Cash Crunch Will Force Governments to Do Less

By GERALD F. SEIB

In Los Angeles this week, the mayor proposed closing most city offices for two days a week. In Colorado Springs, private donations and bake sales are being used to keep parks and pools open. In Maryland, the state is considering furloughing state workers for the second year in a row.

Welcome to the era of government doing less for its citizens. The wave is beginning at the state and local level, where it's rolling ahead in large measure because of a fiscal crunch brought on by the deep recession.

But there's little reason to think it will stop with states and cities, and ample reason to think it will continue even after the recession fades. The federal government is headed in the same direction, as Federal Reserve Chairman Ben Bernanke warned on Wednesday.

In a speech in Dallas, Mr. Bernanke bluntly noted that two giant fiscal waves were headed for the federal government, one atop the other. First comes the big deficit caused by the economic downturn. That will be followed immediately by ballooning costs for baby-boom retirees drawing Social Security and Medicare funds. "To avoid large and unsustainable budget deficits, the nation will ultimately have to choose among higher taxes, modifications to entitlement programs such as Social Security and Medicare, less spending on everything else from education to defense, or some combination of the above," Mr. Bernanke said.

Everybody who's honest about this problem knows the answer inevitably will be "some combination of the above." This is the reality of the 21st century, and as a consequence the country faces some big decisions about the shape of government, and government itself will have to show it's being more efficient.

The issues raised aren't so much ideological ones—is government good or bad?—but practical and political. There is a growing disconnect between the services Americans want and the taxes they are prepared to pay for them.

This is relatively new terrain. For most of the last century, as America grew and prospered, its citizens have happily grown accustomed to the government—federal, state and local combined—providing steadily more services: better roads, more aid to colleges and universities, research labs and health benefits for a wider circle of citizens.

This has been true through political regimes of both parties, and despite rhetoric to the contrary. Lyndon Johnson provided guns for Vietnam as well as more butter for citizens as home. Ronald Reagan talked about cutting the size of government, but never really did. Bill Clinton said the era of big government was over, but it wasn't really. George W. Bush was a conservative who pushed through a giant new drug benefit for senior citizens and steady increases in other domestic spending.
And within the past year, President Barack Obama has overseen a government overhaul of the health-care system, a federal lifeline that saved General Motors and a rescue of the nation's biggest financial institutions.

Most of this has happened because the U.S. was prosperous enough to finance more government services, and because Americans like them, even when they claim they don't. Red states such as Texas and Alaska have been happy to take in massive inflows of federal dollars, even while pretending they hate federal intrusions.

Now, the fiscal reality has changed, not just because of the recession but because of demographic and structural changes, and years of avoiding hard decisions. Some government services being cut now will be restored as the economy improves, of course, but hard decisions will have to be made.

In theory, lots of Americans will say they actually want the government to do less. In a Wall Street Journal/NBC News poll, earlier this year, Americans said by 59% to 35% that the government was doing too much to solve national problems, and should leave more things to businesses and individuals.

But it is one thing to say government should do less, and another thing when services actually are cut. When the state of Virginia last year decided to cope with its budget problems in part by closing rest stops on highways, there was an uproar. A new conservative governor has just reopened them.

And we are all familiar by now with the stories of people who proclaim that the government should stay out of health care, but shouldn't touch their Medicare coverage, which is, of course, the biggest of all government health programs. Nor do people often recognize what government is doing in the background of their daily lives; those who travel to tea-party rallies to protest government spending get there on roads a government has paved.

The choice isn't between active or passive government; government can be active through regulation and social engineering while spending less, or passive while doling out big benefits. The keys are making government smarter in delivering services, and deciding what's possible after the fiscal house is put in order.

The first step in doing that should be a commission Mr. Obama has launched to deal with the federal deficit; the panel is about to start working. Both parties are participating, but doing so only warily. That commission, though, could be the first step toward a sane transition to a new era of government in America.

QUESTIONS:
1. According to Fed Chair Ben Bernanke, what are the "two giant fiscal waves headed for the federal government"

2. What options does the U.S. government face for trimming the large budget deficits?

3. What will happen if the U.S. does not reduce the size of its budget deficits?