

Oshkosh's Closing the Federal Deficit Choices 1

Well, the response wasn't exactly overwhelming. Seventeen people responded to my July "Balance the Budget" challenge, of whom 13 succeeded in sending me their choices. But the results were interesting, and worth sharing, so here goes.

First of all, this was clearly a mixed group, ideologically. The Center for a Responsible Federal Budget included in its survey a number of options to make the deficit worse. Eleven of those choices – like increasing foreign aid or spending on mass transit – I classified as "Liberal"; six – like cancelling Obama Care and cutting the corporate tax rate – I classified as "Conservative". Overall, my respondents chose 20 "Liberal" deficit increases and 12 "Conservative" increases, nearly proportional to the options available; only three respondents chose only "Liberal" increases, and only three respondents chose only "Conservative" increases. So ideologically, the panel seemed reasonably balanced.

Second, both "wings" commented on how difficult a challenge this was. Both a Democratic activist and a self styled "right wing kook" said there was no way they could reach the goal without making some ideological compromises. (Try for yourself at <http://crfb.org/stabilizethedebt/>). That may be the exercise's chief lesson, one the folks in Washington most need to hear. Uncrossable lines in the sand just won't work.

So what did the panelists choose? One of their first decisions was whether or not to renew the Bush tax cuts. Not a single person, not one, renewed them all (the current Republican position), and only two renewed all of them for people under \$200,000 (Obama's position). The majority were about evenly split between partly renewing them for the \$200,000 and less crowd, and allowing them all (except for adjustments to the Alternative Minimum Tax) to expire.

Why would good conservatives abandon those tax cut? Because the Math says you have to. You start the survey needing to reduce the deficit by \$1,320 Billion, but if you fully renew the Bush tax cuts, you're immediately \$4,600 Billion in the hole. Even if you only renew the cuts for people under \$200,000, you're a whopping \$4,110 Billion in the hole. In contrast, if you only choose to adjust the Alternative Minimum Tax – the least deficit enlarging option -- without renewing any other Bush tax cut, you only have to find \$1,800 Billion in savings.

So not renewing the Bush tax cuts, other than fixing the Alternative Minimum Tax, gets you 60% of the way home. Or conversely, fully renewing those cuts means you have 2.5 times farther to travel – for all practical purposes, an impossible voyage.

Now that doesn't mean Congress should let them all expire in December. The economic recovery, to the extent that there is an economic recovery, is still weak and fragile, so a large across-the-board tax hike right now would be ill-advised. Renewing some portion of those tax cuts for the next two years is probably appropriate. But renewing them permanently makes no sense at all – at least not if our eventual goal is to end the spiraling growth of the Federal Debt. After all, in 2001, before those tax cuts were enacted, the Debt was at 33% of GDP. By 2009, at the end of the Bush administration, the Debt had reached 54% of GDP.

Which suggests that a question we should pose to Ron Johnson, whose ads have featured the deficit problem, is whether he'd vote to renew the Bush tax cuts. If he says no, then maybe he really is a true deficit hawk. But if he supports their renewal, you can conclude that all that deficit talk is just more hot air.

Next time – solving Social Security.