

The Fiscal Times

June 23, 2011

A Way Out for Dems on Debt Ceiling Talks

By LAWRENCE HAAS

Today's decision by the two Republican participants to withdraw from negotiations led by Vice President Biden to reach a deficit-reduction package, saying they won't go for tax increases, would seem to put President Obama and congressional Democrats on the defensive.

It doesn't have to.

At first blush, Republicans seem to have the upper hand. The Administration says policymakers must raise the nation's debt limit by early August to avoid a federal default. Most Republicans say they won't provide the votes unless debt limit legislation includes sizeable spending cuts and doesn't include tax increases.

With Obama eyeing his 2012 re-election run, the White House wants not only to avoid a potentially catastrophic default, but also to reach a deal soon so investors don't get spooked by all the controversy. By sending interest rates higher and weakening an already fragile economy, that would hurt not only Obama but Democrats who face re-election next year – and are tied to Obama whether they like it or not.

So, it seems for now like Democrats have to accede to Republican demands to keep tax hikes off the table. But is that so bad? Democrats should look a bit further down the road – to the end of 2012 in particular.

That's when President Bush's tax cuts will expire under current law. Also expiring by then are the temporary easing of the alternative minimum tax and the temporary increase in physician payments under Medicare. They all die unless Obama and Congress take affirmative action to extend them.

Guess what happens if, as everyone expects, Obama and Congress extend those policies, according to long-term budget projections that the Congressional Budget Office released yesterday? The public debt would rise from today's 69 percent of Gross Domestic Product to more than 100 percent of GDP by 2021 and to a frightening and unsustainable 190 percent by 2035.

But, if Obama and Congress let those policies expire, the debt rises only to 84 percent of GDP by 2035. That would essentially remove the risk of an economic meltdown and give policymakers more time to slow the relentless rise in health care costs.

So, here's an idea:

Democrats should stop stressing about Republican intransigence on tax increases. For now, they could go along with GOP demands to cut deficits only by cutting spending. Then, in 2012, Democrats could cut deficits even more simply by sitting on their hands and letting the Bush tax cuts and the other temporary policies expire.

In that sense, Democrats are in the driver's seat – whether they know it or not.

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Moving in the Right Direction on Deficits

By LAWRENCE HAAS

Winston Churchill may have said it best about his fond friends: “You can always count on Americans to do the right thing – after they've tried everything else.”

On fiscal policy, we Americans have long been “trying everything else.” We've cut taxes and boosted spending for at least a decade, turning surpluses into deficits that are now on track to explode in size.

Well, here's some good news. We may be getting ready to do the “right thing.” We may not get to responsible fiscal policy immediately, but the signs of serious movement in the right direction are mounting.

First, Republican anti-tax absolutism continues to crack, with growing numbers of Senate Republicans talking about raising revenues by closing tax loopholes.

Last week, Senate Republicans voted overwhelmingly to eliminate tax subsidies for ethanol production. That caused a huge public spat between the Senate GOP and Washington's most influential anti-tax advocate, Grover Norquist, with Norquist suggesting the vote was due to special circumstances.

Apparently not. Senator Lamar Alexander, R-TN, is now working on a broader plan to scale back tax subsidies for oil and gas. Meanwhile, Senator Lindsay Graham, R-SC, said on NBC's "Meet the Press" yesterday that Republicans would be willing to close other subsidies as part of a deficit reduction deal. "No one on the Republican side is going to vote to raise taxes, but I think many of us would look at flattening the tax code, do away with deductions and exemptions and take that revenue to help pay off the debt," he said.

"Doing away with deductions and exemptions" is, of course, a way to raise taxes because scaling back write-offs will mean that some taxpayers will pay more. Graham really meant that Republicans won't raise tax rates.

Fine. Washington allocates more than \$1 trillion a year in "deductions and exemptions." If Republicans would scale them back, as key Republican economic adviser Martin Feldstein has suggested, that could open the door to serious revenue raising and a broad deficit-cutting deal with Democrats.

Second, and speaking of Democrats, their overwhelming opposition to cuts to Social Security has suffered a serious blow. That's because the nation's most important lobbying organization for senior citizens, AARP, has announced that it could support modest cuts in Social Security as part of larger deficit-cutting efforts. That gives progressives more running room to cut Social Security and makes it tougher for others to say that they have to oppose Social Security cuts at all costs. If cuts are OK with the AARP, they should be OK with everyone.

All of this is good news. After all, deficit cutting is about compromise. Republican and Democratic movement away from absolutist positions is a prerequisite for compromise and, in turn, progress. We may be witnessing early indications that, on fiscal policy, Churchill's observation will once again prove insightful.

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