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Some Austerity

Federal spending would rise despite proposed “cuts.”

“It is clear we must enter an age of austerity,” House minority leader Nancy Pelosi mourned as she endorsed Harry Reid’s proposal for raising the debt ceiling. Austerity? Really?

The Reid plan would theoretically cut spending by \$2.7 trillion over ten years. Even if that were true, it would still allow our national debt increase by some \$10 trillion over the next decade. But, of course, the \$2.7 trillion figure is mostly fiction. About \$1 trillion of the savings would come from the eventual end of the wars in Iraq and Afghanistan, savings that were going to occur anyway. Senator Reid might just as well have added another \$1 trillion in savings by not invading Pakistan.

Another \$400 billion comes not from cuts but from assuming reduced interest payments. And, of course, there are \$40 billion in unspecified “program-integrity savings,” meaning the “waste, fraud, and abuse” that is the last refuge of every phony budget cutter. The plan rejects any changes to Medicare and Social Security, despite the fact that the unfunded liabilities from those to programs could run as high as \$110 trillion. But those liabilities generally fall outside the ten-year budget window, so Reid — unlike our children and grandchildren — doesn’t have to worry about them.

That leaves about \$1.2 trillion in discretionary and defense spending reductions over the next ten years. Let’s put that in perspective. This year the federal government will spend \$3.8 trillion. Our deficit is roughly \$1.6 trillion. Our national debt exceeds \$14.3 trillion, not counting unfunded entitlement liabilities. We are talking about raising the debt ceiling to \$16.9 trillion. This month alone the federal government will borrow \$134 billion. Reid’s cuts would average roughly \$120 billion per year.

This is austerity?

Of course, the House Republican plan as announced by Speaker John Boehner is only marginally more austere.

Boehner proposes a two-stage increase in the debt ceiling, with each stage accompanied by spending cuts. The first \$1 trillion debt increase would be accompanied by \$1.2 trillion in spending cuts over ten years, pretty much the same as Sen. Reid’s plan. The big difference is that instead of Sen. Reid’s phony Iraq and Afghanistan savings, the speaker’s plan would appoint a commission — now there’s an exciting

new idea — to propose \$1.8 trillion in savings from entitlement programs. To be fair, Senator Reid would also appoint a commission — because that’s what Washington does — to recommend additional deficit reductions, presumably including entitlement changes. The difference is that the Boehner commission has teeth. If Congress rejects its recommendations, the president doesn’t get a second \$1.6 trillion hike in the debt ceiling.

But \$1.8 trillion in entitlement savings over ten years is still too small to encompass real structural reforms of the type envisioned by Rep. Paul Ryan and others. It is much more likely to simply be more tweaking around the edges, perhaps raising the eligibility age or changing the way the cost-of-living formula is calculated. True, changes such as these will have a real impact out beyond the ten-year budget window, but they fall far short of what is necessary to deal with the shortfalls to come.

Making matters worse, both Reid and Boehner are using the time-honored Washington dodge of “baseline budgeting,” meaning that the proposed cuts are not actual reductions in spending from year to year, but cuts from projected future increases. Thus, under both the Reid and Boehner plans, actual federal spending will continue to rise.

With the clock running out, we are now down to fifth- or sixth-best options. But let’s not pretend that this is austerity.

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