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# Semantic flexibility holds key to deal

By James Politi in Washington

As US budget talks paused on Friday, lawmakers stuck fast to their positions. Republicans adamantly oppose any new tax increases while Democrats resist savings from changes to the health entitlement programmes without guarantees of higher revenue.

The divide means that striking a compromise on the basis of a policy shift from either side looks unlikely.

Instead, the hopes of any meaningful deficit reduction agreement could come down to messaging and definitions – something that Republican and Democratic leaders will be acutely aware of as they test the mood of their colleagues in search of a solution over the weekend.

Maya MacGuineas, president of the bipartisan Committee for a Responsible Federal Budget, says that in the political arena complex budgetary concepts – from tax increases to benefit cuts – are turned into “definitional litmus tests”. They are boiled down to their simplest form and used to reinforce or kill an idea, Ms MacGuineas says.

But as both parties try to avoid a potentially devastating US default on its debt, they will have to draw on the grey areas in the budgetary lexicon.

### **The right and tax increases**

The definition of what represents a tax increase has been fiercely debated within the conservative movement this year.

Scores of Republicans have signed a pledge that commits them to anti-tax orthodoxy – not accepting any tax rises under any circumstances in order to force a reduction in the size of government.

But some conservatives have fought back against this level of rigour, accepting that the reduction of some tax breaks and deductions, such as those benefiting the oil and gas and ethanol industries, should not count as tax rises, and are in fact desirable because they help free the economy of fiscal distortions.

“The whole question of what is a tax increase is central to whether we are going to find a solution,” says Michael Tanner, a senior fellow at the libertarian Cato Institute. “Most people agree that raising tax rates is a tax increase. On closing loopholes the question is what is their purpose.”

The ambiguity means Republicans may be willing to tinker around the edges of their pledge not to accept any higher taxes.

While they are not expected to approve any increase in income tax rates, such as an expiry of the Bush tax cuts for high-income Americans, they might be open to ending some deductions for companies.

The catch is that they will only do so if the effort is made “revenue neutral” by offsetting tax cuts elsewhere.

There is a solution, however: the Obama administration is proposing to extend the cut of two percentage points in payroll taxes that was introduced last year to sustain the stimulus to the US economy. This may be acceptable to Republicans as a way to balance out the new revenue.

### **The left and benefit cuts**

Democrats have cast themselves as fierce defenders of Medicare, Medicaid and Social Security, the government pension and healthcare programmes that form the backbone of America’s safety net but which are the source of the country’s biggest long-term fiscal woes. Nancy Pelosi, the Democratic leader in the House of Representatives, said her party could not support any benefit cuts in those schemes. And yet, there is some semantic flexibility there as well that could allow for some policy concessions.

There are ways in which the government could extract savings from Medicare, for example, without it looking like a benefit cut.

On Friday, Mr Obama suggested reducing payments to drug companies, for instance. Some liberals have embraced a proposal that has been considered in the talks to change the measure of inflation used to calculate Social Security payments. This would limit cost-

of-living increases. Another possibility would be to make changes to Medicare and Social Security that would only affect the wealthiest beneficiaries. The government could set a means-test for the programmes or raise the limit on income to which payroll taxes apply. That could be sold by Democrats as a tax increase on the rich and by Republicans as an entitlement benefit cut that shrinks the size of government.

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