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Deficit spending is basically just raising the taxes

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Recently, I had the pleasure of attending an economic forecast breakfast in San Bernardino.

Well, after further reflection, I guess it wasn't that much of a pleasure. It was sort of like sitting in the chair while the dentist in painstaking detail explains how each of your teeth will be extracted. I am confident I wasn't the only one who left the breakfast feeling like my gums were bleeding.

At the breakfast, well respected economist Christopher Thornberg of Beacon Economics pointed out that the Bush administration presided over one of the largest tax increases in U.S. history.

At the time he said it, which was right in the final stages of the campaign, I suspected he was making an overtly political argument. After all, everyone knows that President Bush cut income taxes, the capital gains tax and taxes on corporate dividends. But Thornburgh's point was really right on the money.

Deficit spending, which President Bush and Congress engaged in readily over the past few years, is just a deferral of higher taxation.

Simply put, if you borrow money, you have to pay it back. If you borrow more money, you have to pay more of it back.

And the only source the government has to pay back that money is through tax revenues. With increased deficits and debt, the government will have to increase its tax revenues in order to service the debt and, yes, to eventually pay it down from its very unsustainable levels. Therefore, spending money you don't have is a tax increase for the future.

With a couple wars to fight and a veto pen that was reserved for very few issues, the Bush administration was far from a good custodian of our fiscal well being.

Obama's plan

So, what will the Obama administration bring? We know it will bring change. We were promised that over and over again in the campaign, but what kind of change?

In my opinion, the agenda and mission of the Obama administration will depend a lot on who he puts around him in key positions.

If we try to view the future through the past two Democratic administrations, Clinton and Carter, we see two very different paths.

Clinton, after pursuing failed social agendas in his first two years, turned to the advice of Leon Panetta and Robert Rubin, who counseled him he should use the quickly recovering economy to pay down the nation's debt.

Carter, who inherited an economy in trouble, arguably made it worse by pursuing various social programs and increased regulation at the wrong time.

It will certainly be a changed world going forward. We will be recovering from this crisis and adapting to the government's response to it for a long period of time. For those of us who were raised on a steady diet of "free market" capitalism, it may feel at times like going to the dentist. That may be because we wanted to have our cake and to eat it too.

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