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Will Obama take lead on national debt and budget deficit?

Commission's draft proposal on cuts and taxes to slash national debt has riled partisans on both sides. Next major move is President Obama's.



Erskine Bowles (l.), accompanied by former Wyoming Sen. Alan Simpson, co-chairmen of President Obama's bipartisan debt commission, speaks about debt reduction on Capitol Hill in Washington on Nov. 10.

(Alex Brandon/AP)

By Linda Feldmann, Staff writer

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Washington —

"This huge debt that we face is something we can't deny."

So declares Erskine Bowles, Democratic co-chair of the bipartisan debt commission appointed by President Obama to address the nation's unsustainable fiscal path, speaking at a Monitor breakfast Nov. 19.

Indeed, ideas for addressing Washington's off-kilter balance sheet have become all the rage.

Mr. Bowles and his Republican co-chair, former Sen. Alan Simpson, put out a draft proposal Nov. 10 that elicited fierce squawks from liberals and conservatives alike – but also some praise from interest groups for at least launching the conversation.

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A week later another bipartisan group, chaired by former Clinton budget chief Alice Rivlin and former Senate Budget Committee chair Pete Domenici (R), came out with an even tougher proposal.

Add to the mix new Republican fervor for eliminating congressional earmarks, pet projects of lawmakers. Mr. Obama and a few Democrats have backed the idea, though the potential savings amount to a fraction of 1 percent of federal spending – and there's no guarantee the executive branch doesn't spend the money.

Yet missing from the conversation in any kind of forceful way has been the president himself. When former Senator Simpson

and Mr. Bowles, President Clinton's former chief of staff, put out their draft plan (in a surprise move three weeks before the final report's Dec. 1 due date), Obama was in Asia. A spokesman said he would wait for the final report before commenting.

Obama's Nov. 13 radio address did take a baby step toward committing on fiscal matters: In addressing earmarks, he spoke of putting "our country on the path of fiscal discipline and responsibility."

But Obama probably can't rely on others to do the heavy lifting. Few observers expect the fiscal commission to reach the supermajority needed – 14 out of 18 members, most of them politically sensitive members of Congress – to approve a final report. That means Congress is likely not to face a vote on its recommendations.

But final report or not, Obama has an opportunity to demonstrate leadership on a matter of central national importance. Dec. 1 "should mark the handing of the torch to the president to start running with this issue," says Maya MacGuineas, director of the Fiscal Policy Program at the New America Foundation in Washington.

The early release of the co-chairs' proposal was a "huge game changer," says Ms. MacGuineas. "It's allowed the White House to gradually pivot from focusing all on economic recovery to making [the nation's long-term solvency] part of the economic recovery story."

The Bowles-Simpson plan puts everything on the table – spending cuts that anger Democrats and tax increases that anger Republicans.

On the spending side, nothing is spared: defense; entitlements like Social Security, Medicare, and Medicaid; discretionary programs. The federal payroll would be cut by 10 percent through attrition.

On the tax side, income tax rates would go down, but popular tax breaks such as the mortgage interest deduction and the tax exemption for employee health benefits would be reduced or eliminated. The 18.4-cents-a-gallon federal gasoline tax would gradually rise by 15 cents a gallon to pay for transportation spending. Higher levels of income would be subject to payroll taxes, which fund Social Security.

Changes to the entitlement programs have brought the most howls from liberals. The retirement age for Social Security would rise to 68 by 2050 and 69 by the year 2075, though there would be a hardship exemption for those unable to work beyond 62. There would be increased cost-sharing in Medicare and medical malpractice liability reform.

Overall, spending cuts outweigh tax increases 2 to 1. The rationale is that the growing population of retirees puts increasing pressure on the federal budget, particularly health-care costs.

The Rivlin-Domenici plan follows the Bowles-Simpson plan broadly but has important differences. It proposes a new federal sales tax aimed at debt reduction. It would start at 3 percent in 2012 and increase to 6.5 percent in 2013. Income taxes would be simplified and reduced, eliminating most tax credits and deductions, but not those for mortgage interest and charitable contributions. The plan does not raise the retirement age for Social Security.

One bold suggestion from Rivlin-Domenici is a payroll tax holiday in 2011 – a \$650 billion suspension of Social Security payroll taxes for employers and employees that the Congressional Budget Office estimates would create between 2.5 million and 7 million jobs.

Overall, the Rivlin-Domenici plan would save \$5.9 trillion by 2020, compared with \$3.8 trillion from the Bowles-Simpson plan. Both delay phasing in steps to reduce annual deficits and the debt – now near \$14 trillion – until 2012, so as not to disrupt the tentative economic recovery.

At the same time, some economists argue, showing a commitment to deficit reduction now is critical to the nation's economic

recovery.

"We need to get the deficit down to reassure world markets and the world community and the lenders for our bonds that we're getting our fiscal situation under control," says Chris Edwards, director of tax policy studies at the Cato Institute in Washington. "If we keep spending like this and having trillion-dollar deficits, we're heading for another financial crash."

Economists also argue for the centrality of presidential leadership. The co-chairs' proposals are helpful but in some cases politically unpalatable, says Eswar Prasad, an economist at Cornell University.

"This is where leadership becomes very important," says Mr. Prasad.

The two major reforms that made it through Congress under Obama – health care and financial reform – did so without an initial clear vision from the White House. "They ended up being very messy processes, and I think the outcomes were far from ideal," says Prasad. "He's getting a second chance now. The political landscape is a little less friendly, but it's time to exert leadership, because this is possibly his last chance to make a case for his presidency."

Paul Light, a professor of public service at New York University, wishes Obama would emulate President Truman, who went for broke championing legislation he believed in but knew had no chance of passing (civil rights, health-care reform). Truman then campaigned against the "do-nothing Congress," and won an improbable victory. Perhaps it's time for Obama to "Truman up," Mr. Light suggests.

"Truman was a fighter," he says. "That's where I think Obama just doesn't stand up well. Pick a big fight and go to the wall."

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