Spending Caps Are Low-Hanging Fruit in the Fight Against Debt

Another debt ceiling fight is just around the corner. The government's borrowing limit will need to be raised yet again by the end of September to avoid default. Indications suggest that there will be enough support between Democrats and moderate Republicans to pass a "clean" increase, meaning no spending limits or cuts will be attached. However, this fiscal status quo is absolutely unacceptable, especially because it would be easy to take a small step toward much-needed fiscal discipline.

Debt is piling up, and it is doing so at a faster pace than the economy is growing. The gross national debt is already well past 100 percent of gross domestic product. Under very optimistic assumptions, the Congressional Budget Office projects that under current law, the debt will reach 150 percent of GDP in 2047 — thanks primarily to an aging population and poorly structured entitlement programs. Significant change is clearly needed if we're to avoid fiscal catastrophe.

The first step of addressing one's issues is to admit that you actually have problems. Say it along with me: "We have a debt problem." The next step is to adopt small solutions — as opposed to unrealistic goals that would be abandoned within days. Such a big goal would be to implement fundamental reforms to the programs that are the drivers of our future debt. There is no debate that this is what needs to be done and what should be done, and I will never stop advocating that goal. But it is also painfully obvious to me that in the current political environment, where neither party is willing to be the adult in the room, such a noble goal is out of reach.

What isn't out of reach, however, is the smaller and more realistic short-term goal of implementing spending caps. The logic is simple. Debt is just a symptom of Washington's excessive spending problem, so we must address the latter to solve the former. To get the nation's finances on the right track, we simply need to ensure that government is growing more slowly than the economy. A spending cap would do this by limiting the growth of government to a set percentage of GDP, perhaps 2 percent. As a recent video from the Center for Freedom and Prosperity shows, maintaining such limits would bring the budget into balance in less than 10 years.

Of course, there would have to be trade-offs. Washington cannot live within these limits without making some small changes to Medicare, Social Security and other programs. But the advantage is that the spending caps would finally force lawmakers to think about these trade-offs. Also, seeing as the caps would explicitly continue to grow by some percentage each year, they would make it harder for proponents of big government to moan about "savage" budget cuts. They would allow lawmakers to focus on reforms, as opposed to "cuts."

The case for spending caps isn't just based on theory. The evidence shows that a focus on reducing spending works better than rules aimed solely at reducing deficits and debt. Both Switzerland and Hong Kong have seen positive results from their spending caps. Hong Kong is one of the richest countries in the world, and Switzerland is rare among European nations in its fiscal strength.

On the other hand, balanced budget amendments haven't saved states such as California, New York and Illinois from bloated governments and debt accumulation. The uncertain nature of economic performance and tax collection makes yearly balanced budgets much harder to achieve than long-run spending limits. Perhaps more importantly, the seductive call for a tax hike tends to sap the political will for spending reform. It's easy to lock in repetitive cycles of new spending programs followed by tax increases to fund them.

Debt and deficits are bad, but they are symptoms of an underlying spending problem. Focusing narrowly on reducing debt can lead to counterproductive policy choices, whereas spending caps would most likely achieve the desirable goals of reducing excessive government and finally getting the nation's debt under control.

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