Political compromise

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In the 1990s, the economics department at George Mason University assembled an impressive group of scholars, including a Nobel laureate. As a group, they took economic tools of analysis and applied them to questions that were usually investigated by political scientists. Each member of this group saw the benefits of making it more difficult to pass laws. The main benefit was that the government would have trouble implementing new regulations and tax increases that would hamper economic growth. At the time, their idea made a lot of sense.

I fear that times have changed and the federal government's difficulty in passing laws may no longer be a benefit. In order to understand our current situation, we can look for insight from the events during the 1700s.

In the hundred years before the French Revolution, Britain and France fought against each other in five major conflicts. These wars were expensive and caused both countries to go into substantial debt. In fact, relative to the size of their economies, Britain went into more debt than France did. Despite Britain's greater debt burden, it was France, not Britain, that saw its government fall because of the crushing influence of debt.

Britain's government survived because it had a relatively easy time agreeing to raise taxes to service its debt. In Britain, Parliament was in charge of spending and taxing. If Parliament borrowed money to finance a war, it was willing to raise taxes in peace time to pay its obligations. No one saddled Parliament with the debt. It chose to take the debt on, so it was willing to face the consequences of its own actions.

In France, the situation was much different. The king was in charge of spending money and he could borrow the money he needed to finance wars. However, the king could not raise revenue by increasing taxes. Only the Estates General could do that. The Estates General was a parliamentary body that had not even met since 1614. The French Revolution started when the French king, Louis XVI, convened the Estates General. Once assembled, the king could not control how the legislative body acted and its actions led to the French Revolution of 1789. In short, it was France's inability to produce government policies that would service its debt obligations that led to the government's collapse.

The United States has reached a point that resembles France's pre-revolutionary situation. Our debt is over 120 percent of our GDP. This means that our country could devote all of its output in a year to paying off the debt and it would still be in debt. Why does our country have so much debt? Because our government has created large entitlement programs that force our government to spend huge sums. At the same time, the government does not generate enough tax revenue to pay for this spending. It must borrow money almost every year.

Our country's political gridlock may cause a calamity. Because of political gridlock, our government will find it difficult to pass laws that increase taxes or reduce entitlement spending. As a result, its debt will continue to grow. The government will face another problem as well. The interest payments on this debt will begin to increase as the interest rate rises – a process that has already begun. The interest rate is rising because the Federal Reserve is reducing the money supply to fight inflation. With less money available, lenders can get away with charging higher interest rates.

My hope is that our country moves away from politics dominated by two evenly-matched parties. It is not an unreasonable hope since for much of U.S. history, one political party was dominant. But to get there, we need politicians who will construct a new majority coalition that is big enough to pass laws and solve problems. A dominant political party could create fiscal policies that allow us to follow Britain's path and avoid France's experience.