

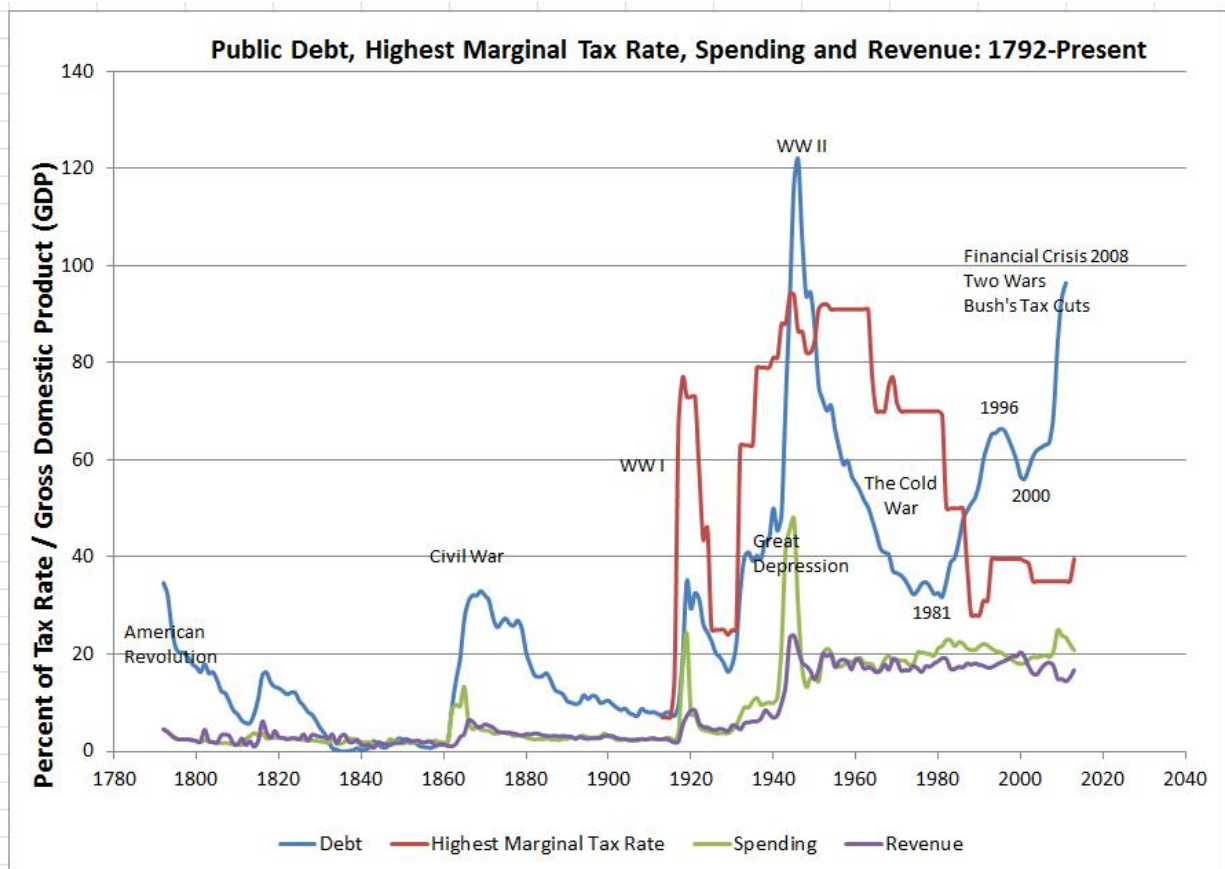
## 07 Is the Role and Function of Government an Issue?

For 5,000 years, humans lived in the past tense: "Yesterday was the same as tomorrow." For the next 500 years people lived in the present tense: "Today can be whatever we want it to be." But now, for the next 50 years we must start living in the future tense: "Tomorrow's social, economic and political constraints must become today's reality."

*"Historically, nondefense discretionary outlays represented a fairly stable share of GDP, averaging 3.8 percent over the 1962–2008 period and rarely exceeding 5.0 percent or falling below 3.2 percent...Outlays for those programs have followed the downward trend in funding...relative to GDP, reaching 3.4 percent in 2014."*

Congressional Office of the Budget, Jan. 2015  
The Budget and Economic Outlook: 2015 to 2025

While the actual size of the federal government in terms of spending on domestic programs has not changed over recent history there has been a significant increase in the national debt, rising from 32 % in 1981 to 105% in 2014. The growth of the deficit and the decline in social spending must therefore be account for by factors other than these non-defense discretionary programs which encompass such activities as transportation, education grants, housing assistance, health-related research, veterans' health care, most homeland security activities, the federal justice system, foreign aid, and environmental protection. Clearly, there is a difference between a small government as defined by domestic spending and one which is well-managed and efficient (i.e. a good government).



We have rationale methods for interpreting such facts, and using them to make logical decisions. Ideological answers – ones based simply on beliefs – are not appropriate at this point.

The common measure of the size of government is how much money it spends as a proportion of the Gross Domestic Product (GDP). From 1792 to 1981, the size of government spending was proportional to its revenue with the exceptions of the Civil War, World War I, The Great Depression, and World War II. In each of these instances the Government went into debt to pay for the additional expenses. In each case the level of debit was subsequently reduced to a manageable proportion of the GDP. Strong economic growth relative to the size of the debit made this possible; the burden a debit decreases when there is greater wealth to pay for it.

The Federal Income tax introduced in 1913 provided additional government revenue for the impending crisis of World I, the Great Depression and World War II. The red line showing the marginal tax rate serves as proxy for the various ways taxes were increases to cover the expansion of government during these crises.

During this period, everyone pitched in through savings bonds, rationing, recycling, frugal life styles and a progressive income tax in which the highest marginal tax rate remained around 80-90%. The shared effort built our national infrastructure, generated jobs, created Medicare and a widely shared level of middle class prosperity. Even in the face of the Cold War the relative size of national debt was reduced by 1981 to the level it was at the time of the Civil War.

It was at this point that Government reversed its 200 year financial history. Taxes were significantly lowered (illustrated by the reduction in the marginal tax rate) largely for the wealthy, but spending was not reduced. The result was an increase in the annual deficit (the gap between expensed and revenue), which each year added cumulatively to the national debit. Two long costly wars and continued military actions have taken place without any compensatory increase in revenue. The Financial Crisis of 2008 reduced the Gross National Product which increased the size of the debt in terms of our capacity to pay for it. Together, the two have put the US in an unsustainable financial situation. In addition, the high level of military spending has continued to claim a large proportion (about 60%) of the discretionary budget.

"Our nation needs a new vision, one that proposes using government resources to meet newer and broader challenges, instead of downsizing them to ease the tax burdens of the wealthy and corporations."

R. Eskow, Feb. 2015  
Campaign for America's Future

If we reduce social security, healthcare, pension protections, employment security and other entitlements we will create additional individual hardships on the majority of citizens. Such hardships invite internal political and social instabilities similar to what is occurring elsewhere in the world. Failure to repair the national infrastructure will undermine the future economic security of the nation. In the past these items have been treated as an appropriate responsibility of government. Yet, a debt over 100% of Gross

Domestic Product is a vicious circle requiring a growing need for still more revenue or even deeper reductions to the quality of life.

This dilemma is the result of bad government, not the size of government. The 20<sup>th</sup> century is considerably more complex economically and politically than in the previous Century. Since the end of World War II the costs of the widely accepted functions of government – improving the quality of life, a sound national infrastructure and a strong standing army -- have remained relatively constant at about 20% of the annual national GDP.

Now, however, the situation is much more complicated than in the past. Environmental constraints will limit the economic growth which previously allowed the debt to become manageable. This new reality requires a redistribution of the wealth which the current policies have allowed the very wealthy to accumulate at the expense of the rest. These are the 21<sup>st</sup> Century constraints now required to get off the treadmill of lower taxes, growing debt, more austerity and even greater economic inequalities.

If the role and function of government is to be addressed now, what are the ways to do so?

Clearly there is no single approach – an economic, political or social one – to make the necessary adjustments. It is at this point that our ideological beliefs and values become simultaneously relevant. But, unlike facts and knowledge, ideologies are negotiable. Reasonable people can recognize and respect the perspective of others and compromise on a combination of solutions to achieve the necessary change.

Choices are based on facts, solutions on compromise.