School

We Need Truth in Spending

12/23/2013 12:28 pm ET **Updated** Feb 22, 2014

The good news is that the House, Senate, and president concur in the bi-partisan budget deal. The bad news is that you won't find a bill for $18,000 in your mailbox. That is bad news because the government needs that much from the average family every year to avoid going broke. Such huge bills, which we would have to pay chiefly through higher taxes or lower benefits, would get us angry enough to vote the legislators out of office. So they understandably didn't bill us now. However, they should have told us how much we will have to pay later. After all, in the Truth in Lending Act, Congress requires private lenders to give prospective debtors notice of how much they would have to pay later. Until Congress gives us Truth in Spending, it cannot begin to clean up the fiscal mess that both parties have created.

Congress makes a show of concern for the government's long-term fiscal health by highlighting the total budget deficit projected for the next ten years. Yet, Congress lowballs the 10-year projection. For one of many gimmicks, the 10-year projection includes the money that younger people will pay in Social Security and Medicare taxes over the coming decade, but ignores the benefits that these people expect to get for these taxes later. According to Professor Alan Blinder, a former member of President Clinton's Council of Economic Advisers, "Our political system has focused exclusively on the 10-year cumulative budget deficit... In truth, however, what happens over the next decade barely matters. Our deficit problem — and it is a whopper — is much longer-term than that." The 10-year projection fails to tell us how much we must pay later.

To keep government from going broke, calculated economist Dr. Jagadeesh Gokhale, Congress would have had to impose permanent tax increases or spending cuts, or a combination of both, equal to 9 percent of the national economy. Whether the tax increases or spending cuts would fall on individuals, businesses, or states in the first instance, the impacts would fall in the end on individuals. If spread evenly across the population, the required tax increases or spending cuts, I calculate, would have cost an average family of four $17,983 in 2012, with the amount increasing in future years. Every year of delay makes the required annual bill even higher.

Instead of providing official notice of how much we will have to pay later, legislators point out that the budget deal will cut the deficit by $23 billion over the next ten years. Yet, that savings turn out to be only $25 out of the $17,983 plus needed per family every year. Congress is no better than a car dealer who touts a discount in the car's price, but hides the size of the monthly payments.

The current recession is no excuse to hide the size of the unsent bill. Congress could tell the full truth now and bill us later. It cannot use borrowing to hide the truth forever. Like a family's second mortgage, government borrowing brings cash in the short run, but requires more cash in the long run to pay the debt with interest. The government can have a debt forever, but only if its taxes bring in sufficient revenue. Congress's tax statutes fall far short of that requirement. According to Federal Reserve Board chairman Ben Bernanke, "Almost by definition, unsustainable trajectories of deficits and debts will never actually transpire, because creditors would never be willing to lend to a country in which the fiscal debt relative to the national income is rising without limit."

Hiding the truth lets legislators stand against cutting entitlements or against raising taxes, yet avoid saying in the concrete how they would restore balance. That perpetuates the polarization that produces the budget crises, government shutdowns, and fears of default on government debt.

Concealing the truth also postpones the reckoning and so leaves us not knowing whose Medicare and Social Security will be cut, whose taxes will be increased, or by how much. The upshot is job security for legislators and social insecurity for us.