



You Voted! What Should Happen Next?

Is the United States' economy headed ineluctably over the edge, as the gloomier financial forecasters project? Or is it still possible for us to reverse course and draw back from the precipice on which our economy is teetering?

The Greek debt crisis of 2010 has focused considerable attention on the First Law of Holes: When you find yourself in one, stop digging. Greek President George Papandreou and his Socialist government are still in a deep hole. They have promised to cut back on government spending and have been bailed out with loans from the European Union, the International Monetary Fund, and the Federal Reserve. Ultimately, the interest payments on those loans will end up digging the Greek hole even deeper. But, at least temporarily, they have escaped economic meltdown.



The Greek near-death experience has forced others to face up to a sovereign debt crisis that shows many governments to be in comparable holes. The U.K., Spain, and Ireland may not be far behind Greece. In the United States, the state governments in California, Illinois, Ohio, New Jersey, Michigan, and New York are treading the same path as Greece, with unsustainable spending and debt. And many spendthrift municipal governments are likewise facing a dreaded day of economic reckoning.

Of course, the champion of unsustainable government spending and debt is the U.S. government, which just finished fiscal year 2010 with a budget that consumed \$3.46 *trillion* of our citizens wealth. In the process, our servants in Washington, D.C., dug the debt hole a lot deeper with a \$1.29 *trillion* deficit, the second-highest deficit on record, only slightly behind the \$1.42 trillion posted in fiscal 2009.

Our national debt hole is now more than \$13.6 trillion deep. While it has become popular in this election year for politicians to quote the Law of Holes in their stump speeches and to proclaim their commitment to ending wasteful and unnecessary government spending, few have offered any plans, let alone iron-clad commitments, to substantively alter the skyrocketing federal spending spree and the ever deepening debt chasm. When it gets down to the nitty-gritty of actually making cuts in government spending of the size needed to avert our national descent into the abyss of woe, precious few politicians are prepared to call for the drastic reductions that are necessary. Even the most wasteful and unnecessary programs and agencies have their constituencies that will fight tooth and claw for their entitlements.

The November elections will bring over 100 new faces to Congress, including more than 60 new Republicans in the House, giving the GOP majority control of the purse strings, since all spending bills must originate in the lower body. The Republican Party leaders in Congress are posturing as fiscal



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saviors with their Pledge to America, but a perusal of its details quickly reveals how empty is the Pledge.

How does the Pledge deal with the biggest spending programs of the federal Leviathan? In a word, the Pledge proposes nothing of substance, notes Charles Scaliger in a recent analysis for The New American (Promises, Promises A Pledge to America, October 25, 2010). Dr. Scaliger continues:

So-called mandatory spending welfare and welfarist programs, in other words consumes more than half the federal budget in any given year. In fiscal year 2008, for example, Social Security made up the largest single chunk of mandatory spending (\$544 billion) followed closely by Medicare (\$325 billion). These two gargantuan and completely unconstitutional federal programs together consume more than half of government mandatory spending (and hence at least one-quarter of the entire federal budget), yet the Pledge to America, for all its pro-Constitution, anti-big government flourishes, has no intention of changing them. Instead of phasing them out over time, as any truly constitutionalist legislative body would insist upon, the Pledge promises to protect our entitlement programs for today's seniors and future generations. Specifically, the Pledge contemplates requiring a full accounting of Social Security, Medicare, and Medicaid, setting benchmarks for these programs and reviewing them regularly, and preventing the expansion of unfunded liabilities. Translation: We have no intention of tampering with any of these three welfarist behemoths, and intend to continue robbing Peter to pay Paul for political gain as long as our constituencies let us get away with it.

Clearly, House Minority Leader John Boehner and other members of the GOP establishment have no intention of making the tough choices needed to stop the federal steam shovels that are digging us toward fiscal Hades. However, despite the changes in the partisan makeup of Congress, there is little likelihood of the kind of political reversal needed to avert economic calamity unless a sizable enough and vocal enough portion of the American people relentlessly, doggedly expose and oppose the Big Government policies, programs, and legislation that threaten to bury us.

No matter how much electioneering politicians whether Democrat or Republican may clothe themselves in the habiliments of the Founding Fathers and rhetorically invoke our Constitution, they are engaging in fraud unless they are willing to take on Leviathan and its hordes that feed at the public trough. And today, that means nearly every American, since nearly everyone receives *some* wage, pension, contract, or subvention from the federal government.

They who continue to pile debt upon debt are not the heirs of Washington, Jefferson, and Madison. There does not exist an engine so corruptive of the government and so demoralizing of the nation as a public debt, Thomas Jefferson warned. It will bring on us more ruin at home than all the enemies from abroad against whom this army and navy are to protect us.

We must not let our rulers load us with perpetual debt, Jefferson insisted. We must make our election between economy and liberty or profusion and servitude. We have ignored these wise monitions, however, with the result that the welfare state/warfare state spending of the federal government has loaded us down with a perpetual debt that already has nearly extinguished our economy and liberty. The profusion of government laws, regulations, and spending programs is already close to choking us into abject servitude.

We must radically shrink the size of and reduce the spending of the federal government or kiss prosperity and liberty goodbye. But where to start? What to cut? Well, let us suggest something *novel*:



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We could indeed, we *must* insist that our elected officials abide by their sacred oath of office to uphold the Constitution. And that would mean eliminating, first of all, those programs that the federal government has no constitutional authority to be involved in. As James Madison, rightfully called the father of the Constitution, explained in *The Federalist*, No. 45, The powers delegated by the proposed Constitution to the federal government are few and defined. Those powers are enumerated, chiefly, in Article I, Section 8 of the Constitution. They provide, for instance the powers To coin money, To declare war, To raise and support armies, To provide and maintain a navy, To provide for calling forth the Militia, etc.

All other powers not enumerated are retained by the states or the people, a principle that was well understood at our nations founding and was later enshrined in the Tenth Amendment. There is no prohibition in the Constitution preventing a state government from establishing, for instance, a Department of Agriculture or an Environmental Protection Agency, but the federal government is prohibited from doing so unless the Constitution is amended to expressly allow it.

The immense hole we are in is being dug by politicians beholden to lobbies that demand continued funding for unconstitutional projects of both the welfare state and the warfare state. Many of these costly programs should be eliminated completely, for constitutional and moral reasons, as well as practical economic concerns.

The Welfare State Behemoth

The federal government has grown into such a monstrously enormous behemoth, with hundreds of departments, agencies, commissions, and corporations, that it has become nearly impossible to quantify its total cost to the American economy. Aside from the direct annual cost of several trillions of dollars associated with the federal budget, there is the frequently overlooked burden of an estimated additional \$1 trillion dollars imposed on the economy by government regulations.

The federal executive branch today includes 16 Cabinet-level departments (Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, and Veterans Affairs, as well as the Environmental Protection Agency). Apart from the federal Departments of State, Justice, Defense, and Treasury, there is little or no constitutional justification for the other Cabinet departments. Whatever limited constitutional functions they (arguably) may serve can certainly be comprehended under the domains of those original departments.

The Cato Institute has produced a useful study, *Downsizing the Federal Government*, that dares to call for the kinds of deep cuts and elimination of departments and programs that are needed to restore economic sanity and constitutional balance. Here are a few of the serious economizing cuts proposed by the Cato study:

Department of Energy: Department of Energy research activities should be terminated, says *Downsizing the Federal Government*. The private sector is entirely capable of performing by itself research into coal, natural gas, nuclear power, solar power, and other forms of energy. Businesses will fund new technologies when there is a reasonable chance of commercial success, as they do in other private industries.

Federal research subsidies, the study points out, impose a burden on taxpayers, and they can be counterproductive if they steer markets away from the most efficient energy solutions. Furthermore, it notes, federal energy research has a track record of poor management, cost overruns, and wasteful



boondoggles.

The Cato study argues that since the bulk of the DOE's activities are defense-related, those activities, which total about \$19 billion annually, should be moved to the Department of Defense. That would allow for a more transparent presentation of defense costs in the budget, and it would allow the Department of Energy to be abolished.

Total savings to the taxpayers would be about \$17 billion, which, admittedly, is small potatoes in our multi-trillion dollar budget, but it is a good start.

Department of Education: The Department of Education should be closed and its programs terminated, says *Downsizing the Federal Government*. The main activity of the department is to provide grants to state and local governments. However, channeling taxpayer dollars through Washington and then back to the states is an inefficient way to fund local activities such as education. It would be better if the states funded their own education programs free of all the paperwork that comes with federal aid.

The Cato study points out that federal intervention into primary and secondary schools has steadily increased since the 1960s, but there has been no corresponding improvement in educational achievement. The sad truth, the report notes, is that rising control from Washington has probably damaged American schools by reducing local flexibility, retarding innovation, and burying school administrators in regulations. Federal involvement should be ended, and it should be up to the states, the schools, and parents to boost school performance. According to the scholars at Cato, taxpayers would save about \$107 billion annually from closing down the department, or more than \$900 annually for every U.S. household. All of the aforementioned points are good reasons for abolishing the department, but the paramount reason should be that, like the Department of Energy, it is patently unconstitutional. Nowhere in the Constitution's few and defined powers can one reasonably find any authority for the federal government to be involved in either venture. Both the Energy and Education departments were established as Cabinet-level departments during the Carter administration. Although Republicans originally denounced both actions and called for abolishing the departments, they have gradually accepted them and routinely support their massive budgets.

Department of Housing and Urban Development: Federal housing and urban programs have left a legacy of scandal, economic distortion, and social damage over eight decades, according to Cato's *Downsizing the Federal Government*. Housing and urban infrastructure are properly the responsibilities of local governments and the private sector, and there is no need for federal involvement, it accurately notes. The Department of Housing and Urban Development has created more problems than it has solved, and it should be closed down.

The department's urban renewal and public housing projects have paved over neighborhoods and herded inner-city residents into high-rise concrete boxes that quickly fell into disrepair and were overcome by crime and disorder. Closing down HUD would save federal taxpayers \$63 billion annually, or about \$530 for every household in the nation.

Department of Agriculture: Were we directed from Washington when to sow, when to reap, we should soon want bread, said Thomas Jefferson. The Sage of Monticello also averred: If the people let government decide what foods they eat and what medicines they take, their bodies will soon be in as sorry a state as are the souls of those who live under tyranny. He, no doubt, would favor abolishing the USDA outright. The Cato study does not go that far. It notes that the Department of Agriculture will spend \$142 billion in 2010, or about \$1,200 for every U.S. household. It operates 237 different subsidy



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programs and employs 96,000 workers in about 7,000 offices across the nation. It oversees more than 10,700 pages of regulations.

Downsizing the Federal Government doesn't recommend abolishing the department in toto but calls for eliminating about 90 percent of its budget, for a savings of about \$131 billion, or about \$1,100 per household. Under the Cato proposal, The USDA would retain responsibility for animal and plant health inspections, food safety, grain and packing inspections, and conservation activities. Except for inspections of food, animals, and plants entering the United States from foreign countries, there is little justification for the USDA's activities.

Department of Health and Human Services: Catos *Downsizing* reports that HHS will spend \$869 billion in 2010, or about \$7,400 for every U.S. household. It employs 65,000 workers and operates more than 400 programs. Aside from Medicare and Medicaid, the two 900-lb. gorillas in the HHS menagerie that require special attention, the department oversees a wide array of state grant programs that should be eliminated forthwith. The federal government raises the money from taxpayers who live in the 50 states and then dispenses it back to the states to administer these programs, the study notes. The programs include Head Start, the Children's Health Insurance Program, foster care grants, the Administration on Aging, low-income energy assistance, and other programs. That roundabout way of financing government programs makes no sense, observe the Cato authors. Why don't the states just fund their own programs and cut out the inefficient middleman in Washington? Doing so would trim \$81 billion from the federal budget.

According to *Downsizing the Federal Government*, Medicare is the third-largest federal program after Social Security and defense, and it will cost taxpayers about \$430 billion in fiscal year 2010. It is one of the fastest-growing programs in the federal budget, with spending likely to double over the next decade and to surpass Social Security spending by 2028. Numerous studies suggest that about one-third of Medicare spending is wasted.

It is a pyramid scheme that cannot last; expenditures are rising much, much faster than revenues. The gap between projected Medicare spending and dedicated revenues is mind-bogglingly large, the study notes. In 2009, Medicare's trustees reported that if Congress wanted to cover all future gaps in Medicare's finances, it would have to deposit a staggering *\$86 trillion* in an interest-bearing account. Let us repeat that figure: \$86 trillion.

Obviously, without radical Medicare reform, this one program of President Lyndon Johnson's Great Society will torpedo our economy all by itself. The Cato authors call on Congress to enact fundamental reforms utilizing individual vouchers and large health savings accounts. These changes, they argue, promise to dramatically reduce health care costs and improve the quality of care for Medicare enrollees and other Americans. They would also help put the nation in a position to phase out federal health care subsidies in the long run in favor of a system built around personal savings, individual choice, and competition.

There are a number of Medicare voucher plans being proposed, but the detailed proposal by Rep. Paul Ryan (R-Wis.) seems to be the top choice of the downsizing folks at Cato. The Ryan plan would provide retirees with a voucher averaging \$11,000, which would be adjusted based on age, health status, and income level. The voucher would grow in value over time based on the blended growth rate of general inflation and medical inflation.

The 2010 Patient Protection and Affordable Care Act, more popularly known as ObamaCare, is a



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massive 2,500-page, 500,000-word piece of legislation that will not only vastly expand federal spending and taxation, but dramatically increase federal intervention into nearly all aspects of our lives. Federal spending is projected to increase more than \$2.7 trillion over the first 10 years of the program.

Downsizing the Federal Government proposes that ObamaCare be repealed as an unaffordable expansion in an already bankrupt federal system of health care subsidies. Medicare and Medicaid already have vast unfunded obligations. The 2010 Health Act takes a large leap toward socialized medicine that will be permanently damaging to citizens and the economy unless repealed.

Social Security: Launched in 1935 as part of Franklin Roosevelt's New Deal, by 2009 Social Security had become, in dollars paid as noted by Wikipedia the largest government program in the world and the single greatest expenditure in the federal budget, with 20.8 percent for social security, compared to 20.5 percent for discretionary defense and 20.1 percent for Medicare/Medicaid. The 15.3 percent Federal Insurance Contributions Act (FICA) tax that funds the Social Security/Medicare/Medicaid programs constitutes for most Americans the single largest payroll tax. (Employers must contribute half of the 15.3 percent for their employees; the self-employed are responsible for the entire 15.3 percent.) Nevertheless, despite the huge tax infusions, the program has proven to be a giant Ponzi scheme that faces enormous future shortfalls and threatens to bankrupt the nation.

For Social Security, says the Cato Institutes *Downsizing* report, initial benefits could be indexed to the growth in general prices, not wages, as under current law. That one change, it reports, would reduce Social Security spending by roughly \$60 billion annually by 2020 and rising amounts after that. It would also encourage younger Americans to increase their personal savings, which would be beneficial for the nations economic growth.

As with so many of the New Deal programs, Social Security is unconstitutional and likely would have been declared so by the U.S. Supreme Court, if not for FDRs brazen court-packing scheme. Ultimately, the program should be de-nationalized and abolished as a federal program, allowing states and individuals to provide for retirement without the burden of the federal governments onerous and dishonest FICA confiscations.

The Warfare State Leviathan

Of all the enemies to public liberty, warned James Madison, war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few.... No nation could preserve its freedom in the midst of continual warfare.

Madison further observed that the means of defense against foreign danger historically have become the instruments of tyranny at home.

As we noted earlier, the power to declare war is one of the few and defined powers delegated to the federal government in the Constitution. Our Founders recognized the necessity of providing for collective self-defense and saw this as one of the chief legitimate functions of a national government. However, they agreed with Madison on the danger that warfare presented to our freedoms. Only *Congress* was given the power to declare war so that no President or executive official would be able to drag the nation into a maelstrom of military conflict.

It is no small matter that neither of our ongoing wars in Afghanistan and Iraq was preceded by the constitutionally required declaration of war from Congress. If the nation is not willing, legally and



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unquestionably, to commit to war, as signified by the peoples representatives voting officially to do so, then there is no legitimate basis for going to war and no moral or constitutional argument for continuing it. However, apart from very strong moral and legal arguments against wars of choice that are not purely defensive in nature, the facts are that our open-ended wars in Afghanistan and Iraq are creating more enemies than they are destroying while loading us with debt and taxes and becoming instruments of tyranny at home.

According to the Congressional Research Service, the economic costs of these two wars have already exceeded \$1.09 trillion, with \$749.9 billion going to the Iraq effort and \$337.8 billion to Afghanistan. As enormous as those price tags are, however, they are nonetheless deceptively understated. As with most government programs, irregular accounting methods have been employed to avoid the sticker shock reaction that customers (i.e., taxpayers) would experience if the true costs were known.

The trillion-dollar price tag assigned to the wars thus far only includes the *incremental* costs, those additional funds that are expended due to the war. It includes, for example, soldiers combat pay, but regular pay is not included. Very expensive future costs, such as veteran benefits and future medical care for soldiers wounded in the war, are not included. These numbers do not account for the wars being deficit-financed or that taxpayers will need to make additional interest payments on the national debt due to these deficits. The nation is morally obligated to care for our citizens who have suffered injury and loss in these conflicts, but realistic estimates of those potential costs should be included up front in the price tag. Likewise for other very large costs, such as the expenditures required for equipment replacement. Planes, ships, trucks, tanks, helicopters, tents, guns, and Humvees get worn out; medical supplies, bullets, bombs, and other munitions are expended. Replacing this equipment is a costly proposition that is not included in the usual calculus.

Also not included in official war cost analyses is a very costly big-ticket item: future interest payments on the debt that has been used to finance the wars. When these and other hidden costs of the wars are included, some studies have placed the actual price tag at closer to \$3.5 trillion. And these costs will continue to escalate as long as they are allowed to drag on. This not only places an incredible tax burden on present and future generations, but also jeopardizes our national security. It is impossible for a nation to remain militarily strong if it is economically weak and mired in debt. Our wars in Iraq and Afghanistan are economically unsustainable all by themselves, but they are far from being our only misspent military misadventures. United States military forces today have hundreds of bases in more than 130 countries. We have more than 28,000 troops stationed in South Korea, more than 35,000 in Japan, and more than 78,000 in Europe. These deployments have boosted the economies of those regions relieving them of their own defense responsibilities while sapping our own economy.

There is no sound constitutional, economic, or military argument for continuing this folly. By ending our costly occupations of Iraq and Afghanistan and bringing our troops home from the far corners of the world, we will greatly strengthen our national defenses. In the process we will be able to save hundreds of billions if not trillions of dollars, restoring prosperity and preserving liberty at home.

Abolish the Debt Machine

Not included in Catos Downsizing study is any proposal to abolish what is arguably the most destructive and unconstitutional institution in the bowels of our federal government: The Federal Reserve central banking system, otherwise known as the Fed. Neither fish nor fowl, the Fed is unique among all the agencies of the federal leviathan, exercising an incredible independence completely free from accountability to the legislative or executive branches. The Fed got away with its secretive dealings for



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the better part of a century with few serious challenges, but the financial meltdown of 2008 and the Feds doling out of hundreds of billions of dollars to Wall Street banks while refusing to divulge to Congress and the American people to whom that money pile was going, and on what terms finally awakened and riled the public.

A huge battle erupted in Congress over Rep. Ron Paul's bill to audit the Fed, H.R. 1207, (See Time to Audit the Fed, The New American, May 27, 2010). Wall Street Insiders and their Big Media allies quashed that nearly successful effort. It makes no sense to exert Herculean effort to rein in and abolish other federal programs while leaving in place the most fearsome behemoth in the federal menagerie. The Fed can undo any fiscal reforms of Congress by simply creating trillions of dollars of money and credit out of thin air. If the new Congress is truly serious about establishing fiscal sanity, they must also address monetary sanity, which means tackling and dismantling the Fed.



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