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Does Spending Need to Be Cut In Order for the Tax Pledge to Be Serious?

From Ryan Ellis on Saturday, October 9, 2010 5:25 PM

In today's Tax Foundation blog, Gerald Prante has an article comparing the effects of higher marginal tax rates to means-tested entitlement programs. Toward the end, he makes the following observation:

> *Overall, regardless of the policies the Fiscal Commission recommends (if any), the public cannot take Republicans seriously when they stick to their no new taxes pledge while at the same time promising to protect Medicare from cuts. Similarly, the public cannot take Democrats seriously when they promise to protect entitlement programs while at the same time promising not to raise taxes on those outside the top 3 percent.*

First, the Taxpayer Protection Pledge is not dependent upon any spending reforms. It can most certainly be taken seriously no matter what is done on spending. Over time, spending must be controlled and politicians are loathe to deal with that. But that doesn't make the Pledge less serious. The Pledge is not a magic elixer to fix every fiscal problem. It's simply a promise politicians make to their constituents to not raise income taxes. In fact, the Pledge makes spending reform more likely, since they have taken taxes off the table as surely as Cortes burned his ships.

Second, there are two over-spending crises facing the federal government. The first is a short term over-spending margin (i.e., "budget deficit"). As Dan Mitchell of the Cato Institute has pointed out, this short-term problem could be solved by limiting federal spending growth to 2 percent annually for a decade. All tax hikes can be avoided in this scenario. One could pretty easily hold Medicare harmless within that global spending cap.

The long-term over-spending problem is much more massive. In rough terms, federal spending will grow from 20 percent of GDP to 40 percent of GDP by the time today's children enter retirement. Taxes will remain at the historical 20 percent of GDP level, so it's imperative that spending's long-term trend growth come down.

The main source of spending growth is Medicare. There simply must be massively-huge long-term budget reforms within Medicare. That may have to include means testing, and it's hard to see how Medicare can be reformed without it.

However, that's a problem for the long-term spending crisis, not the short-term one. And not reforming Medicare in the short term doesn't undermine the credibility of the Taxpayer Protection Pledge. It is probably true that the "Cortes effect" of taking taxes off the table is the only hope we have of keeping spending squarely on the table in the long term. The Pledge is not the enemy of Medicare reform--it's the only hope.

Prante has it backwards: spending cuts don't need to be on the table to take the Pledge seriously; rather, the only way to take spending cuts seriously is to have the Pledge there to close the escape hatch.

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I don't follow. You say, "Taxes will remain at the historical 20 percent of GDP level, so it's imperative that spending's long-term trend growth come down." But, in the Dan Mitchell video, the chart shows that the government's revenue is going to grow from a little over $2 trillion to closer to $4.5 trillion in 10 years. Since I don't think anyone believes our GDP will more than double in a decade, the percentage of GDP consumed by taxes will be much higher than 20%, won't it? It does not seem plausible that we're going to grow the federal government's revenue by 125% over the next decade while growing expenses by only 2% a year. If you can help me out here, I'd appreciate it.
>> Paul Broni Sunday, October 10, 2010 9:33 AM Report Comment

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