



Debt debate: A pox on both parties

(CNN) -- As the August 2 deadline looms for Congress to extend the debt ceiling, Democrats and Republicans are both fiddling while Rome burns.

Each party has valid concerns about the other's approach to avoiding default, yet each is relying on counterproductive articles of faith.

To address the debt crisis, both sides must give up their cherished, but misguided, ideas.

The problem with the Democratic position is that it regards redistribution, rather than economic productivity, as the prime goal of government policy. The Democrats therefore want to address the deficit with higher taxes on "the rich," not expenditure cuts.

This approach, however, cannot remotely address the long-term debt outlook; the available revenue from the wealthy is far too small. And higher taxes discourage economic growth, making deficits worse. Thus whatever the morality of soaking the rich, it will not work.

Likewise, Democrats refuse to accept that Medicare is the primary driver of the U.S. fiscal nightmare. This expenditure is growing much faster than the GDP has any chance of growing over the long haul. Unless a deal slows the growth of Medicare, nothing else matters.

A good approach to scaling back Medicare would be a substantially higher deductible. Imagine, for example, that every beneficiary paid an extra \$2,000 out of pocket each year. This is affordable for most families, especially those a few years from retirement.

This one change in policy would save at least \$100 billion a year. Better yet, Medicare beneficiaries would face the full price for more of their health care, while still having insurance against extraordinary expenditures. So they would pay more attention to prices and demand less health care, slowing the growth of health care costs.

And proposing real cuts in Medicare is the perfect opportunity for Democrats to steal Republican thunder. Many Americans believe that Democrats will do anything to forestall entitlement cuts, even if that means an exploding debt. By instead accepting the undeniable -- that Medicare as we know it is broken, so we have no choice but to end it -- Democrats can give themselves a credibility they do not possess.

For Republicans, the crucial mistake is their refusal to distinguish between the tax revenue that comes from higher rates and that which comes from fixing tax loopholes that inappropriately privilege certain consumption or production.

The Republicans are correct that raising tax rates is a terrible idea. By discouraging savings, work and investment, higher rates dampen economic productivity in the long run. By reducing disposable income and corporate profits, they reduce consumption and investment in the short run. And higher rates will not raise as much revenue as initial forecasts.

But closing tax loopholes -- lowering tax expenditure -- is a terrific idea. Many tax expenditures distort economic decision-making and therefore slow economic growth. Crucial examples include the home-mortgage interest deduction and the preferential treatment of employer-provided health insurance. Thus Republican skepticism about explicit expenditure should apply equally to tax expenditure, regardless of the revenue implications.

To be sure, some "tax expenditure" is good for economic growth, so Republicans are right to be careful. Those features of the corporate tax code that permit rapid depreciation, for example, are beneficial because they encourage investment.

But blanket opposition to any additional revenue, or insistence that reduced tax expenditure be offset by lower tax rates, is ultimately counterproductive. The real debates are about how much government should spend, and history shows that "starving the beast" via tax limitations does not constrain spending for long.

Opposition to tax expenditures also allows Republicans to blunt Democratic concerns over balancing the budget "on the backs of the most vulnerable." The home mortgage interest deduction, for example, is highly regressive; poor people do not own homes or itemize deductions. Scaling back such anti-growth tax expenditure is thus the right way to change the distribution of income: eliminate bad policies that favor the well-to-do.

Will the Democrats and Republicans be able to set aside their prejudices? Alas, both parties are doing what their respective constituents seem to want, so compromise will not come easily.

But something must change, and soon. Otherwise, nothing will stop the U.S. fiscal train wreck.

The opinions expressed in this commentary are solely those of Jeffrey Miron.

Find this article at:

<http://www.cnn.com/2011/OPINION/07/27/miron.debt.ceiling>

Check the box to include the list of links referenced in the article.

© 2008 Cable News Network