

DEFICIT COMMISSION

Former U. S. Sen. Ernest F. "Fritz" Hollings (D-SC)

MAY 21, 2010 -- President Obama plays one-upmanship with the budget. When his predecessor, President Bush, doubled the national debt in eight years, President Obama on February 1, 2010, submitted a budget of a deficit in excess of \$1 trillion next year and for each year for ten years. Then, to show his concern, he appoints a Budget Commission to study and report in December. I feel sorry for the Co-Chairmen of the Commission, former Senator Alan Simpson and President Clinton's former Chief of Staff, Erskine Bowles. They are both men of the highest integrity and accomplishment, but they have been given the "La Mancha" assignment – "the impossible dream." The Deficit Commission is bound to recommend spending cuts and tax increases. Since the Commission report can't be acted on until the following year, 2012, an election year, no Senator or Congressman will want to vote for spending cuts or taxes to take effect in an election year. The President not only defaults on the budget, but Congress also failed to pass a budget resolution and has gone along with studying the problem. Things don't look good for the Commission's work, but it has a chance if the Commission acts like a governor and doesn't listen to the economists.

Governors are always trying to pay for this year's government and next year's. They can't fiddle with economic trends or ten year budgets. Economists work from trends, models, tend to please their employ, and enjoy confusion. They intentionally mislead about the actual deficit by dividing the deficit to "on budget-off budget" and "government debt-public debt." The government debt

is that owed by the government to the trust funds. Public debt excludes the trust funds and cites the amount owed the public to make the debt appear less than it actually is. For example, Robert Samuelson, in his column "Wake Up America" in *The Washington Post* (5/17/10), states: "... Obama's target for 2015 would involve a deficit of about \$500 billion." Obama's actual target for 2015 is a deficit of \$1 trillion, 15 billion (President's Budget 2011, page 178). To stop the practice of using trust funds to cite a less deficit, I persuaded Congress to adopt Section 13-301 of the Budget Act prohibiting the President and Congress from citing a deficit including Social Security trust funds. But the President and Congress continue to violate Section 13-301. I then proposed that the President and Members of Congress forfeit their Social Security for violating Section 13-301, but my attempts were to no avail.

We were always cautioned on the Senate Budget Committee that the deficit should never exceed 3% of the GDP or before long the deficit would be growing faster than the economy, and we wouldn't be able to pay the interest costs. Interest costs in the President's budget are already estimated to be \$500 billion. But instead of attacking the waste of interest cost, economists will counsel the Deficit Commission to work on "balancing the debt as a percent of the GDP." On January 25, 2001, Alan Greenspan testified before the Senate Budget Committee that we were paying down too much debt. At the moment of his testimony, the Secretary of the Treasury reported that the deficit was already \$65

billion in the red. Greenspan's testimony paved the way for the Bush tax-cutting spree, doubling the national debt in eight years. President Obama stated in his budget message on February 1, 2010: "On the day my administration took office we faced an additional \$7.5 trillion in national debt by the Americans" Household debt increased \$7 trillion in the same eight years. By the time President Obama stimulated we had just completed eight years of stimulating the economy \$14.5 trillion, and still losing hundreds of thousands of jobs. Stimulation was spent. Most of the economists are on retainer one way or the other by the financial crowd who got us in trouble and are not a bit interested in the United States becoming competitive in globalization. Globalization is nothing more than a trade war with production looking for a country cheaper to produce. And with China's communist control of its market and labor, America's investment, research, technology, development, production, jobs, and the economy hemorrhage to China. The last thing that the big banks, Wall Street, and Corporate America, want is for the United States to change its tax laws and enforce its trade laws, which would ruin the incentive to invest and produce in China. Producing in-country, Corporate America has to comply with labor, safety, health, retirement and environmental laws, making less profit than in China. So you can't get an economist like Paul Krugman to mention the trade war. Krugman keeps calling for stimulation when stimulation is spent.

The basic problem with the U. S. economy is that we are off-shoring our manufacture. Manufacture produces the middle class, produces small businesses and produces small business jobs. Innovation is of no benefit unless it is developed and manufactured in the

United States. Microsoft and Intel are already in China. Manufacture is the backbone of the economy. The President and Congress are in a heat over innovation and small business jobs and ignore the off-shoring of our manufacture. On this course, we'll end up a banana republic. It has got to stop, but the economists have lockjaw on the off-shoring of our manufacture.

Changing our tax laws and enforcing our trade laws will save and strengthen the economy. For example, we can eliminate the corporate tax and replace it with a 2% VAT, raising more revenues. One percent more of a VAT could pay for health care and a 2% VAT could start paying down the debt. I've been recommending a 5% VAT since we debated health care last year but was told that Larry Summers wanted to wait for this year to adopt a VAT. We're waiting.

Section 201 of the Trade Act calls on the President to impose import quotas or tariffs when vital production is endangered – not wait for GM to go bankrupt and need a bailout. The 1950 War Production Act ensuring that we have supplies necessary for our national security should be enforced, producing millions of jobs. With devastating trade deficits, President Obama could impose a 10% import surcharge like President Nixon imposed in 1971.

The Deficit Commission needs to bite the bullet by acting like a governor. In stressful times like these, governors freeze their budgets to hold the line. A budget freeze will eliminate billions in spending and get rid of the earmarks. As a senior member of the Appropriations Committee, I used earmarks. In those days subcommittee chairmen on Appropriations jealously guarded their budgets. They would yield an earmark for

subcommittee members, but never for Senators in general. There was some discipline. President Reagan enforced the discipline by vetoing a transportation bill with over a hundred earmarks amounting to \$1 billion. We eliminated the earmarks and then he approved the transportation bill. Now earmarks have gotten out of hand. Majority and Minority Leaders use them to re-elect their members. "Don't you need a cultural center?" "Don't you need a bridge to nowhere?" Anything to hold that seat and maintain control. The 2006 transportation bill had over 3,000 earmarks amounting to \$23 billion but President Bush approved it.

After a freeze and getting rid of earmarks, go through the budget line by line for cuts in spending that both parties can agree on -- particularly the defense budget. *The Wall Street Journal* just contained this sentence on its front page: "Karsai said the coming U. S. military operation in Kandahar needs to be better explained to Afghans so it won't be perceived as an attack." Marines are taught to attack and kill -- not explain. We tried "build and destroy" for ten years in Vietnam and lost. Now after nine years in Afghanistan, General McChrystal has fine-tuned the strategy of "build and destroy" to "make friends and kill." With all the Afghans running around in nightgowns and beards, I don't know how you tell who is enemy and who is friendly. Marines getting killed while trying to explain has got to stop. Withdrawing now in Afghanistan would save GIs and save the budget. I served on the Defense Appropriations Subcommittee for thirty years and the 050 defense budget has gotten completely out of hand.

Janine Wedel cites in *The Shadow Elite* that three of four employees in the Federal

work force work for government contractors, not directly for the government. We have been getting political credit for downsizing government by contracting out at a greater cost. It is against the law for government employees to contribute to political campaigns. These contracts make for wonderful campaign contributions. Contracting out has gotten completely out of hand. Cancel the contracts.

The Deficit Commission's biggest challenge is to remember that it is to solve the deficit problem rather than the entitlement problem. Most of the economists will come running to solve the entitlement problems which are not immediate. For example, Social Security has a surplus of \$2.6 trillion, and its problems can be solved later with raising the retirement age, limiting COLAs and taxing Social Security like we did in 1993. The immediate problem is to pay for the government we provide. For the past ten years, Republicans and Democrats, President Bush, and now President Obama have been running on tax cuts to get re-elected. As a consequence, the government is not too big, it's the government's debt that is too big. We won't pay for wars. I introduced a tax measure to pay for Iraq in January 2003 before we invaded in March. The White House put out the word it was "dead on arrival," and I couldn't get a co-sponsor.

In Shakespeare's *Henry VI*, tyranny couldn't be developed as long as there were lawyers to protect the rights of the people. Jock the Butcher exclaimed: "The first thing we do, let's kill all the lawyers." Now, for the Deficit Commission to work, we must first kill all the economists.

Senator Hollings of South Carolina served 38 years in the United States Senate, and for many

years was Chairman of the Commerce, Space, Science & Transportation Committee. He is the author of the recently published book, [Making Government Work](#) (University of South Carolina Press, 2008).

© 2010, Ernest F. Hollings. All rights reserved. [Contact us](#) for republication permission.

###