

**Newsweek**

## Tax Cut Deal Shows No One Really Cares About Deficits

by [Ben Adler](/authors/ben-adler.html) /authors/ben-adler.html December 07, 2010



J. Scott Applewhite / AP

President Obama after meeting with Democratic leaders in Congress to discuss tax cut extension.

President Obama and congressional Republicans struck [a deal](http://www.msnbc.msn.com/id/40551543/ns/business-eye_on_the_economy/) ([http://www.msnbc.msn.com/id/40551543/ns/business-eye\\_on\\_the\\_economy/](http://www.msnbc.msn.com/id/40551543/ns/business-eye_on_the_economy/)) Monday night to fully extend the Bush tax cuts for two years, as well as extending unemployment insurance and stimulus tax cuts. They will also reduce the estate tax and temporarily cut payroll taxes. There are plenty of good things that can be said about the deal: it will help stimulate the economy and reduce unemployment, it allows (theoretically) for the tax cuts to expire or be renegotiated in two years, and it will break the legislative logjam. It shows Democrats and Republicans can work together toward a common goal—in this case economic growth—by pursuing both of their preferred strategies.

But you cannot say that it will reduce the deficit. The deal is just a microcosm of the bargain Republicans and Democrats have been making for decades: Republicans want low tax rates for rich people, Democrats want to help the needy, and you cannot do both without running a deficit. Something has to give, so it is the deficit.

This deal does exactly what Republicans and conservatives have been saying we must not do: increase the deficit in the interest of stimulating the economy. But what you see from the terms of the deal and the reactions, or lack thereof, on both sides, is that no one really cares about deficits.

On the right, deficit reduction has long been subsumed to tax-cut orthodoxy. To the extent that conservatives are critical of this deal it is more because they object in the abstract to unemployment insurance as big-government liberalism. For example, Daniel Mitchell of the libertarian Cato Institute, [writes](http://www.cato-at-liberty.org/the-good-the-bad-and-the-ugly-of-the-tax-deal/#utm_source=tweetdeck&utm_medium=social&utm_campaign=tweetdeck) ([http://www.cato-at-liberty.org/the-good-the-bad-and-the-ugly-of-the-tax-deal/#utm\\_source=tweetdeck&utm\\_medium=social&utm\\_campaign=tweetdeck](http://www.cato-at-liberty.org/the-good-the-bad-and-the-ugly-of-the-tax-deal/#utm_source=tweetdeck&utm_medium=social&utm_campaign=tweetdeck)), "the fiscal cost is probably trivial compared to the human cost ... paying people to remain out of work has a significantly negative impact on employment rates. This means many people will remain trapped in joblessness, with potentially horrible long-term consequences on their work histories and habits."

Critics on the left seem more frustrated by the Democrats' inability to gain any political advantage or redistributive justice—by disaggregating tax cuts for the wealthy from the rest of the tax cuts—than concerned about the deficit impact. The liberal blog Daily Kos is circulating an [online petition](http://campaigns.dailykos.com/p/dia/action/public/?action_KEY=16) ([http://campaigns.dailykos.com/p/dia/action/public/?action\\_KEY=16](http://campaigns.dailykos.com/p/dia/action/public/?action_KEY=16)) opposing any surrender in "the fight against any extension of the Bush tax cuts for millionaires." Mary Landriey, the Democratic senator from Louisiana, [attacked](http://www.huffingtonpost.com/2010/12/07/mary-landrieu-obamamconn_n_793272.html) ([http://www.huffingtonpost.com/2010/12/07/mary-landrieu-obamamconn\\_n\\_793272.html](http://www.huffingtonpost.com/2010/12/07/mary-landrieu-obamamconn_n_793272.html)) the millionaire tax cuts, telling reporters Tuesday, "This is about justice," not, say, fiscal responsibility.

The deal and the reactions expose the policymaking process for what it is: a horse trade between two parties representing the interests of two different strata of society. Democrats want to make sure the middle class get their tax cuts and the unemployed get their benefits, while the Republicans want to make sure the richest 2 percent get their tax cuts. The criticisms are thus mostly framed as an us-versus-them dichotomy, with the bad spending on the undeserving—that's the unemployed if you're a Republican, the rich if you're a Democrat—outweighing the importance of the good spending. AFL-CIO president Richard Trumka's statement is a case in point: "It is unconscionable that the price of support for struggling middle-class families and workers who have been unable to find jobs for months and months and months is yet more giveaways for our country's wealthiest families." What you don't see is a lot of criticism coming from the perspective that by buying off every constituency this is bad policy because of its impact of the deficit, which is estimated to be \$500 billion over the next two years.

This may not be a bad thing: the main disadvantage of high deficits is that they raise interest rates, which is not currently happening. Many experts have suggested that the current fixation with deficit reduction is misplaced. But what this suggests is that politicians, and voters who punish tax hikes or spending cuts rather than deficits, are not to be believed the next time they complain about the national debt we keep accruing.