The Washington Post

# Fiscal mistakes you won't want to make and a new rule you won't want to break

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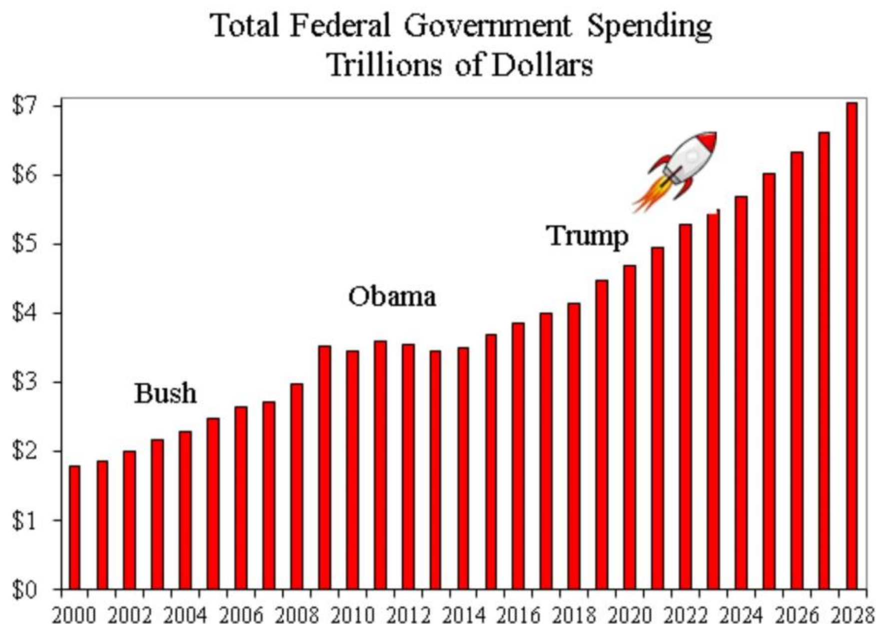
April 11, 2018

Among our most benighted debates in economics, and there are many, the fiscal debate may be the worst. Just think back a few months ago, when Treasury Secretary Steven Mnuchin was running around claiming that the tax cut would pay for itself with offsetting economic growth. And he wasn't alone.

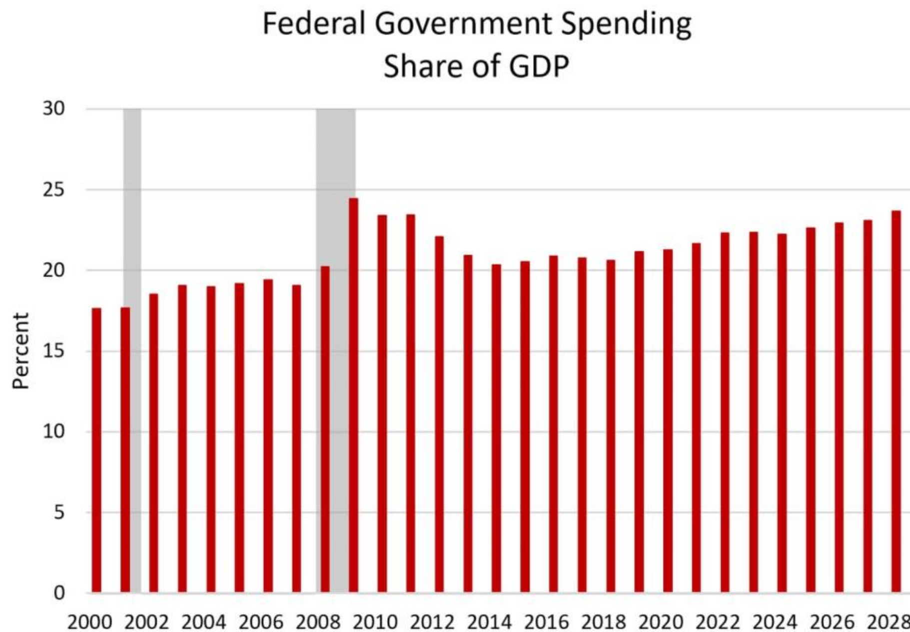
A new report from the nonpartisan Congressional Budget Office disagrees, bigly. Its forecast predicts that the tax cut will add $1.9 trillion to the debt by 2028. What this means, however, is not simple, and its implications quickly get distorted by partisan interpretations. So, as a public service, allow me to try to correct/clarify some confusion being generated around these numbers. To be clear, I have my own partisan angle — who doesn't? — but I'll be upfront about it.

***Fail to scale:*** Although I love the cute little rocket ship, the figure below, from Cato Institute budget analyst Chris Edwards, is deceptive. It's federal spending, all right, but it's not adjusted for inflation, population growth or economic growth. Even if government spending per person was locked in at an initial level, population growth alone would lead to the pattern in the figure.




Source: Cato Institute

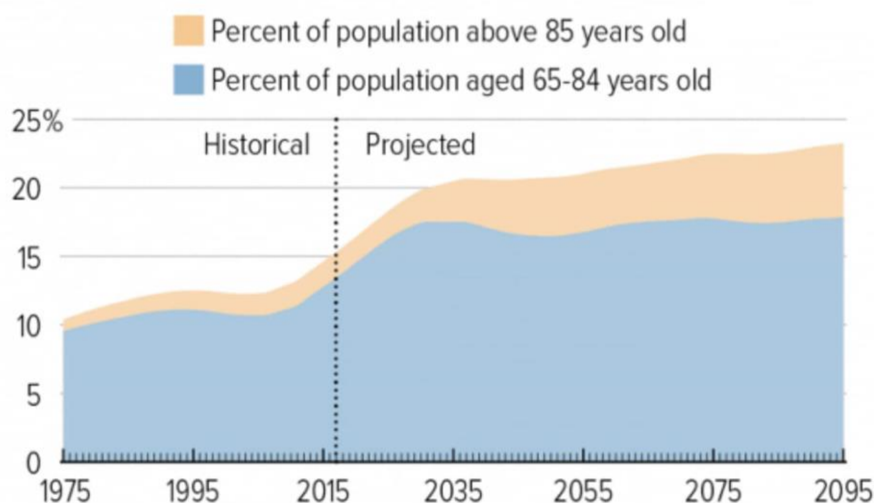
The most common way to look at these numbers is thus as a share of the gross domestic product, as in the figure below. No rocket ship, though our aging population, rising health-care costs and higher projected interest payments needed to service the growing debt all push up spending/GDP by the end of the forecast period (2028).




Source: CBO

***Average, schmaverage***: A central problem of our fiscal debate is that deficit attention disorder crowds out what should be our most pressing long-term concern: Are we collecting the revenue we need to meet the needs of our safety net, social insurance programs and investments in public goods? The answer, even with the rising bars at the end of the last figure, is a hard no.

However, some analysts argue that because the CBO data show that average revenue as a share of GDP over the next decade are about the same as the historical average (17.4 percent since the mid-1960s), we must be fine on that front. But historical averages are, by definition, backward looking. If you look ahead, you see the forthcoming aging trends emphasized by CBO themselves (figure below), which clearly imply the need for above-average revenue, at least until we boomers “shuffle off this mortal coil.” And that’s not even getting into the future costs of climate change, geopolitical risks and infrastructure.




***But I thought you thought deficits don't matter, right?*** Wrong, but it's complicated. I've come to find the question — "What's the problem with budget deficits?" — to be one of the harder ones in contemporary fiscal policy.

The traditional economist's answer is that deficits, or government borrowing, compete with the private sector for loanable funds, which pushes up interest rates. The problem with that theory is that we've seen large deficits coexist with low interest rates for decades, and not just here but in other advanced economies, as well (Japan is exhibit A).

Unfortunately, this dynamic has led many to conclude that such competition can't occur, which I suspect is wrong. Moreover, reckless fiscal policy can trigger faster inflation, which in turn leads lenders to insist on higher interest rates as a hedge against higher prices eroding the value of fixed payments on their bonds.

That said, my main concern about our rising deficits are twofold.

First, at times like the present, when the economy is closing in on full employment, you want your deficits to come down, and your debt to stabilize and then fall (as shares of GDP). That way, there's perceived fiscal space for both to rise in response to the next recession.

But you also want them to fall in strong economies, because if they don't — and they're clearly not, as per CBO — politicians whose goal is to shrink government will point to the relentlessly rising debt, which of course has their fingerprints all over it, and insist that we have no choice but to cut social insurance (Social Security, Medicare), safety nets and investments in public goods (except they'll say "reform" instead of "cut").

***The Bernstein rule:*** Which brings me to my new rule. It's extremely simple: *If you voted for the tax cut, you can't complain about the deficit.* The penalty for this violation is also simple: You must remit your tax cut back to the U.S. Treasury. I haven't quite worked out the enforcement

mechanism yet, but I’m thinking a simple box on the tax form would do it: “If you supported that tax cut but complained about the debt, check here.”

Once we get everyone following my eponymous rule, this fiscal fog should clear. Until then, I deputize all of you to prosecute violators!