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**LETTER FROM WASHINGTON/
Doing the Deficit Dance**

By Lawrence J. Haas

Can we do it again?

It was February 1998 and President Clinton had just announced that he was proposing a balanced federal budget for the coming year. With his public event over, Clinton wandered backstage to where Vice President Gore was chatting with a few senior members of the White House economic team. The President lumbered over, stretched his arms to the sky like a boxer who had just knocked down an opponent, and, enunciating each word for effect, proclaimed, “This... is... a... good... day.”

It was more than that, however. It was the culmination of nearly two decades of work by Presidents and Congresses, legislative leaders, and rank-and-file members of both parties to eliminate decades of ever-rising deficits and finally balance the budget for the first time in nearly 30 years. Policymakers had struggled with rising deficits in the 1970s, and then the deficit soared much higher in the early 1980s in the aftermath of President Reagan’s big tax cuts, his defense build-up, a deep recession, and a shortage of domestic spending cuts to close what became a yawning fiscal gap.

Through the 1980s and ‘90s – at a time when American politics grew meaner and more partisan, when opinion leaders worried incessantly about perpetual gridlock between the President and Congress and between the two parties on Capitol Hill, when the political risks of raising taxes or cutting popular benefit programs grew clearer with each incumbent’s re-election defeat – America’s leaders nevertheless managed to turn large, economically perilous deficits into surpluses. They did it not with one vote but with a series of them over a series of years. Time and again, they stared down the political risks and eventually turned the red ink to black. And, with a roaring economy generating an unexpected windfall of revenues, they did it faster than even the most optimistic policymakers had anticipated. For while Clinton – on that “good... day” in February 1998 – had proposed a balanced budget for fiscal 1999 (the year that would begin on October 1, 1998 and end the following September 30), the budget actually reached balance a year earlier.

But, today, with the federal government once again mired in red ink, try suggesting to a Washington insider that the past can be prologue, that Washington confronted its fiscal problems less than a generation ago and, so, can surely summon the will to do so again. You’ll likely get a condescending smile in return, one suggesting that you are oh, so naïve to think that America’s famed governmental system – the very system that has attracted such envy across the globe for more than two centuries – can still work. The elected and appointed officials, lobbyists and policy advocates, journalists and other opinion leaders who populate America’s capital city have grown deeply cynical about the government’s ability to perform. They look back nostalgically to

the 1980s and '90s, pining for the Presidents and congressional leaders of that period, complaining that their latter-day counterparts don't measure up, and lamenting the unwillingness of today's elected officials to come together.

To be sure, things have changed in Washington – and deficit cutting ain't what it used to be. Last November, I wrote in these pages about the greater political obstacles that confront today's would-be deficit cutters compared to those of the 1980s and '90s. Perhaps the biggest one continues to be the combination of changes in our electoral system (e.g., the redrawing of congressional districts to favor candidates of the far left or far right, the ever-rising importance of money and the single-issue advocacy groups that provide it) that have strengthened the wings of each political party (liberal Democrats, conservative Republicans) and reduced the influence of “moderates” in each. Because it is moderates who have led deficit cutting efforts in the past, who understand that governing is the art of compromise, and who are willing to make politically tough choices of their own if they see their opponents doing the same, the congressional constituency for deficit reduction has shrunk considerably along with the chances of achieving it.

Cynics have other reasons to doubt Washington's ability to recreate its deficit cutting success of a generation ago. They include President Obama's 2008 campaign pledge not to raise taxes on taxpayers earning up to \$250,000 a year, which would exempt 98 percent of households from higher taxes; Republican opposition to raising taxes on anyone of *any* income level; and positioning by both political parties in the run-up to this fall's congressional elections that will make post-election cooperation more difficult. On that last point, Obama has raised the specter of a Republican Party that continues to support President Bush's failed attempt to partially privatize Social Security (the federal pension system for the elderly), which will reduce the chances of inter-party cooperation to restructure the program; and Republicans have raised the specter of a Democratic Party that wants to raise taxes on everyone, which will reduce the chances of inter-party cooperation to raise taxes on anyone. Meanwhile, the White House and Congress recently cut Medicare (the federal health care program for the elderly) significantly to help finance their landmark health reform bill, and they expanded Medicaid (the federal-state health care program for the poor) significantly as part of health reform, putting millions more Americans on its rolls. Well, if you can't raise taxes and, for different reasons, you don't want to cut Social Security, Medicare, or Medicaid – which dominate domestic spending – you can't realistically address the deficit problem.

Having said that, numbers don't lie. Presuming that current federal policies continue – that Americans pay taxes at their current rates and receive, in particular, their public pension and health benefits under current formulas – the nation faces a future of soaring and unprecedented deficits and debt. That will mean an American future of more borrowing and less saving, more payment of interest on the debt and less investing in the future, and less economic growth, fewer resources, and less U.S. leadership around the world.

In essence, Washington is torn between the fiscal arithmetic it knows and the political system in which it works. Policymakers know they must address the nation's fiscal future, but they doubt their capacity to do so. At this writing, with a weakened Obama sure to face an emboldened Republican Party after November that will have more seats in Congress (if not control of at least one chamber) and its eyes on the 2012 presidential contest, and with the economy mired in slow

growth and stubbornly high unemployment, policymakers are trying to carve a path to get from here to there – from partisan gridlock to a bipartisan agreement that will reduce our deficits and debt. Rather than actually address the deficit just yet, they are doing what you might call the “deficit dance.”

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