

On the debt-ceiling deal

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TO DEMOCRATS I would like to say *relax, guys*. The debt-ceiling got raised. Yay! And [the debt-ceiling deal](#) is not going to destroy the recovery, if there has been a recovery. While the deal does rule out further fiscal stimulus, the bulk of the putative cuts in the deal are so far in the future that their contractionary effects are likely to be small to nil. [Josh Barro is today's cool-headed voice of reason](#):

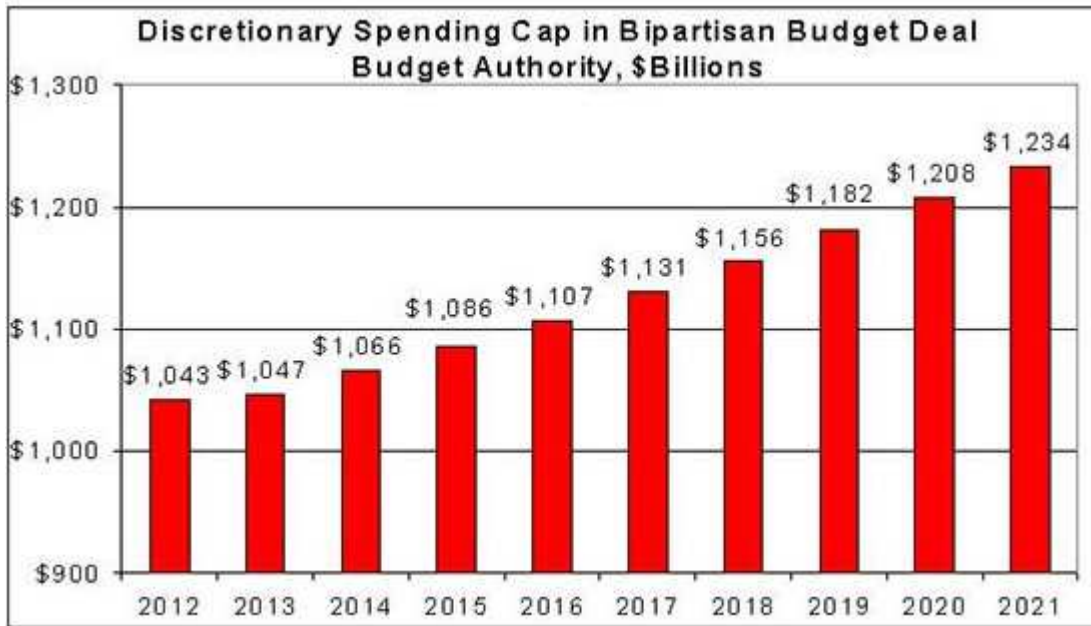
[L]iberals who are upset that this deal is destimulative, or who expect it to tank the economy, are off base. Suzy Khimm cites a study finding that a 1 percent of GDP fiscal consolidation implies a 0.5 percent reduction in GDP after two years—or a reduction in the growth rate of 0.25 percent each year. That points to a hit to annual GDP growth of roughly 0.04 percentage points from the FY 12 changes in this plan—an effect that will be impossible to pick up amidst the noise. The consolidations get larger in later years. But an eventual fiscal consolidation is inevitable—we can't run deficits over 5 percent of GDP forever. If the economy remains terrible in 2014, it is likely the cuts will be delayed.

Moreover, as [Tyler Cowen regularly reminds us](#), the monetary authority moves last. If, for some reason, an all-but-undetected cut relative to the pre-deal 2012 spending baseline nudges the economy into contraction, the Fed will likely respond to offset destimulative effects. For all I know, the Fed has been ready to go with QE3, or some other plan for additional monetary stimulus, but has been waiting for some legislative commitment to future deficit reduction before opening the spigot.

That said, I see very little credible legislative commitment to cut anything. Hark!
[Buttonwood](#):

There is no balanced budget amendment, the cuts are less than the rating agencies want to ensure the continuance of AAA status and there is an element of "can-kicking" in the way the cuts are designed. Much is left to 2013, which will be a new Congress (and possibly new president); what one Congress can do, another can undo. Remember the Gramm-Rudman-Hollings balanced budget act?

But wait, it gets worse/better! Chris Edwards of the Cato Institute looked at CBO's scoring of the alleged spending cuts and [produced this graph](#):



Mr Edwards comments:

Wait a minute, those bars are rising! Spending isn't being cut at all. The "cuts" in the deal are only cuts from the CBO "baseline," which is a Washington construct of ever-rising spending. And even these "cuts" from the baseline include \$156 billion of interest savings, which are imaginary because the underlying cuts are imaginary...

The federal government will still run a deficit of \$1 trillion next year. This deal will "cut" the 2012 budget of \$3.6 trillion by just \$22 billion, or less than 1 percent.

Nevertheless, [Paul Krugman is flipping his wig](#) over this hand-waving, non-binding promise to mildly decrease the future rate of spending growth. Not only will the debt-ceiling deal retard growth, Mr Krugman argues, but "by demonstrating that raw extortion works and carries no political cost, it will take America a long way down the road to banana-republic status."

Where Mr Krugman sees "raw extortion" tending toward "banana-republic status" I see "democracy". [Kindred Winecoff points us to this insightful piece](#) by Sean Theriault, a professor of government at the University of Texas, who argues that "our members of Congress are acting exactly as they were elected to." Mr Theriault says that message voters sent to Congress in the 2010 elections came through loud and clear.

The problem with our deficit crisis today is that the message the voters sent -- and that the winning candidates heard -- was "never compromise, never surrender." We may need such a mentality on the battlefield, but we cannot have such a mentality in politics. Politics, after all, is the art of compromise.

[...]

Regrettably, pragmatic problem solving was not the choice voters made in the Republican primaries or the general election in 2010. And, now, we are all living with it. Elections, indeed, have consequences and we are now bearing the consequences of the decisions made by the electorate in district after district and state after state nine months ago.

Maybe Washington's game of debt-ceiling chicken went on too long for comfort, but the resolution of the game looks a lot like a pragmatic compromise to me. Unless the bill fails, [which it might](#), it looks like our democracy will have raised the debt ceiling, didn't really cut a thing, passed off responsibility for substantial deficit reduction to a "super committee", which will either come up with a plan that does not bind the future executive and legislature or will trip a "trigger" that won't go into effect until after the next election, and then, again, will go into effect only if the government of the future wants it to go into effect. If this is what "raw extortion" delivers, it's not very much.