



On to the next manufactured fiscal crisis

By: Tad DeHaven – January 4th, 2012

It seems like it was just yesterday that congressional Republicans took the national debt hostage even though shooting it was never an option. Having just taken back control of the House on a wave of popular discontent over the federal government's mounting red ink, the pressure was on the GOP to deliver.

It didn't – and now the rout is on.

The deal that Republicans ultimately agreed to – The Budget Control Act of 2011 – promised to reduce the growth in spending over the next ten years by \$917 billion. In exchange, the president got to increase the debt ceiling by \$900 billion. According to the House Republican leadership, the trade was a victory because the debt increase was smaller than the spending cuts. Of course, that's nonsense. Not only were there no real spending cuts, the federal debt has proceeded to jump another \$1.8 trillion since the president signed the bill less than a year and a half ago.

The other part of the deal hasn't turned out any better. The BCA created a "Super Committee", tasked with achieving \$1.2 trillion in deficit reduction over ten years. When the committee inevitably failed, the agreement stipulated that the deficit reduction instead be achieved through a combination of automatic cuts to defense and non-defense spending ("sequestration"). Republicans and Democrats promptly made it clear that they would figure out a way to avoid the spending cuts.

That brings us to this week's deal to end the latest game of fiscal brinksmanship – the so-called "fiscal cliff" – that would have seen the implementation of the sequestration cuts on January 1st along with a raft of tax increases. With the president having been reelected on a platform that included tax increases on wealthier households, it was inevitable that Republicans would cave on that aspect. It was expected, however, that the GOP would acquiesce to a tax hike in exchange for spending cuts (presumably of the bogus variety). But not only did the Republicans not get any spending cuts, the deal they agreed to increased spending.

The deal also postponed the scheduled sequestration cuts for two months, thus helping set the stage for another manufactured fiscal "crisis." In addition to having to once again tackle the horror of Washington being forced to finally cut spending, the federal government is scheduled to – surprise! – breach the statutory debt limit yet again. Oh, and the continuing resolution that has been allowing Washington to spend money in the absence of an actual budget is set to expire in March. That means we can toss into the mix another bout of wailing and gnashing of teeth over a possible government shutdown.

Optimists are arguing that by agreeing to the tax increase on wealthier households now,

the GOP can take a firmer stand on spending cuts in these upcoming battles. It would be great if the optimists are ultimately proven correct, but recent history and reality suggests otherwise. And it's not just that the Republicans have repeatedly failed to get the Democrats to agree to any substantive spending reforms.

Unlike Democrats, Republicans correctly acknowledge that spending must be dramatically reined in if the United States is to avoid a full-blown debt crisis in the future. Unfortunately, the proposals that Republicans have put forward to address the federal government's excessive spending have been tepid and insufficient. They call for balanced budget amendments and caps on how much the federal can spend as a percentage of the gross domestic product. But what functions of the federal government they would actually terminate to reach those requirements remains a mystery.

The reluctance of congressional Republicans to tackle the scope, and not just the size, of the federal government is evidenced by the dearth of votes take on the House floor to eliminate entire agencies and programs. And when such opportunities have arisen, substantial numbers of Republicans have joined their Democratic colleagues in voting against termination. Last year, for example, Republicans and Democrats teamed up to save economic development subsidies, export subsidies, and several energy subsidy programs. In fact, the majority of House Republican voted to save the program that led to the Solyndra debacle.

Republicans have even resorted to employing Democratic arguments to resist sequestration cuts to military spending. Republicans have been arguing that the military spending cuts should be averted because they would reduce economic growth and increase unemployment. In other words, they have adopted the exact same Keynesian pro-spending arguments that Democrats have used to justify everything from expanding food stamps eligibility to extending unemployment benefits.

And we should not forget that when the Republicans controlled Congress and the White House in the 2000s, federal spending went through the roof.

The political reality is that the country is likely to continue bouncing from sensationalized fiscal crisis to sensationalized fiscal crisis. The budgetary reality is that policymakers have no choice but to drastically reduce spending if we are to head off a real fiscal disaster. While it's true that Democrats support policies that would make matters worse, Republicans have repeatedly failed to prove that they're capable of making matters better. Indeed, those who have long argued that the parties are two peas in the same pod have an increasingly strong case.