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Better Budget Equals Worse Politics?

Michael Sean Winters | May. 8, 2013 Distinctly Catholic

The problem with basing practical political tactical decisions on long-term economic forecasts is that those forecasts are subject to change. According to a report in the Washington Post this morning [1], in January, Congressman Paul Ryan suggested a GOP House strategy for bringing Democrats to the budget negotiating table that was premised on the confluence of economic ?pressure points? coming together this month and next. The need to raise the debt ceiling, combined with the need to avert a government showdown, would strengthen the GOP?s hand in the negotiations.

Turns out the debt ceiling limit is not going to be reached this month or next. A combination of factors have the government coffers doing better than expected. The economy is continuing to improve, with lower payouts for unemployment benefits and higher tax revenue from newly hired workers. As well, the modest tax increases adopted in January are beginning to add to the Treasury?s bottom line. We are not paying for a war in Iraq anymore. And, Fannie Mae and Freddie Mac are enjoying the return of a healthy housing market and are expected to hand over a substantial dividend payment to the government next month.

How significant are the changes? Last year, the federal deficit was $1.1 trillion. In February the Congressional Budget Office estimated this year?s deficit would drop to $845 billion. A Goldman Sachs study predicts the deficit this year will be even lower, coming in at about $775 billion.

Mind you, $775 billion is a lot of money. And, as we have seen in Europe, austerity measures can kill an economic recovery, as well as create unnecessary social unrest. The long-term spending problem for our nation remains a big and fundamental problem: We want more government services but we don?t want to pay for them. Americans say they think government spends too much but, when you cut spending on, say, air traffic controllers, all hell breaks loose. The biggest driver of the federal debt is rising health care costs, but ask voters if they want to cut Medicare and they will scream ?No.?

So, while the economic news about a lower federal deficit is good news, it is also troubling news, because it is taking pressure of politicians in Washington to begin facing up to the basic problem the nation faces, how to correlate federal revenues with federal spending. The spending cuts entailed in sequestration are exactly the wrong way to go, not just because they are not targeted to programs that can and should be cut, but because they focus entirely on non-entitlement spending, and it is entitlement spending that is the long-term worry.

If it is difficult to craft a political strategy for the long-term amidst quickly changing economic realities, it is also difficult to make large and long-term policy decisions based on changing economic forecasts. But, the key to balancing the budget is not to take a meat cleaver to government. The key is to get the spending and revenue lines on a trajectory towards each other, rather than diverging from one another. This is what happened in the 1990s, and it happened much faster than anyone anticipated. A lot of the economic growth had to do with dot.com growth, and no one can anticipate when, or if, a similar technological innovation will come along and vastly improve economic conditions.

Here are three simple ideas that both parties can embrace in the effort of enacting a budget deal. First, revise the tax code ? which does deserve a meat cleaver. Eliminate as many special interest deductions as you can, lower the rates, but not all at once. Just as the Republicans insist that immigration reform only happen as certain benchmarks for border security are met, Democrats should insist that tax reform first eliminate the deductions, and lower rates to be sure, but that the rates go down as the deficit goes down. Second, find acceptable ways to curb the growth of entitlement spending, such as adopting the chained CPI for Social Security. That is a small change that reaps a huge out-year savings, and it can be done in a way that protects the most vulnerable seniors. Third, President Obama should task someone really smart, like Gene Sperling, to scour the federal government?s budget for savings and simplifications. Back in the early 1990s, Al Gore?s ?Reinventing Government? project saved taxpayers billions of dollars. Just as Nixon was the one to go to China, most Americans would trust President Obama and his team with any proposals to cut government spending in a responsible way.

Perhaps it is human nature, but if dark clouds have silver linings, clear skies always seem to have a dark cloud on the horizon. The relatively good news about the federal deficit will likely make politicians of both parties feel less pressure to cut a deal. They should really try. Maybe they can bring back Bill Clinton and Newt Gingrich to help with the negotiations! Everyone in Washington knows the outlines of a budget deal. Everyone knows it is within reach. But, will they do it? My bet is no but my hope is yes.

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