



THE DEBT BOMB

*A Bold Plan to Stop Washington
From Bankrupting America*

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General Overview:

John Adams famously stated: "Democracy never lasts long. It soon wastes, exhausts, and murders itself. There never was a democracy yet that did not commit suicide." America today faces one of the greatest threats which have arisen since this nation's founding – the unsustainable spending of our own government. Sooner rather than later, this nation's "debt bomb" will go off. In fact, if we don't change course in the next two or three years, the America of the future will only be a hollow shell of its former self.

To defuse this debt bomb and position the nation to move forward, three immediate measures will be required followed by some intense and adult debate about needed long-term structural reforms :

1. There must be a bipartisan approach to revamping our safety net.
2. The United States must upgrade and modernize its tax code.
3. Lower-priority spending in all areas of government must be reduced or eliminated.

"The big question facing America now, and in the foreseeable future, is not who is going to win the next election but whether we are going to defuse a debt bomb that has put our very survival at risk. The battle is upon us now. Neither side can afford to be idle until a perfect political moment—or moment of total victory—that will never arrive. I'm confident we can find a way to defuse our debt bomb because America, as a nation, and as individuals, is courageous. We've proven it time and time again."

* **Please Note:** This political book summary does **not** offer judgment or opinion on the book's contents. The ideas, viewpoints and arguments are presented just as the book's **author** had intended.

The Problem – Where We Are Now and How We Got Here

“America is already bankrupt. We may not believe it. We may not yet feel its full effects. But we are effectively bankrupt. Our debt now exceeds the size of our entire economy. Our payments on our obligations—our unfunded liabilities—exceed our income as far as the eye can see. No amount of obtainable growth or tax revenue will be enough. There simply is no possible way we can finance our long-term liabilities without fundamentally reimagining what government can do in the twenty-first century.”

The uncomfortable yet undeniable facts about the debt crisis facing the United States at the present time are:

1. *The national debt has already reached a tipping point* – where it is now having a measurable impact on the economy of the United States. The debt crisis is preventing the creation of at least one million jobs a year. America’s debt crisis is essentially a spending and entitlement crisis – if Congress tries to maintain the status quo, our credit will inevitably be downgraded forcing interest rates to rise which will in turn send our payments on the national debt soaring. That would then make inflation soar and the dollar decline in value starting a vicious cycle where it becomes progressively harder to pay off the debt in the future. This would destroy America’s middle class but if we don’t act now to address the debt problem on our own terms, the rest of the world will end up dictating terms to us.
2. *Career politicians in Washington are reluctant to address the underlying debt problem because they know these measures will be unpopular* – and they fear losing reelection. All the other dysfunctions which Washington is famous for – like earmarking for example – are expressions of careerism. The real reason for the recent budget impasse in Washington is not ideological but careerism – both sides are preoccupied with trying to win reelection above all else. If Washington politicians valued fiscal responsibility more than getting reelected, they would act in ways which are more fiscally responsible. “Our founders feared—and expected—we would face a moment like this. That’s why they wrote the Constitution. They knew the greatest threat to our republic would not be a foreign army—or a shadowy terrorist cell in a cave—but career politicians and their enablers, who will always seek more and more power. Behind our greatest national security threat is an axis of excuses—careerist Republicans, Democrats, staff, and special-interest groups who reward one another for doing nothing.”
3. *The framers of the Constitution knew what career politicians would be like and therefore built in safeguards to limit the power of politicians and institutions* – but today’s generation of politicians have systematically and deliberately undermined those safeguards to make it easier to spend other people’s money in order to help themselves be reelected. As the power of Washington politicians has increased, individual liberties have decreased. Today’s Congress, with the best of intentions, has even passed a law which states everyone should eat fruits and vegetables under an interpretation of the Constitution’s Commerce Clause! “The evolution and expansion of the Commerce Clause is just one example of how bedrock constitutional principles have been liquefied and reshaped by whimsical majorities. Today we no longer have the rule of law, but the rule of rulers. Being subject to the whim of rulers rather than laws is the very form of tyranny our founders wanted to escape.” When the Constitutional boundaries are so widely ignored, it’s no wonder unbounded careerism has led to excessive spending and a culture of dependency. “Dismantling the Constitution by growing government and undermining freedom gave us the debt we have today. Republics die when we assume we can have things that were not won with our own blood, sweat, and toil. Career politicians have been less than honest about what history says about republics that lose sight of the character traits of hard work, self-reliance, independence, and charity. They have told us we can depend on them to make the key decisions about our future. Yet, they fail to realize real freedom comes when individuals make the best decisions for their individual lives, unfettered by the wise hands of the elites. Restoring the limits on government will restore liberty and the promise of freedom.”

4. *Earmarks have long been the weapon of choice for career politicians to get around constitutional limits on Congress's power* – and it's thanks to the efforts of ordinary Americans who said enough is enough earmarks have gone away. The good thing about the temporary end of earmarks is it has shifted the conversation in Washington to big-dollar problems like entitlement spending which is helpful and necessary. Be careful though – Washington politicians are already gearing up to restart the earmark favor factory by introducing practices like “phone-marking” where earmark requests are phoned in and the creation of discretionary slush funds embedded inside appropriation bills. Vigilance is required on an ongoing basis to keep earmarks away.
5. *The real problem in Washington is that both parties have agreed to borrow and spend way beyond our means* – and “gridlock” or an “inability to agree because of philosophical differences” are just smokescreens. In the real world, families and companies face resource constraints every day and are forced to set priorities and make hard choices. If Congress is forced to do likewise, it gets labeled as “obstruction” and everyone tries to keep on spending like there is no tomorrow. The Senate’s much commented on decline in productivity is caused by the fact Senate leaders are afraid to debate or even begin to address the real issues facing the country. It’s time to highlight the effort of those who are forcing the Senate and the House to act in a fiscally responsible manner rather than label them as oddballs. Put another way, “No” is a word that gets used too rarely by Washington politicians when it comes to spending taxpayers’s money and this needs to change.
6. *The idea that politicians can grow the nation’s economy by growing the size of the government is ludicrous* – this has been refuted time and again, most recently by the failed stimulus package mandated by the Obama administration. The best way to make something expensive is for the government to attempt to make it affordable. This has been shown to be true in every area of the economy from housing to health care to education. Put another way, today’s government is too big to succeed. When the government spends money on something, private investment gets squeezed out and resource allocation gets distorted. Those who highlight government’s innate incompetence and failures are not anti-government extremists – they are simply people making observations based on facts and evidence. “The central challenge of our time is not to remember what government can do, but what it cannot do very well. We are on the edge of an abyss not because we had too little faith in government but because we had too much faith. In the debate between the founders and today’s career politicians and progressives, the stimulus rendered a resounding verdict in favor of our founders. So what works? A government that works is a government that is limited.”

“Our national debt is our biggest national security threat.”

– Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, June 24, 20120

“In questions of power let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution.”

– Thomas Jefferson

“I sincerely believe . . . that the principle of spending money to be paid by posterity under the name of funding is but swindling futurity on a large scale.”

– Thomas Jefferson

“In this present crisis government is not the solution to our problem; government is the problem.”

– President Reagan’s First Inaugural Address, 1981

The Solution – Defusing the Debt Bomb

“What the cynics fail to understand is that the ground has shifted beneath them, that the stale political arguments that have consumed us for so long, no longer apply. The question we ask today is not whether our government is too big or too small, but whether it works—whether it helps families find jobs at a decent wage, care they can afford, a retirement that is dignified. Where the answer is yes, we intend to move forward. Where the answer is no, programs will end.”

– President Obama’s Inaugural Address, January 20, 2009

Despite all the window dressing and posturing which take place in Washington, the simple fact is dismantling the debt bomb will require a solution which will be a combination of revenue increases, spending cuts and, most of all, entitlement reforms. Republicans and Democrats who argue otherwise are pandering to the public in order to enhance their reelection chances. Any rational analyst will tell you all three elements will be required and if nothing is done right now to solve the national debt problem it’s only going to get worse in the future. Doing nothing would be an act of betrayal for both sides because it will inevitably lead to massive tax increases and deep benefit cuts in entitlement programs.

The widely publicized \$1 trillion in spending cuts won’t be enough. When Washington is finally forced to confront our unsustainable fiscal course, the scale of the deficit reduction which will be required will be \$9 trillion over ten years. A realistic breakdown of how those savings will probably be achieved would be:

- \$3 trillion from discretionary spending and other accounts
- \$3 trillion from entitlements
- \$1 trillion from ending some spending in the tax code
- \$1 trillion in defense spending cuts
- \$1 trillion in avoided interest costs

Discretionary Spending

The low hanging fruit in making these cuts is to take a chainsaw to discretionary spending. Even if just duplication in discretionary spending were to be eliminated, taxpayers would save \$1 trillion over ten years. The Government Accounting Office released a report in February 2011 which found there was a staggering amount of waste and duplication in government programs – and the GAO only looked at one-third of the federal government.

“In its landmark study, the GAO identified a mother lode of government waste: 9 federal agencies spend approximately \$18 billion annually to administer 47 separate job training programs (it was unclear if any worked); 20 separate agencies run 56 different financial literacy programs (why Congress believes it is qualified to teach financial literacy is beyond me); 10 agencies run 82 teacher training programs, while 15 agencies monitor food safety. One agency manages cheese pizza (FDA), but if you buy a pepperoni pizza, that’s another agency (USDA). In many areas the GAO found little evidence these programs were effective. And in the understatement of the year, the GAO said, “Considering the amount of program dollars involved in the issues we have identified, even limited adjustments could result in significant savings.”

People sometimes ask how so much duplication came to be but the reason is simple – every career politician wants credit for solving the same problem. Therefore, they introduce bills which do the same things as existing agencies. Sometimes, these politicians are so busy catering to what special interests are asking they don’t even bother to do their homework and see what’s currently being done in that area. Duplication in what the government does is a monument to the good intentions of career politicians. It also creates massive and expensive turf wars between dueling government agencies and overlapping bureaucracies.

Admittedly, eliminating the massive amount of duplication in government won't achieve the entire \$3 trillion in savings over 10 years but it would be a great start and would send some strong signals of intent. The deeper problem is Congress refuses to set priorities and refuses to acknowledge how easy it is to get rid of massive amounts of waste. Politicians love to allocate money but are reluctant to do oversight. If this dynamic could be changed, substantial savings in discretionary spending could be achieved.

Entitlements

Entitlement programs – Medicare, Medicaid and Social Security – are the biggest drivers of our long-term debt because they are so massive. 100 million Americans have Medicare and Medicaid health insurance coverage or about one in three adults. Entitlement programs face two long-term challenges – unsustainable demographics generated by people living longer and unsustainable benefits. Both of these need to be addressed, as noted by U.S. Senator Joe Lieberman: "We can't save Medicare as we know it. We can only save Medicare if we change it."

There have been many sensible restructuring proposals for entitlement programs floated around Washington for years but there has been a definite lack of political will to do something about it. Doing nothing or deferring action isn't an option any more. If Medicare isn't changed, it will go bankrupt by 2016. The key to moving forward is to shift decision-making authority away from government and back to doctors and patients. We have to reconnect the purchase of health care with payment for that health care. Returning Medicare to its original purpose by income-adjusting premiums and raising the retirement age are common sense and obvious solutions in this area. These same solutions would also ensure the future sustainability of Social Security if they were to be applied there as well.

To be specific, \$3 trillion savings over ten years in entitlement programs could be achieved if we:

1. Gradually raise the eligibility age for Medicare to 67 and then 69 in 2080.
2. Shift management of Medicare to the states and away from Washington.
3. Ask seniors to pay \$15 to \$20 a month for Medicare Part B (hospital insurance) premiums.
4. End Medicare fraud with bills like the Fraud and Abuse to Save Taxpayer Dollars Act.
5. Reform our disability programs so they only serve those who are genuinely disabled.

One other thing we can do to restructure entitlement programs is to repeal Obamacare. Universal health care is the right goal to have but the Obamacare approach is backwards. We will get closest to that goal as a nation if we use the same mechanisms which have always worked whenever the United States has attempted to make scarce services common and affordable – competition, transparency and choice. Turning patients into shoppers and equipping them with buying power will do more to bring down costs and increase the quality of services than any other reform.

Admittedly, free markets are not perfect but they are vastly better than allowing some elites in Washington to make choices for us. Updating the tax code so it gets away from the outdated employer-based model and doesn't discriminate against the self-employed will allow the market to bring down costs, enhance the quality and increase choices when it comes to health care.

"The health care debate, I believe, will be remembered as a historic missed opportunity for President Obama. The president was elected with a mandate to pursue real change. The great tragedy of his health care initiative was its lack of imagination and ingenuity. Instead of pursuing change and reimagining health care across party lines, he pandered to the status quo assumptions of politicians on his side of the aisle and made health care and our economic situation worse. Hopefully, the law will be repealed and replaced before it can be fully implemented, and we won't have to see how bad it will be for patients."

Tax Code Reformation

“Even though both sides acknowledge the inefficiency and dysfunction of today’s code, few politicians are willing to offer specific solutions and detail specific tax earmarks that should be eliminated or scaled back so we can lower rates. The American people can’t afford to accept these nonanswers any longer. I’m convinced that if taxpayers are serious about getting our debt under control, we have to ask Washington to get out of the business of picking winners and losers through the tax code. As a nation, we can’t have it both ways. We can’t demand limited government and less debt while demanding the very spending that grows government and our debt.”

The key principles involved in reforming the tax code in order to generate \$1 trillion in savings over the next ten years are:

1. We must acknowledge what we face is overspending on the part of government, not under-taxation.
2. We also must realize there are not enough rich people to tax to get us out of debt.
3. The current tax code’s complexity rewards the well connected and the wealthy. We must replace it with something simpler and more transparent.
4. We must have the mindset that tax earmarks are spending programs to be eliminated, not tax cuts which need to be protected and expanded.
5. We also must view tax earmarks as being more consistent with socialism rather than conservatism – they allow politicians to attempt to redistribute wealth by stealth rather than in the open.
6. There should be no question tax earmarks keep everyone else’s tax rates artificially high – they are a tax increase for anyone who doesn’t receive a benefit or who cannot afford to hire a lobbyist or special-interest group to defend them.
7. Any Republicans who embrace tax earmarks are desecrating the legacy of our founders and the champions of limited government like Goldwater and Reagan.
8. Lower tax rates and a simplified tax code are far more preferable to higher rates and a complex code of deductions, credits, loopholes and earmarks.
9. Real tax reforms that lower rates and broadens the base would be an enormous economic stimulus. If structured properly, it could create momentum for a comprehensive deficit reduction agreement which would defuse the debt bomb. This deserves bipartisan effort and support.

“Congress has tackled fundamental tax reform before and can do so again. In 1986, President Reagan passed a comprehensive tax reform plan that closed loopholes, lowered rates, simplified the code, and triggered our longest economic expansion since World War II. Reagan called the tax reform act “the best anti-poverty bill, the best pro-family measure and the best job-creation program ever to come out of the Congress of the United States.” And as Martin Feldstein noted, federal revenues soared when this pro-growth reform was enacted. Congress has done bold tax reform in the past. It can and must do so again if we are going to survive in the twenty-first century.”

“Where is the politician who has not promised his constituents a fight to the death for lower taxes—and who has not proceeded to vote for the very spending programs that make tax cuts impossible? There are some the shoe does not fit, but I am afraid not many.”

– Barry Goldwater

Defense

"Of all the sacred cows that need to be tipped in Washington, defense spending is the biggest and most stubborn. It is tough to control for many reasons. First, it is one of the few legitimate constitutional roles of the federal government. Also, peace through strength is not a mere slogan but a reality of life. Maintaining a strong national defense is vital for our national security. Our strength is our best deterrent. Without it, our economy, freedoms, and liberty are all placed at risk. However, wasting defense dollars neither defends our nation nor honors the sacrifice, heroism, and professionalism of our troops. In fact, spending money we don't have on things we don't need in such a large area of the budget as defense makes our greatest national security threat—our unsustainable national debt—more difficult to address. Knowing what to keep and what to cut in the defense budget is our first responsibility as elected officials. Thinking critically about the defense budget is your responsibility as well. Eisenhower was exactly right when he said, "Only an alert and knowledgeable citizenry can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals so that security and liberty may prosper together."

The simple fact is defense spending at the present time wastes taxpayer money through bad contracting practices and old-fashioned parochialism. The simple fact is not all defense spending strengthens national security. To achieve \$1 trillion in savings over the next ten years, the United States should:

1. End the subsidy for DOD-administered grocery stores. There are currently 254 grocery stores run by the military as commissaries which are subsidized to the tune of \$1.2 billion. Let's leave that to other operators and move the government away from being an unsuccessful shopkeeper.
2. Close DOD-run elementary schools. The Department of Defense operates 64 schools at \$51,000 a student – nearly three times as much as the worst public school system in the country costs. If we close these schools, that will save \$2 billion a year immediately.
3. Reduce spending for the Congressionally directed medical research program on nonmilitary-specific diseases. The DOD spends \$2.7 billion a year on medical research. Let's get the Department of Defense focused back on fighting and winning wars and leave this to others.
4. Reform military health care. Every year, \$115 billion is poured into veterans' health-care. No one wants to be anti-veteran but at the same time nor does the United States want to make promises it cannot afford to keep. By all means let's give comprehensive and free health-care benefits to anyone who suffers a disability or an injury from combat or while on active military duty and their families but there is no logical reason why that should also be extended to all military personnel, their spouses and dependents without restriction. Let's find smarter and cheaper ways to provide health care to military retirees and their families after retirement.

"Streamlining defense will strengthen, not weaken, our national security. History shows that all great powers eventually get the foreign policy they can afford, not what they want. As Will Durant warned, "A great civilization is not conquered from without until it has destroyed itself within". Defenders of the status quo argue that defense spending as a percent of the economy is at its lowest level since World War II. That's true but misleading. The current nonwar budget is larger than our total defense budget during the defense buildup in the 1980s, when we faced the threat of a sophisticated global nuclear superpower with an overwhelming number of conventional forces in Europe. Today's nonwar defense budget also is larger than the total defense budget during the Vietnam War, when we had over 500,000 troops fighting overseas. What the defense budget is lacking is not money but common sense."

Conclusion

"Washington today is a city that fiercely resists change. The forces of careerism—and cowardice—have so far prevented our leaders from making the courageous choices these times require. Washington may convince itself we can put off these choices a little longer. We could see an uptick in the economy or watch other nations flounder and find comfort in our relative strength. Yet, the choices I've laid out are inescapable. If America were one of my patients, I would tell her she had a 100 percent chance of experiencing a major cardiac event—a potentially fatal heart attack or stroke—if she failed to take immediate steps to get healthy. As a physician, when a patient's life is in imminent danger—as our economy is today—you first have to pursue the vital interventions to keep the patient alive. The vital interventions I've outlined—revamping our safety net, reforming our tax code, and reducing our lower-priority spending in all areas of government—will save the patient. But to get there, both citizens and legislators will be required to have an adult conversation and put the survival of the nation ahead of short-term politics. The good news is, all of these problems can be solved with choices that are not as hard as people in Washington may suggest."

The debt bomb can and will be defused if we embrace the straightforward and common sense structural reforms which have been proposed. As a nation, we must make changes in the way we do things moving forward as well. For example, we should adopt an energy policy which is based around the national interest rather than environmental fanaticism. The United States has the opportunity and capability to become energy independent and at the same time create millions of jobs if we accept that for the next twenty years at least we will have a fossil-fuel based economy rather than one based on unproven green technologies. The United States needs an energy policy which will take full advantage of the nation's untapped energy resources rather than pandering to left-wing extremists. A reasonable energy policy alone could generate hundreds of billions of dollars in additional revenue at the same time as it generates hundreds of thousands of new jobs every year.

"The real resistance to change in Washington does not come from a deep ideological commitment to Marxism or socialism. Instead, the real problem is fear, combined with a lack of leadership, a shortage of courage, and leaders whose greatest desire is to win reelection. The way to break this logjam is to change who is serving in Washington."

So what are the practical steps concerned citizens can take now to help defuse the debt bomb?

- Write letters to your elected officials – and refuse to accept a form letter in reply which doesn't answer your questions. Just one handwritten letter from a concerned citizen can make quite a difference.
- Create your own blog and use that to attract others who think the same way you do. Politicians notice anything that mentions their names so use that power to your advantage.
- Start attending any town meetings your locally elected politicians run and ask tough, direct and thoughtful questions of them. Make your views heard. All politicians who run town meetings use them to gauge what their constituents are really thinking. Let them know.
- Actively campaign for term limits in Washington. This is the obvious way to free our nation from the insidious effect of careerism on the part of politicians. If we can't force through a Constitutional amendment to this effect, then exercise your rights and fire politicians at the polling booths if they refuse to solve the nation's challenges.
- Be active in encouraging those with solid real-world experience to seek election to Congress. If people with character and guts can get elected, the right things will happen. Let's drain Congress of the dregs and refill the place with new public servants who will get the job done. After all, that's democracy in action.