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Paul Ryan And The Republicans Are Lackeys To Democratic Party Big Spenders

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Last fiscal year Uncle Sam had some budget good news. After running $1 trillion-plus deficits four years in a row, Washington had to borrow "just" $680 billion in 2013. Victory was at hand!

True, that was the fifth highest deficit in history, 50 percent greater than the pre-financial crash record. But it's only the taxpayers' money, so what's the big deal? Politicians in Washington talked about the need to start spending again. There certainly was no justification for sequestration, which imposed a shocking, brutal, horrific 2.3 percent cut in federal spending. What were legislators thinking when they approved that reduction? The government and nation almost collapsed as a result!

Now Republicans and Democrats have come together on Capitol Hill for a new budget agreement which increases both outlays and taxes. Bipartisanship in action! That the Democratic Party wants to spend more is hardly surprising. But the GOP has demonstrated yet again that its principal role in Washington is to hold the coats of Democratic spenders when they raid the Treasury.

The legislation adopted by the House drops sequestration, which actually trimmed federal outlays, and hikes spending over the next two years by $62 billion. In return, Congress promises to lower the collective deficit over the next decade by $85 billion—while spending tens of trillions of dollars. The accord raises revenue, including a very real $12.6 billion in airline taxes. There are a few spending reductions—kind of. The bulk of them are entitlement caps a decade hence, which even Sen. Jeff Sessions (R-AL), ranking minority member of the Senate Budget Committee, admits are of "dubious validity."

After all, in the same bill the House GOP voted to drop discretionary spending cuts for 2014 approved *just two years ago*. Yet the new entitlement caps are slated to take effect after two presidential elections and four congressional elections. Which means the reductions will never occur. The best that can be said is that the new outlays are trivial compared to Uncle Sam's gluttonous spending binge. The increase in so-called discretionary outlays will be overwhelmed by the coming entitlement tsunami. We won't notice the extra bloat.

The only surprise in the sell-out was the role of House Budget Committee Chairman and 2012 Republican Vice Presidential nominee Paul Ryan. Although no radical, he nevertheless had seemed committed to a more responsible budget path. Yet he traded real current spending increases for fake future spending cuts, a standard congressional tactic running back at least to the infamous Reagan tax hike of 1983.

Of course, holding only the House means the Republican Party has to compromise, as it learned during the recent health care battle. Shutting the government to defund ObamaCare always was doomed to fail. The Democrats held both the Presidency and Senate and could not be expected to abandon their only significant domestic policy achievement of the last five years. Moreover, no Congress can bind future legislators, so at most a one-year funding pause was possible. While the public disliked the federal health care takeover, most people were not inclined to hold every agency and program hostage in a GOP-orchestrated political battle.

However, a budget fight would have been far easier. The Republicans wouldn't have had to perform the Maori Haka while chanting death threats against government agencies. The GOP merely had to support the fiscal status quo, sequester included, unless the Democrats offered equivalent alternative cuts.

The sequester was an arbitrary and inefficient tool, but it proved to be the only practical means of restraining federal spending. As my Cato CATO -1.13% Institute colleague Chris Edwards put it before Rep. Ryan waved the white flag, "In theory, Republicans have the upper hand in budget talks because current law specifies that discretionary spending will be modestly reduced in 2014 to $967 billion. Republicans always claim that they are for spending restraint, and here they just need to hold firm on current-law budget caps to save serious money over time." Instead, the GOP tossed away its only weapon.

Earlier this year the Congressional Budget Office highlighted the stakes: "Between 2009 and 2012, the federal government recorded the largest budget deficits relative to the size of the economy since 1946, causing federal debt to soar." The debt-GDP ratio "is higher than at any point in U.S. history except a brief period around World War II, and it is twice the percent at the end of 2007."

Today the national debt exceeds both $17.2 trillion and runs more than $54,000 per citizen and nearly $150,000 per taxpayer. At 100 percent of GDP the debt burden is greater than in Europe. Before the GOP cave-in the CBO figured that in the best case Uncle Sam would add $6.3 trillion more in red ink over the next decade. The annual deficit would drop to "only" $378 billion in 2015. But then deficits would begin another inexorable rise. By 2023 federal ink would be $895 billion, warned CBO. The official debt-GDP ratio would have jumped by a third. This was the agency's optimistic estimate.

Unfortunately, CBO expected Congress to act like Congress—meaning to abandon fiscal discipline and avoid making hard decisions—and provided an "alternative" fiscal scenario. One of the agency's assumptions was a loosening of restrictions on discretionary spending, as Congress is doing. In this case the added red ink over the coming decade would run $8.8 trillion.

That would come on top of today's $17.2 trillion national debt. And presumed no new crises and no new bail-outs.

Right.

Of course, the real issue is entitlements, but these programs don't much interest Congress since the fiscal flood won't fully hit until after 2023. Explained CBO: "Under current law, the aging of the population, the rising costs of health care, and the scheduled expansion in federal subsidies for health insurance will substantially boost federal spending on Social Security and the government's major health care programs, relative to GDP, for the next 10 years and for decades thereafter." Absent serious and meaningful reforms "debt will rise sharply relative to GDP after 2023."

Putting everything together—Social Security, Medicare, Medicaid, unfunded government pensions and health care benefits, endless credit guarantees, and more, much more—yields a mountain of liabilities with no revenues behind them. Economist Laurence Kotlikoff figured Uncle Sam's total unfunded obligations exceed $220 trillion, around 14 years of our current GDP.

Outlays obviously need to be cut, but it would be easiest to do so well in advance, when people have an opportunity to adjust. When the crisis hits reform becomes personally more painful and politically more difficult. And policies adopted during a crisis often reflect desperation rather than consideration.

The only alternatives to spending reform are confiscatory taxation and irresponsible borrowing. Both hurt the economy. Warned CBO: "Increased borrowing by the federal government generally draws money away from (that is, crowds out) private investment in productive capital because the portion of people's savings used to buy government securities is not available to finance private investment. The result is a smaller stock of capital and lower output in the long run than would otherwise be the case." And while higher interest rates would raise the incentive to save, "the rise in private saving is generally a good deal smaller than the increase in federal borrowing, so greater borrowing leads to less national saving." The agency estimated that every additional dollar increase in government borrowing would cut private saving by 57 cents.

Which ultimately means a smaller economy and lower incomes even as government obligations increase. Reduce savings and there is less investment. Reduce investment and there is less capital stock. Less capital stock and there is lower production. Workers also would be less productive and earn less. Thus, concluded CBO, "the higher debt and higher marginal tax rates resulting from the policies in the [optimistic] extended baseline would, on balance, reduce real GNP by about 4 percent by 2038," and as much as six percent. The more pessimistic but realistic "extended alternative fiscal scenario," which presumes $8.8 trillion more in red ink, yields even worse results, most likely a seven percent drop in GDP, and perhaps more.

But why should legislators worry today? Their principal objective is to get reelected next year. And if tossing more cash at ravenous interest groups helps win votes, who cares about the future? In this regard Republicans differ little from Democrats.

Washington's latest budget deal comes as no surprise. As usual, the mainstream GOP is putting party politics before national interest. The Democrats do the same, of course, but at least they make less sanctimonious pretense about supporting fiscal probity. Republican dishonesty and hypocrisy may be even more galling than Republican budget irresponsibility.