

HOW DID WE GET HERE? THE ROOTS OF DEFICIT BRINKSMANSHIP

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March 2013 brings yet another in an endless series of budget showdowns in Washington DC. This time, draconian “sequestration” spending cuts that nobody actually favors are going into effect – because Congress and the President enacted them to end a previous showdown. The cuts will slow economic growth, cost hundreds of thousands of jobs, and devastate essential functions such as air traffic control.

Let’s remember how this sequester came to be. Between April and August of 2011, Washington DC was consumed by highly-publicized brinksmanship about raising the debt ceiling. At the last minute the President and Congress agreed on a three-part plan. Strict caps on discretionary programs (that is, most of what the government does) were set in place for the next ten years. A Joint Select Committee on Deficit Reduction was created, and charged with proposing \$1.2 - \$1.5 trillion in further deficit reduction over ten years. Lastly, the law included the current sequester, to take automatic effect if the Joint Committee failed. It did fail, as has repeatedly happened with many deficit reduction committees convened over the past three decades.

In short, DC stepped back from the brink in August of 2011 by scheduling another brink. Who is to blame for this deficit brinksmanship? It may seem logical to finger Congressional “extremists.” In fact, Tea Party-oriented Republicans have recently shown the most enthusiasm for holding the nation’s credit and economic prospects hostage. Yet fiscal brinksmanship is nothing new, and it has been pursued at least as much by “centrist” budget hawks. Since the 1980s, a large segment of the Washington policy world has acted as if all other concerns are less important than shrinking the deficit, equating budgetary terrorism to “responsible government.”

Centrists and Budgetary Doomsday Machines

The **Committee for a Responsible Federal Budget** is a prime example. Its board includes many former budget officials along with leaders of the House and Senate budget committees. As a leading cheerleader for hostage-taking and brinksmanship, the Committee viewed the 2011 debt ceiling hostage crisis as an “opportunity” not to be wasted. It endorsed the threatened sequester, worrying only that it might not be tough enough. In December 2012, the Committee argued that Congress and the President did not have time to work out a detailed package of big deficit cuts, and called for any deal to include “enforcement mechanisms” such as yet another sequester.

The federal debt ceiling law opens the door to repeated brinksmanship. The ceiling means that if the government is spending, say, \$30 billion a month more than it takes in, and comes up against the ceiling, it can’t borrow to pay the next \$30 billion without a new law to raise the ceiling. Other laws create the need to borrow and refusing to raise the ceiling would not change those laws. But if a majority of the House or, these days, 41 Senators wish to hold the nation’s good faith and credit hostage, they can create a debt ceiling crisis.

In 2011, the *Financial Times* editorialized that, “sane governments do not cast doubt on the pledge to honor their debts – which is why, if reason prevailed, the debt ceiling would simply be scrapped.” Yet instead of endorsing this common sense, the Committee for a Responsible Federal Budget has called the debt-ceiling “an effective lever... to require law makers to enact debt reduction legislation.” This promotion of budgetary extremism, however, is nothing new:

- In 1985, two centrists – Democratic Senator Ernest Hollings of South Carolina and Republican Senator Warren Rudman of New Hampshire – joined with ultra-conservative Republican Phil Gramm of Texas to block a debt ceiling increase until Congress passed the Gramm/Rudman/Hollings law requiring crude automatic cuts to domestic and defense programs – with no deliberation about which cuts made sense given national needs.
- In 2009-2010, the centrist Senate Budget Committee Chair, North Dakota Democrat Kent Conrad, first blocked sensible budget process reforms and then objected to a debt ceiling increase in order to force appointment of a special Fiscal Responsibility Commission.
- In November of 2010 former Senator Alan Simpson, co-chair of the deficit commission, boasted that the co-chairs’ recommendations could succeed even though not supported by the required number of commission members. “I can’t wait for the blood bath in April,” declared Simpson, pointing to the next Congressional decision on the debt ceiling. Simpson is a Republican long viewed as very conservative, but he now is considered a centrist by Washington DC reporters (and apparently also by President Obama, who appointed him).

Moving Beyond Deficit Mongering

The federal budget is a package of details about what government does and how the bills are paid. Deficit reduction requires “hard choices” because the details matter. Too often, budget hawks try to avoid those hard political choices by taking decisions out of normal channels. In this quest, they become reckless about both causes and consequences.

Centrist hawks have systematically exaggerated the economic risks of deficits, predicting high interest rates for the past five years and continually being disproven. They also have promoted a biased and inaccurate view of the causes of budget imbalances. Forecasts show that spending on Social Security, Medicare, and Medicaid will increase, while taxes at current levels are not projected to cover the costs. Although most American voters are willing to pay for health and retirement programs, budget hawks proclaim the deficit “crisis” is due to excess “entitlements.” It would be just as logical to say that valuable health care and pension programs need more funding. The report of the chairs of the Fiscal Responsibility Commission called for an artificial ceiling on federal spending to be set at 21% of Gross Domestic Product forever. This is an arbitrary political move – and one that simply encourages right-wing extremists trying to force unpopular cuts in social spending that could not be enacted in normal proceedings.

Responsible budgeting must begin with accurate analysis of the economic effects of budget choices – and continue by weighing the effects of particular spending cuts and tax increases. Centrist budget hawks simply assume that how the deficit is reduced is far less important than reducing it. That is extremism. When they promote debt-ceiling crises and intentionally outlandish sequesters, they play an undemocratic and dangerous game.