

Roll Call
March 6, 2006

Fiscal Hawks Should Pray for a Crisis
By Lawrence J. Haas

For the dwindling number of fiscal hawks on Capitol Hill who yearn for deficit reduction, I have some advice: Pray for a crisis.

Today, Congress lacks three factors that prompted lawmakers to eliminate record deficits during the most recent period of soaring red ink, the 1980s and early 1990s: leadership, followership and the fear of crisis.

A crisis would change Congress overnight, forcing leaders to lead and followers to follow. Indeed, a crisis may be the only way to force action on our increasingly scary fiscal situation. Here's why:

Leadership: New problems create new opportunities for would-be leaders to display their skills. So, when the deficit exploded in the early 1980s, key figures on Capitol Hill jumped at the opportunity to lead.

Virtually every year of the 1980s, someone or some group in Congress stepped forward — for instance, Ways and Means Chairman Dan Rostenkowski (D-Ill.), Senate Republicans or a bipartisan rump group. Congress, in turn, took action just about every year, raising some taxes, cutting some spending, or both. Then, through major budget deals in 1990, 1993 and 1997, Congress went from controlling the problem to solving it.

Today, key lawmakers ignore the problem — or promote ideas that would make it worse. Nowhere is that clearer than among Senate Republicans. In the 1980s, Sen. Bob Dole (R-Kan.) contributed mightily to deficit-cutting efforts as Finance chairman and then Majority Leader. His current counterparts — Finance Chairman Chuck Grassley (R-Iowa) and Senate Majority Leader Bill Frist (R-Tenn.) — recently signed on to the lunacy that tax cuts pay for themselves.

Followership: The deficit-busting heroes of the 1980s — for instance, Republicans such as Dole and now-Sen. Pete Domenici (N.M.) and Democrats such as Rostenkowski and then-Rep. Leon Panetta (Calif.) — had one thing in common. They were all moderates. They understood that politics is the art of compromise: Democrats would accept domestic spending cuts, while Republicans would swallow tax increases.

Since then, moderates increasingly have become an endangered species on Capitol Hill, making the challenge of building bipartisan coalitions for deficit reduction well-nigh impossible.

The Congressional parties are increasingly controlled by their wings — very conservative Republicans, very liberal Democrats. The former believe in cutting taxes as deeply, as

widely, and as often as possible. The latter, feeling burned by Republican efforts to push the party's conservative agenda through Congress at all costs, would hardly provide help for GOP-led deficit-cutting activities.

Crisis: When the deficit exploded in the 1980s, fear engulfed Washington, D.C.'s policy-making community. Some economists predicted soaring interest rates, skyrocketing inflation and even economic collapse. Many lawmakers bought the arguments or used them to rally support for politically difficult action.

But the past 25 years taught an important lesson: Generally, deficits don't cause the economy to collapse. They cause it to corrode over time, forcing up interest rates, leaving less capital for investment and promoting stagnant living standards. None of that's good, but none is a formula for panic.

Unfortunately, things generally happen in Washington for one of two reasons: consensus or crisis. The political polarization discussed above makes consensus on deficit reduction virtually unachievable. Only a crisis would wake Washington from its fiscal slumbers.

Without it, the frightening fiscal trends will continue. Deficits will hover around \$400 billion to \$500 billion for several years before heading much higher as more baby boomers retire, putting increasing strain on Social Security, Medicare and Medicaid. These programs will consume greater shares of federal spending, eventually squeezing out everything else.

A crisis is easy to imagine. Foreign investors, now financing a huge chunk of our borrowing, could grow anxious about America's economic future or simply seek more diversity in their portfolios. A sudden drop in foreign lending could weaken the dollar, prompting other lenders to drop their Treasury securities as well, weakening the dollar even more.

A run on the dollar might ensue, forcing the Federal Reserve to raise interest rates significantly in order to prop up the dollar and entice other borrowers into the market. Suddenly higher rates, in turn, would jolt the economy, perhaps causing a recession.

Paradoxically, it's precisely to avoid such nightmares that Congress should put our fiscal house in order. So, are we doomed, destined for deficits of frightening levels or a crisis of frightening magnitude?

Maybe not. Ideally, a crisis of more symbolic impact, such as a stock market crash, might spur Congress to action. Lawmakers could use the crash as an excuse to act, regardless of whether rising deficits actually caused the crash. Stocks would recover as they always do, but hopefully not before Congress tackled the deficit.

So, as you kneel at your bed, pray for the right kind of crisis — one that helps politically but won't hurt much economically.

* * *

Lawrence J. Haas, former communications director in President Bill Clinton's Office of Management and Budget, is now the visiting senior fellow at the Georgetown Public Policy Institute.