

The Fiscal Times
February 10, 2011

Political Ignorance Threatens Deficit Reduction
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Americans know little about what's in the federal budget, Bruce Bartlett reminded us late last week in a convincing piece that relied on the latest poll results. And while wanting to cut deficits and spending, the public largely opposes cuts to the particular domestic programs that dominate the budget.

It's a welcome reminder: All else being equal, the more Americans understand the challenge of lowering deficits to manageable levels, the more likely that they'll accept the tough medicine that policymakers will have to deliver. I've long advocated that the president and members of Congress level with their constituents about the tough choices ahead, and I've applauded efforts by the Concord Coalition, the Committee for a Responsible Federal Budget, and other groups to enhance public understanding with speeches and workshops around the country.

But let's be realistic: We can't hope to do much more than chip away at public ignorance about deficits, spending, and taxes. This is complicated stuff, and Americans have other things on their minds – like going to work, raising their kids, and saving for their future. In our republican form of government, Americans grant power to those they elect to make the right decisions for them and the country at large.

It's with those elected officials where the more frightening, and consequential, problem of ignorance lies. Based on what they're saying and how they're acting, many of our elected leaders seem clueless about the nature of the deficit problem, the difference between short- and long-term deficits, the relationship between budgets and the economy, and the role of revenues in financing government. Many other elected officials surely know better, but they're choosing to follow the political winds and promote immediate cuts in domestic discretionary spending that would slow the economic recovery in the short run, while doing nothing about long-term deficits that will weaken the nation over the long run.

Let's be clear: We have run huge deficits of late (\$1.4 trillion in 2009, \$1.3 trillion in 2010, and an estimated \$1.5 trillion this year – each about 10 percent of gross domestic product), due to an economy that's still recovering from the Great Recession and the extraordinary steps that policymakers took to rescue the financial industry and jump-start the economy. Those deficits are, by definition, temporary and, as such, should not raise economic alarms.

The problem is what comes next. Even after the economy returns to full growth (and presuming that current policies remain in place), we'll face deficits that average about \$1 trillion and 6 percent of GDP over the next decade before they head much higher, both in dollar terms and as a share of GDP.

Deficits that exceed three percent of GDP will mean that our total debt will keep rising as a share of GDP. That, in turn, will raise risks of an economic crisis, such as a loss of confidence in the

markets that sends interest rates and inflation much higher. Even in the absence of a crisis, such big deficits and such higher debt will mean lower savings, less investment, lower living standards, and, over time, a declining nation at home and abroad.

Those long-term deficits have nothing to do with the current economic weakness, financial bail-outs, and stimulus spending. They are driven by the aging of the population and soaring health care costs, which show up on the federal books in the form of Medicare, Medicaid, and Social Security, combined with federal revenues at levels that won't come close to covering the rapid growth of those programs.

Spurred by public outrage over the sky-high deficits of today, policymakers of both parties are trying to prove their deficit-reducing bona fides by slashing domestic discretionary spending in the near term, as early as this year. Nobody wants to be on the wrong side of spending cuts – not the new House Republican majority, which hopes to make good on its 2010 campaign promise to cut non-security spending by \$100 billion in its first year; not President Obama, whose budget director, Jacob Lew, promised spending cuts in an op-ed entitled “The Easy Cuts Are Behind Us” in Sunday's *New York Times*; and not senators of both parties who have been meeting informally to craft deficit-cutting legislation this year.

Immediate spending cuts, however, will take demand out of an economy that is struggling to return to its full employment growth path and create far more jobs. Combined with the spending cuts and tax increases that states – which face annual balanced budget requirements – will continue making, federal spending cuts that come too quickly could weaken the economy and send unemployment higher.

As for long-term deficits – the problem on which policymakers should focus their attention – no serious effort is underway to address the overwhelming problem of rising health care costs (beyond the measures included in health reform) or to reform Social Security so that it avoids the coming problem of too few revenues to finance too many benefits.

In Republican circles, only a handful of lawmakers hint at accepting higher taxes as part of a deficit-cutting deal. In Democratic circles, a growing number of lawmakers want the party to pledge its allegiance to leaving Social Security untouched. Some would do the same for Medicare.

So here's where we're headed:

- Cuts in domestic discretionary spending that will reduce short-term deficits, but potentially weaken the economy.
- Inaction on the long-term deficits that will mount as the ages and health care costs continue to soar, weakening the economy.

All in all, it's the wrong kind of action in the short term and the wrong kind of inaction over the long term.