
CURRENT EVENTS

DAVID MALPASS — GLOBAL ECONOMIST



Congress Must Hit the Ground Running

With the election over, the nation's anger at Washington's gluttony and corruption must now channel itself into practical solutions. The country faces a shattering federal spending and debt crisis that has been years in the making and a December train wreck on taxes. The President should propose responsive repairs but probably won't. This makes the new Congress' initial decisions the most momentous in decades.

The election made clear that the people want a political upheaval aimed at fiscal sanity, responsible regulations and a reduction in federal power. Less clear is how it should be achieved.

The length, complexity and staggering cost of the 2009–10 legislative record showed the world that the fabled American system of checks and balances, which should help restrain federal government, had broken down. There was no semblance of transparency or good governance. Whether through incompetence, litigiousness or labor inflexibility, the U.S. couldn't even move forward on shovel-ready projects. Global consternation has severely dampened longer-term investment in the U.S. As capital and innovation continue to move abroad and older workers lose their skills through long unemployment, our country's economic future has darkened, adding to the fiscal crisis and the devastating shrinkage of the dollar and living standards.

If a national referendum were taken on ObamaCare, it would be repealed immediately. But the rules we embrace in our constitutional republic require a different process: Washington makes

the decisions on health care law, taxes and trillions of dollars in spending, with only indirect input from voters.

There are known ways for governments to help create private-sector jobs: spend less, apply lower tax rates on a broad base and legislate more clearly and succinctly in favor of market-based jobs over government jobs. Yet Washington has repeatedly chosen the opposite path. As a result the new Congress will be facing a big-government boomtown unaccustomed to downsizing or Tenth Amendment limits on federal activities.

Some of the earliest and biggest battles will be on overspending and taxes. Washington is spending about \$3.8 trillion per year, with the President planning to quickly increase that to \$5 trillion.

DECEMBER TAX CHAOS

Meanwhile, nearly 100 taxes are scheduled to go up, ranging from income tax rates to reductions in the tax subsidies for windmills, research and the Build America Bond subsidy, through which Washington supports the most profligate states and public-sector unions.

Many in Washington will line up behind "deficit reduction." But this grail has always ended up expanding government, not shrinking it—as President George H.W. Bush found out while eating his "no new taxes" pledge. Entrenched big-government interests are already clamoring for a grand compromise: somewhat slower growth in government spending along with more taxes. This would leave Washington's power permanently enlarged and its competition, the private sector, diminished—our present sour state of affairs.

Investors will watch every nuance of this battle before deciding whether to bring capital and jobs back to the U.S. During normal times congressional gridlock is better than congressional activism. But given the ongoing damage to the U.S.' economic fabric, we are in the vulnerable position of needing major new laws from Washington in order to undo the damage and spark private-sector recovery and lower unemployment.

Thus, in its first days the new Congress has to act on the understanding that this is a takeover, an upheaval of the old spending culture, like Governor Chris Christie has undertaken in New Jersey. The people and financial markets want deep spending cuts starting with Washington's sacred cows. This means cutting Washington's commissions, idle Tarp funds, earmarks, unused stimulus, the costly Jones Act (which blocked oil cleanup), multibillion-dollar ethanol subsidies, cars, staff, planes, vacations, salaries, unbuilt buildings, open purchase orders—all the stuff members approve to help expand government and win reelection but isn't affordable during a financial crisis. Fiscal sanity also means stopping the Federal Reserve's heavily leveraged purchases of Treasury debt, which only serve big government, big business and traders at the expense of savers and small businesses.

The new Congress will need to work 24-7 to live up to the voters' demands for an upheaval that cuts spending, limits debt, reduces out-of-control power and begins to repair our system of laws and institutions. Ideal for voters and markets would be very short bills, approved quickly, with a simple explanation: "We can't afford it." 