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A HOUSE DIVIDED AGAINST ITSELF CANNOT STAND

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With roughly 370,000 more votes in Florida, Iowa, Ohio, and Virginia, Romney would have been elected president. Put differently, if only 185,000 voters who in the end voted for Obama had cast their ballots for Romney, Obama would not be getting ready for a second term in the White House.

A total of 9,614,484 votes were cast for Obama in Florida and the other three states. Thus a switch to Romney of fewer than 2 percent of the votes cast for Obama in those four states and Romney is preparing to take the oath of office.

This presidential election demonstrates clearly that America is almost evenly divided between a land of opportunity and a land of entitlements. America is a land of opportunity as long as there is an incentive to work hard. It is a land of entitlements whenever politicians can persuade enough voters to cast their votes for them on the promise that they (the voters) will be taken care of. Land of opportunity rests on America the economic system. Land of entitlements is grounded in America the political system.

There is one legal limit on America the land of opportunity: taxes and regulation (another form of taxation). There is one legal limit on America the land of entitlements: the debt ceiling. In both cases, the limit is determined in Washington.

The debt ceiling represents no effective limit on America the land of entitlements because it is raised by Congress almost always without any real objection. The problem is with the limit based on taxes because the Democratic Party is seriously committed to raising taxes on the rich and they can succeed in imposing this limit if enough Republicans can be persuaded to approve higher taxes by promising to deliver cuts in spending in the future. The problem with Democratic promises is that too often they have been empty promises.

The only way out of this divided house is by growing the economic pie. A larger pie makes possible both a land of opportunity and a land of entitlements. But as we have seen higher taxes – no one knows for sure how much higher – impose a limit on America the land of opportunity. Why work harder, or at all, if much of one's income is taxed away? Take the case of American doctors for whom higher taxes take the form of lower reimbursement for services rendered under Medicaid and Medicare. The doctor shortage is expected to rise to 91500 by 2020, thereby restricting access to care and undermining America the land of entitlements. Curbing opportunity effectively restricts entitlements.

High taxes reinforce two behaviors: tax avoidance and tax evasion Tax avoidance can be addressed by closing loopholes in the tax code. Tax evasion – a kind of silent secession -- can be reduced by IRS audits but cannot be eliminated. More and more taxpayers will find cash transactions attractive because with no receipts and no bank records the IRS cannot find a money trail to follow. But the more that it “lost” in the underground economy, the less that is available to support America the land of entitlements.

Where does that leave the Great American Experiment? At considerable risk because the land of entitlements has been drawing on more tax revenues while the land of opportunity can starve the land of entitlements by not paying taxes. As America learned most painfully more than 150 years ago, a house divided against itself cannot stand.

In the short term, this problem can be addressed by raising the debt ceiling, borrowing more money to support the land of entitlements without imposing higher taxes on the land of opportunity. However, this is not a long-term solution because the interest on the public debt -- \$480 billion every year on a \$16 trillion public debt at an interest rate of 3 percent – has to be paid by the land of opportunity. Borrowing more means paying more and taxing more.

In the long run, there is no other way to deal with this problem without public figures in Washington who have the *courage* to do what is necessary to keep the house from imploding even if it means they must sacrifice their constituents’ approval and personal political ambitions. The options are obvious to everyone in public office: reduce entitlements by resorting to a strict means test; raise taxes and vigorously audit tax returns; grow the economy in a sustainable way.

What isn’t self-evident, because rhetoric has replaced reason as the pathway to political success, is that there is no way to maintain America the land of entitlements without preserving America the land of opportunity. History and current events elsewhere in the world show clearly that it is not and cannot be the other way around.

A house divided against itself -- the land of entitlements at odds with the land of opportunity -- cannot stand.

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