



Liberals fear spending bill failure could come back to haunt Obama

By Erik Wasson - 12/27/10 06:06 AM ET

Left-leaning think tanks already disappointed with President Obama's tax-cut compromise fear its political and economic benefits will be wiped out by budget cuts in the next Congress.

They argue Obama and congressional Democrats will come to regret not moving a yearlong continuing resolution or omnibus bill that would have locked in spending and administration policy for all of fiscal 2011.

Instead, Congress passed a stopgap spending bill during the lame-duck session that funds the government only through March 4.

Angst about the collapse of the \$1.1 trillion omnibus bill on Dec. 16 showed up quickly on liberal websites.

“The ‘stimulus’ from the tax cut deal is GONE,” lamented David Dayen at the liberal blog Firedoglake.

The short-term government-funding measure passed in the lame-duck gives Republicans the chance to take on spending right out of the gate when they assume the House majority in January. In order to prevent a government shutdown, Congress will have to pass another continuing resolution or appropriations bills for the rest of 2011 by early March; Republicans plan to use their new leverage to push for at least \$100 billion in cuts.

Liberal economists argue cuts of that size would erase the economic stimulus from the tax-cut package and slow the economy just as the president’s reelection campaign heats up.

James Horney, an economist at the Center on Budget and Policy Priorities, said that if House Speaker-designate John Boehner (R-Ohio) is able to use the threat of a government shutdown to achieve his aim of returning to 2008 spending levels, it would cost hundreds of thousands of jobs and risk a double-dip recession.

“You would be more than offsetting the \$100 billion stimulus effect of the tax bill,” Horney said.

Becky Thiess of the Economic Policy Institute (EPI) agreed. She estimated that a return to 2008 spending would cost 650,000 jobs and reduce economic growth 1.1 percentage points.

“The administration is really banking on the fact the unemployment numbers will be down significantly when Obama is up for reelection,” she said. “Even with 8 percent unemployment, reelection will be tough. ... This could make things more difficult.”

The drop estimated by EPI more than erases the stimulus from the Obama tax-cut deal, even under the rosiest of growth estimates.

But conservatives interviewed by The Hill took issue with the notion that deep spending cuts will curtail growth.

Grover Norquist, the president of Americans for Tax Reform, said cuts would stimulate the economy because taxpayers will perceive it is less likely that their money will be “stolen” to pay for wasteful spending.

“The victory against the omnibus spending bill is so important because it allows Republicans to make a change to spending quicker,” Norquist said. Passage “would have been devastating to morale, and to the voters.”

Chris Edwards of the Cato Institute said that the “complete failure of the stimulus package” showed that “deficit spending isn’t good for growth.”

Norquist said the GOP has to do the right thing for the economy, even at the risk that Obama could try to take the credit for a stronger recovery. He said that it would be easy for Republicans to convince voters that their cuts were the cause of the renewed growth.

According to pollsters and scholars, perceptions about Obama’s performance in office will harden about nine months before the election, and the economy and unemployment will be what matter most to voters.

“For Obama, growth is important. What’s most important is growth in the year to 18 months before the election,” said Brendan Nyhan, a political scientist at the University of Michigan.

The White House hopes the tax compromise negotiated with Republicans will fuel an economic resurgence just in time for the 2012 campaign. The \$848 billion package included a 2 percent cut to the payroll tax and an extension of unemployment insurance.

But liberals counter that Obama agreed to allow unemployment insurance and the payroll tax cut to expire in one year — the moment when possible spending cuts would start to affect the economy, they argue.

Other economists interviewed by The Hill said they would need to know more about the possible spending cuts to estimate their effects.

Mark Zandi of Moody’s Economy.com estimated that the tax-cut deal would increase gross domestic product growth by one percentage point to 4 percent next year. He predicted that the deal would add 2.6 million jobs and bring unemployment “well below” 9 percent.

Zandi said that he was not prepared to estimate the economic effects of deep spending cuts without seeing the details first, but after the middle of 2011, he said, recovery should be strong enough to withstand reduced federal purchasing power.

If Republicans go after grants to state and local governments, however, that could cause some economic damage, Zandi said. State aid from the 2009 stimulus act is set to dry up by July, so any further cuts could cause massive and sudden downsizing at the state level, he argued.

Joel Prakken of Macroeconomic Advisers has estimated that the tax-cut compromise will speed the reduction in unemployment by bringing 2011 unemployment down to 8.9 percent, compared to the 9.3 percent level it would have reached without the package.

Prakken said the possibility of deep spending cuts could have an effect on the recovery. But he also noted that, because Republicans will not have a chance to enact cuts until March, the House GOP would be nearly halfway through 2011 by the time it tried to reduce \$100 billion in spending. The party would need to make cuts twice as deep to get the spending figure down to 2008 levels, and “that is really unlikely to happen,” he said.

A compromise plan to reduce the federal deficit could emerge early next year in the Senate. A key adviser to that effort said spending cuts, while economically risky, are better than allowing the debt to grow unabated.

Maya MacGuineas of the New America Foundation, who has been working with a bipartisan group of senators on deficit-cutting legislation to be introduced next year, said that while cuts in 2011 are not ideal, there is enough waste in the budget to include them without hurting the recovery.

The Senate legislation is to be based on a report from the president’s debt commission. That plan embodies the view that making deep cuts in 2011 would be premature, as it recommends starting reductions in 2012 with larger cuts coming in 2012.

Republican pollster Jon McHenry said the tax-cut package is “definitely good for the president,” especially because if tax rates had risen suddenly in January, it would have been damaging to the economy. McHenry also noted that agreeing with the GOP to cut spending will help Obama with independent voters.

“He gets to look like an adult who can work with another side,” McHenry said.

Source:

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