

Two trillion isn't enough

By [Tad DeHaven](#) 4:13 PM 07/15/2011



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Washington is the only town where the circus never leaves. Elephants, donkeys, clowns and a ringmaster residing at 1600 Pennsylvania Avenue — our nation's capital has it all. And what a show they're putting on for the American people over raising the debt ceiling for the umpteenth time in recent years.

On one side we have a president whose surrogates warn of economic Armageddon if the debt ceiling isn't raised, despite the fact that he himself voted against raising the limit in 2006 as the junior senator from Illinois. On the other side are congressional Republicans, tasked with negotiating spending cuts in exchange for raising the debt ceiling — the same guys who happily voted for big-spending legislation when it was their guy in the White House.

In short, the two sides have a credibility gap on debt reduction that makes the Grand Canyon look like a pothole. That begs the question: What sort of deal will they ultimately agree to?

The president doesn't want to have to rehash this debate before the November 2012 election. That means that the debt ceiling will have to be increased by \$2 trillion in order to create enough space through the end of next year. House Speaker John Boehner has drawn his line in the sand: Republicans will only agree to increase the debt ceiling if spending is cut by at least as much. Thus, it is generally assumed that the two sides will have to negotiate a deal to cut spending by \$2 trillion.

Here's the problem: The \$2 trillion in cuts would be *over ten years*, or about \$200 billion a year. Suddenly, \$200 billion in annual spending cuts in exchange for increasing the debt ceiling by \$2 trillion through the end of 2012 doesn't sound so great — especially when one considers that lawmakers have a storied history of changing their minds about promised future cuts. Therefore, it is imperative that any debt ceiling deal contains *real* spending cuts.

"Real spending cuts" means terminating programs or reducing entitlement benefits — for example, eliminating programs at the Department of Education and repealing the underlying program authorizations, or changing entitlement laws to reduce the benefit levels of programs such as Medicare. Future policymakers could reverse these cuts, but it wouldn't be easy given that the government's finances will probably remain in a precarious state.

Unfortunately, there's little evidence to suggest that real spending cuts are on the table. Were that the case, we would probably be reading countless articles on the consequent suffering of those who would be separated from the federal teat. Instead, there is a growing indication that the cuts will merely be amorphous reductions against the Congressional Budget Office's spending baseline, which projects spending over the next 10 years based on current law with an adjustment for inflation.

For example, negotiators could agree to freeze discretionary non-security spending for 10 years, which would "save" about \$1 trillion compared to the baseline. However, making sure that future policymakers adhered to the freeze would require a strict budget enforcement mechanism. Such mechanisms haven't held up well in the past for the simple reason that when it comes to spending, the legislative fox is guarding the budgetary henhouse.

Even if we knew for certain that a \$2 trillion reduction in spending compared to the baseline would be achieved, again, we're still looking at a relatively small sum of money. According to the CBO's latest baseline, the federal government is projected to spend \$46 trillion over the next decade. Regardless of whether the federal government proceeds to spend \$44 trillion or \$46 trillion, the government will remain on an unacceptable spending trajectory.

Unfortunately, the current state of the debt ceiling negotiations indicates that the stakes holding up the big tent in Washington aren't going to be pulled anytime soon. On the bright side, perhaps this latest spectacle will cause more of the electorate to question why we've allowed so much of our collective well-being to be placed in the hands of so few. If so, there's a chance we can at least get the animals back in their cages before it's too late.

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