Congress Begs a Crisis to Fix the Debt

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Abstract

In a contribution to the CNNMoney.com, Rudolph Penner discusses the super committee's failure to fix the deficit.

Document date: November 28, 2011
Released online: November 21, 2011

CNNMoney.com
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The super committee's failure does not prove that our fiscal policymaking machinery is dysfunctional. That was proved long ago. There have been numerous wasted opportunities to fix our long-run budget problems, starting many administrations ago.

By the late 1970s, it became clear that the plunge in birth rates following the baby boom would be long lasting. That made it obvious that the growth of the labor force would slow and, along with soaring health costs, there would be too few future taxpayers to easily finance all the benefits promised baby boomers when they retired.

And every year that politicians delayed fixing the problem made the needed adjustments more painful. Now, they are so painful that all we see is political gridlock.

One silver lining shines dimly in the gloom of the committee's abject failure: Republicans have opened the door a crack to admit the need for revenue increases.

The fact that the vigorously anti-tax Sen. Pat Toomey announced this concession was particularly significant.

Toomey's turnabout followed the acceptance of tax increases last year by Republican Sens. Mike Crapo and Tom Coburn and former Sen. Judd Gregg when they served on the president's fiscal commission.

There are growing signs that the pledge to never, ever raise taxes, foisted on Republicans by Grover Norquist, is about to be abandoned.

The lack of a proposal from the super committee is supposed to be followed by a mindless across-the-board spending cut, split 50-50 between defense and nondefense, with exceptions for some welfare programs on the nondefense side.

Most likely the across-the-board cuts will never happen, because they are too painful.

But Congress will find it difficult to abandon them without trying once more next year to cut the deficit more sensibly. Having revenue increases on the table creates a small hope that something good will happen.

I do not want to imply that I love tax increases. They should be kept to a minimum.

However, with health and Social Security spending constituting almost half of noninterest spending, and with both program areas growing faster than tax revenues, it is hard to make debt-reducing arithmetic work without either revenue increases or draconian, politically implausible reforms in Social Security and Medicare.

I believe that the president's fiscal commission got the balance about right when it proposed solving 70% of the long-run problem by slowing spending growth and 30% by raising revenues (not counting the resulting savings in interest costs).

Although I have raised the hope that productive negotiations might occur next year, a wise betting man would not risk much on this outcome without demanding huge odds. It is much more likely that we shall have to wait for a sovereign debt crisis similar to Greece's before our politicians act rationally.

Britain lost its preeminent position in world finance primarily because of huge debts accumulated during World War I. The United States may be the first country in history to lose its dominance because of rising health costs.

Other Publications by the Authors

- Rudolph G. Penner