

Observer Today

Our American 'mess'

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On Aug. 2, the agreement to raise the debt ceiling passed. This is easily the largest debt-ceiling increase in American history. It raises the ceiling by \$2.4 trillion dollars. This is enough to allow the government to borrow through 2013. This is also past the Presidential election year, although I'm sure this is just a coincidence.

The agreement calls for a second round of cuts between \$2.1 and \$2.4 trillion in spending cuts over 10 years with \$900 billion to be done immediately. It then calls for a super-committee made up of members of Congress to make the rest the second round cuts or, if they fail to do so, an across-the-board set of cuts of at least \$1.2 trillion automatically kick in.

As with the Wall Street bailout (TARP), the massive stimulus package, and ObamaCare, New York's worst, Rep. Brian Higgins (D-N.Y.) and Sen. Chuck Schumer (D-N.Y.) voted for the ceiling increase (Gillibrand wasn't in office for the TARP vote). Sen. Kirsten Gillibrand (D-N.Y.) did not, likely because it did not have enough tax increases for her. New York voters must really be proud.

The deal is a disgrace. First, the deal didn't cut anything. The first round of "cuts" targets discretionary spending. Yet it increases discretionary spending by 16 percent between 2012 and 2020 and increases it every year in between the two. A slowed rate of spending increases is not a cut.

Given how the "cuts" are calculated, if the government were merely to have kept its spending levels at current levels (in nominal dollars) for the next ten years, this would count as a cut of trillions of dollars. There is a good chance that State University of New York is likely to tell professors that they won't get a pay raise for the next two years. No professor will reason like Congress and claim that SUNY cut his salary.

Second, even the slowed rate of increases is tiny. The Cato Institute's Tad DeHaven points out that once we exclude spending on the Afghanistan and Iraq wars because they are ending (these savings are part of the \$2.4 trillion), the government will now spend \$43 trillion over the next ten years rather than \$44 trillion. Meanwhile, the debt will skyrocket over the next decade. Specifically, each American's share will increase by more than 50 percent on the Heritage Foundation calculation based on Congressional Budget Office numbers. Given this momentous change, I can't understand why in a recent CNN

poll, Congress' approval rating hit a record-low of 14 percent and lower on other polls (for example, Rasmussen Reports).

Third, even the slowed rate of increase probably won't happen. The deal calls for a 0.6 percent "cut" for 2012 and the lion's share of "cuts" to occur from 2013 onward. In 2013, there will be a new Congress and it will be free to ignore the one that passed this deal. And, of course, one Congress cannot bind another.

We've been down this road before. In years past, Congress promised Presidents Reagan and George H. W. Bush big spending cuts in return for tax increases. The tax increases went into effect, but the cuts never did. After making these promises, Congress told Reagan to blow it out his shorts and continued to spend more every year. They did the same to the hapless Bush. The analogy here is Lucy van Pelt telling Charlie Brown to kick the football. In any case, Congress can always label a war or other program a "spending emergency," thereby removing it from the agreement's cap. The fact that Congress recently labeled part of the 2010 census a spending emergency tells us that they are not above such shenanigans.

Fourth, a major cause of the present and future debt problem was ignored. Entitlements (Social Security, Medicare, and Medicaid) are a large cause of the massive deficit. Forty-four percent of the federal budget is deficit spending and entitlements are roughly a third of the budget. Because entitlements have risen much faster (five times faster) than discretionary spending over the last 45 years and likely will continue to do so, they are a major cause of the financial mess. Given this, the wise men in Congress decided to exempt Social Security and Medicaid from the first round of cuts and from the across-the-board cuts if the super-committee does not reach an agreement. They also limited the degree to which Medicare can be cut.

Fifth, the urgency behind the deal was misplaced. Part of the urgency was the threat of the U.S. government losing its top-of-the-line credit rating (triple-A). Like the TARP deal used to sell the bailout to Wall Street, politicians and pundits warned of a financial catastrophe of biblical proportions. The fact that Japan lost its triple-A credit rating more than a decade ago and still has one of the lowest interest rates was apparently not relevant.

Sixth, if the terms of the deal were followed, taxes would increase. The Democrats will never allow entitlements to be cut and when dire stories about what an across-the-board cuts spook the Republicans, they'll cave Boehner-style and vote for tax increases. Senate Majority Leader Harry Reid's public statements make it clear that in the second round, spending cuts will have to be matched by tax increases and his allies will be half of the super-committee.

The deal is worse than no agreement at all. With no deal, the American people would force their government to cut its spending by 44 percent.

Democrats should be pleased. They want increases in taxes and spending and this deal delivers both. The problem is that Congressional Republicans, particularly the career

politicians, buy into the basic Democrat vision of the country. Between 2000 and 2010, the U.S. massively increased government from roughly 20 percent to 25 percent of the economy (Heritage Foundation using numbers from the Congressional Budget Office). The current level is much higher than the historical (1960-2010) average of 18 percent. Republicans locked in these changes by signing off on the debt-ceiling increase without even a gesture toward moving spending down to its historical level.

Americans are in a bind. Backing the Republicans leads to the loss of ground as the Democrats continually roll them. Abandoning them would allow President Obama and company to complete their agenda of single-payer healthcare, brutally high taxes, and amnesty for illegal aliens. What a mess.

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