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The Intransigent Meet the Unserious

Democrats go hardball on tax hikes while Republicans play softball.

Last Friday, House minority leader Nancy Pelosi held a press conference to announce that House Democrats should oppose a debt-ceiling agreement that included any cuts in Medicare or Social Security. Meanwhile, over in the Senate, Sherrod Brown (D., Ohio) and Bernie Sanders (I., Vt.) announced that they would filibuster any deal that included changes to those programs, and possibly Medicaid as well.

So, of course, you saw the deluge of media stories blaming Democratic intransigence for threatening to throw the country into default. Neither did I.

Republicans have clearly drawn a line in the sand, opposing any tax increase. But Democrats have been even more unbending, resisting any serious structural reform of entitlements or deep spending cuts, while insisting on huge tax hikes as part of any deal.

Why the insistence on tax hikes? Democrats know that, according to the Congressional Budget Office, tax revenues will return to their historic average of 18 to 19 percent of GDP by the end of the decade. They know this will happen even if the Bush tax cuts are extended and the alternative minimum tax is fixed. The only reason, therefore, for tax increases would be to enable more government spending.

The president is now calling for a “big” deal that would reduce the debt by \$4 trillion over *ten* years, while we’ll borrow more than a third of that this year. In fact, over those ten years, we are expected to run up more than \$13 trillion in new debt.

It’s also important to remember that the president is not offering \$4 trillion in spending cuts. The deal he has proposed includes more than \$1 trillion in tax hikes. Another \$1 trillion is assumed savings on interest payments. Thus, what is really on the table is barely \$2 trillion in actual spending reductions. What the president is really offering is closer to \$2 in spending reductions for every \$1 in tax hikes, not the 4:1 ratio reported by the media. Moreover, that is over ten years, meaning the cuts would actually be just \$200 billion per year. We will pay more than that this year in interest on what we have already borrowed.

As minimal as these cuts are, they are actually even less than they appear. Most people assume that a

spending cut means spending less next year than we spend this year. Then again, most people don't understand Washington. Washington operates under "baseline budgeting," meaning that if Congress plans to spend \$2 billion more on a program than it spent this year, but only spends \$1 billion more, that is a \$1 billion "cut." Thus, the \$2 trillion in spending "cuts" currently being discussed would actually allow government spending to increase by \$1.8 trillion.

Of course, the president also has expressed a willingness to put Medicare and Social Security on the table, despite opposition from the Democrats in Congress. But here too the proposals are far less than they appear. They would do nothing to change the structure of these programs, instead offering a grab bag of future benefit trims that may or may not ever occur, such as further squeezing reimbursements to hospitals and physicians.

So the deal that the Republicans are currently offering would actually allow federal revenue, federal spending, and the national debt all to increase over the next decade. They have abandoned structural changes to entitlement programs — anything like Paul Ryan's Medicare reform is off the table — and appear to have dropped calls for a balanced-budget amendment or a spending cap.

This is radical? This is intransigence? If only.

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