Economist Mom

# A lesson in reasonable fiscal policy

House Majority Leader Steny Hoyer emphasizes middle-path strategies for both stimulating growth and controlling deficit spending.

House Majority Leader Steny Hoyer of Md., participate in a news conference on small business jobs and credit act, on June 16 on Capitol Hill.
(Carolyn Kaster/AP Photo)

By Diane Lim Rogers, Guest blogger
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House Majority Leader Steny Hoyer gave an excellent speech this morning at an event hosted by "Third Way." (**UPDATE 11:30 pm: here is a link to a C-SPAN video that covers Hoyer's speech and Q and A and the panelist opening remarks, but not the panelist Q and A.) I thought he well-modeled that "third way" behavior by pointing out how the typically *polarized* positions on three major fiscal policy debates: (i) **stimulus vs. deficit reduction**, (ii) (reducing the deficit via) **tax increases vs. spending cuts**, and (iii) **being *for* extending the Bush tax cuts or *against* them**–the notion that it has to be all one and not any of the other–is neither productive nor reasonable. I thought he showed great courage and determination to make these statements and moves toward that middle path before leadership from the other side of the aisle shows any such willingness.

On the false claims by some politicians that one has to be *either* for attending to the short-term economy *or* for reducing the deficit (that we can't "both walk and chew gum"), Hoyer remarked (emphasis added):

"It's an excellent measure of someone's seriousness to see whether they point their finger at so-called 'out-of-control spending' in this Congress, or whether they face the real danger to our future—the structural deficit. ***Overreacting to short-term deficits, while we're still feeling the effects of recession, will send our economy back into a tailspin, put even more Americans out of work, and increase the very deficits we are trying to reduce.*** It's the mistake President Roosevelt made in 1937, when he prematurely cut off recovery from the Depression—and it's a mistake we must not repeat. "For the sake of the millions of Americans who are still struggling, job creation must still be Congress's top priority. But we've seen resistance to more justifiable efforts to create jobs with unpaid spending, and even to keep teachers at work educating our children, because of concerns about the deficit. And many Members of Congress agree with the Washington Post, when it argued in an editorial this month, 'We'd find the stimulus-now, spinach-later argument more credible if its advocates gave some hint of where the long-term belt-tightening will take place.' I agree. ***An excellent way to build support for the job creation we still need is making credible and detailed plans to tackle the long-term debt. So now is the time to start talking about a solution to the structural deficit—one we'll be ready to put in place once the economy is fully recovered.*** And on the issue of *how* to reduce deficits over the longer term and whether it is sensible or desirable to do it entirely with spending cuts or entirely with tax increases, Hoyer avoided taking the "opposite corner" from the one Republican plan for fiscal sustainability, explaining it this way (emphasis added): "It isn't possible to debate and pass a realistic, long-term budget until we've considered the bipartisan commission's deficit-reduction plan, which is expected in December. I believe that Congress must take up and vote on that plan. ***"To share sacrifices fairly, and to be politically viable, the commission's proposal can only have one form: an agreement that cuts spending and raises revenue when the economy recovers.*** "On the spending side, we could and should consider a higher retirement age, or one pegged to lifespan; more progressive Social Security and Medicare benefits; and a stronger safety net for the Americans who need it most. We also need the in-depth scrutiny of defense spending that Secretary Gates has demanded…I wish more of us in public life were as honest about hard budget choices as Secretary Gates. I'm also glad that Chairman Ike Skelton is directing the House Armed Services Committee to scrutinize the defense budget for cost savings… "Raising revenue is part of the deficit solution, too. When President Clinton did so in 1993, he faced predictions of disaster—but he helped to unleash historic prosperity and budget surpluses for our country, and he did it without raising spending. So I'm glad that President Obama has made clear that everything, revenues included, should be on the commission's table. I'm also glad that some of my colleagues in Congress are talking seriously about simplifying the tax code to raise revenue more fairly and efficiently and increase economic productivity by cutting time lost on tax preparation. "***Why am I so sure that a spending-and-revenue compromise is the only plan that has a chance of succeeding? Because a spending-only plan has been on the table for more than two years. It's Republican Congressman Paul Ryan's Roadmap***, and it was originally introduced in May of 2008. Even though I strongly oppose its severe Medicare cuts for seniors, I've praised Congressman Ryan for being the only one in his party to offer a solution equal to the problem. But what have we heard from his own party? Crickets. For two years. The Republican Party has run away from Paul Ryan's plan, even though you'd expect it to rush to embrace a proposal based on spending cuts. As the Cato Institute's Michael Tanner observed last month, 'The Ryan Roadmap is a test, and right now the Republican Party is failing it.' ***"Nevertheless, I'm still fairly hopeful that we can reach a balanced solution—in large part, because we have a history of success to draw from.*** In the 1980s, President Reagan and Speaker Tip O'Neill agreed on Social Security reform, and Reagan and Chairman Dan Rostenkowski agreed on tax reform. In 1990, the first President Bush agreed with congressional Democrats on a compromise to raise the top marginal tax rate and cut spending. Three years later, President Clinton enacted a similar spending-and-revenue agreement, even though Republicans unanimously said 'no.' What happened? Spending fell from 22% of GDP to 18%, revenues rose from 17% to 21%, and the Reagan-Bush deficits were wiped out. President Clinton and Speaker Gingrich also took our country in a more fiscally responsible direction by agreeing on the reauthorization of PAYGO. So let's not pretend that what I'm proposing can't be done—it was done, within the lifetime of every Member of Congress. And finally, on the issue of what to do about the Bush (or "Bush/Obama") tax cuts, I thought Hoyer made the strongest statement yet from any Democratic leader (in the Administration *or* Congress) on the need to take a "middle path"–a path *neither* proposed by President Obama *nor* even forced by the PAYGO rules as passed by the Democratic Congress and signed by President Obama (emphasis added):

"It is essential that we move from temporary extensions to permanent solutions, but we cannot consider those solutions without taking into account our long-term fiscal challenges. Permanent solutions for the estate tax, AMT, and the 'doc fix' should be developed in the context of the broader budget agreement that I'll discuss shortly. And ***as the House and Senate debate what to do with the expiring Bush tax cuts in the coming weeks, we need to have a serious discussion about their implications for our fiscal outlook, including whether we can afford to permanently extend them before we have a real plan for long-term deficit reduction.*** At a minimum, the House will not extend the tax cuts benefitting taxpayers of incomes above $250,000, despite some suggestions in the Senate that they be extended along with all other Bush tax cuts. As CBO Director Doug Elmendorf recently warned, extending all of the Bush tax cuts without making any other changes in policy would put us on a path toward a publicly-held debt equal to 90% of GDP by the end of the decade, 'territory that is unfamiliar to us and to most developed countries in recent years.'

And to that false choice (being either *for* the Bush tax cuts or *against* them), I would add the false choice that we could either only: (i) *temporarily* extend *all* of the Bush tax cuts, or (ii) *permanently* extend just the *"middle-class"* tax cuts that President Obama has proposed (permanently) extending. I happen to believe (and I have said this before) it would be possible and desirable to push for only *temporary* extension of only the *"middle-class"* portion of the Bush tax cuts–which is still *most* of the tax cuts (over $2 trillion out of $2.6 trillion worth over ten years) to *most* of the people (actually benefitting *all* of the people who benefit from the current Bush tax cuts, even those taxpayers who reach the upper brackets but also pass through all the lower ones), and would provide *most of the short-term stimulative benefit* we could hope to get out of extending the Bush tax cuts (because it would provide immediate tax cuts that would have more "bang per buck" in being less concentrated on the rich).

And if we only temporarily extended only the middle-class portions of the tax cuts, that would be tax policy that recognizes and reconciles the need for continued short-term stimulus with the need for longer-term deficit reduction. As I commented to CQ's Richard Rubin, besides this "third way" or "middle path" approach to the Bush/Obama tax cuts making economic sense, I think this is *not* such a difficult political position for a policymaker to place oneself:

In addition to the concerns from moderates, more liberal Democrats who opposed the tax cuts in 2001 and 2003 as being fiscally irresponsible during a time of budget surpluses will have a hard time explaining why extending them amid budget deficits makes sense. The answer, said Rogers of the Concord Coalition, may be a temporary extension of the cuts that avoids raising taxes during an economic downturn and does not carry such a big price tag.

"An easier position for them to defend is maybe insisting that any extension of the Bush tax cuts be only temporary, but not permanent," she said. "It's not like they're opposing the tax cuts. They're opposing the fiscally irresponsible part of the tax cuts."

The Washington Post's Lori Montgomery reported on the Hoyer speech in advance of the speech. Incidentally, I think she pretty substantially understates the cost of extending the "middle-class" portions of the Bush tax cuts when she cites a figure of "at least $1.4 trillion" out of an "about $3 trillion" cost of the full complement–suggesting opting for the Obama-desired portions only would save about half the cost. The Congressional Budget Office's analysis of the President's budget published in March suggests the Obama-proposed permanent extensions of the "middle-class" portions of the Bush (2001 and 2003) tax cuts would cost $2.154 trillion over ten years, without interest costs, while the CBO's earlier (January) budget outlook report showed the permanent extension of the entirety of the tax cuts would cost $2.567 trillion. Even President Obama's own budget acknowledges the upper-income portions of the Bush tax cuts that the Obama Administration is proposing to let expire would only save (relative to the full policy-extended baseline) $678 billion out of $3.097 trillion (which is where Lori must have gotten her "about $3 trillion" figure, but I'm still not sure where her $1.4 trillion figure comes from).

More later on this morning's Hoyer speech and the excellent panel that followed and reemphasized some of these middle-path, reasonable strategies.

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