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Fiscal Task Force a Turkey

Centrist legislators' plan to restore fiscal sanity will do nothing of the sort.

By Chris Edwards

The federal-spending avalanche just pushed the government's debt over $12 trillion, and Congress will soon have to vote on raising the legal debt limit. Spending has soared so high that 40 percent of this year's budget will be funded by borrowing. The massive flow of red ink is prompting centrist legislators to rally around an ingenious plan to steer a big new tax hike through Congress.

The plan is for a bipartisan task force to design a large deficit-reduction package that would be fast-tracked through the legislative process to ensure a swift up-or-down vote in the House and Senate. In the House, more than 80 members have signed onto the idea, and in the Senate some members want to tie the creation of a task force to the upcoming debt-limit vote. Senators Kent Conrad (D., N.D.) and Judd Gregg (R., N.H.) are leading the charge, and they are backed by former heads of the Government Accountability Office and Congressional Budget Office.

In recent hearings, Senate Budget Committee chairman Conrad said that "everything would be on the table" for his proposed task force, including "tax reform" to meet the "revenue challenge we face from an outdated and inefficient revenue system" that is "hemorrhaging revenue." Such a task force suffers from three fatal flaws.

The first is that the resulting tax increase would be on top of all the other tax increases on the table, including the scheduled rise in income-tax rates in 2011 and possible increases to fund health-care and climate-change legislation.

The second is that CBO's long-term projections reveal a spending catastrophe, not a "revenue challenge." As the economy recovers, revenues will rise to their historical norm of about 18 percent of gross domestic product and then keep on growing, even without any legislated increases. On the other hand, spending is expected to skyrocket from 21 percent of the economy in 2008 to at least 40 percent by 2050, or more if a new federal health plan is enacted. If Congress tried to raise taxes to match this soaring spending, the economy would enter a death spiral of declining growth and a shrinking tax base. Tax increases would be economic suicide in a global economy where American workers and businesses are already struggling to compete. Indeed, we should cut tax rates, particularly on capital, to generate the higher labor productivity and greater entrepreneurship we need to support the huge costs of baby-boomer retirement.

The third fatal flaw of a fiscal task force is that the government's spending addiction cannot be cured in a one-shot treatment. If task-force proposals to cut spending were actually enacted, members of Congress would immediately go to work to reverse them. If a task force cut farm subsidies, for example, farm-subsidy supporters such as Senator Conrad would simply add them back in the next farm bill.

The real solution is to change the incentive structure in Congress to encourage frugal behavior on a sustained basis. One idea is to shake up congressional committees, which are the hubs of special-interest-spending pressures on Capitol Hill. Today, members get on certain committees — and stay on them for decades — because such positions give them the ability to direct federal dollars toward programs that benefit their states (or programs that they're emotionally attached to).

Consider that the head of the Senate Agriculture Committee, Blanche Lincoln (D., Ark.), is from a heavily subsidized farming state and that she proudly boasts of her family's farming heritage. Obviously, Lincoln and other members in similar situations aren't going to balance federal taxpayers' interests with those of program recipients in a neutral and dispassionate manner.

The solution to this conflict of interest is to have random assignment to all committees in the House and Senate and to impose term limits on committee membership. That would disrupt entrenched lobbying relationships on Capitol Hill, and it would populate committees with at least some members who could take an independent and critical eye to committee business.

Another way to change congressional incentives and encourage spending restraint is to enact a legal cap on the growth in the overall budget. Under a cap, Congress could not increase total annual outlays by more than the growth in some economic variable such as personal income, perhaps averaged over five years. If it did, the administration would be required at the end of the year to determine the amount of the excess and cut programs across the board to meet the cap.

It's true that Congress could rewrite or suspend such a statutory cap if it didn't want to comply with it down the road. But a cap would be a high-profile symbol of budget restraint for taxpayers to rally around and defend. It would be easy for concerned citizens to understand a law that said that the government's budget shouldn't grow faster than the average family's budget.

Supporters of a task force argue correctly that we need new budgetary procedures to control exploding deficits. But rather than a one-time deal to raise taxes and provide probably temporary spending cuts, we need permanent changes to congressional rules and incentives. We should start by shaking up the pro-spending structure of committees and then cap the budget to force the trade-offs needed to avert the coming debt disaster.

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