



Insight

The Looming Budget Debate

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America is barreling toward disaster. The Congressional Budget Office (CBO) just released its analysis of the latest Obama administration budget: it is nothing but bad news. Over the next 10 years, deficits exceed 4.1 percent of gross domestic product (GDP) every year, debt in the hands of the public doubles, and the debt-to-GDP ratio rises above 87 percent. Net interest climbs to almost 20 percent of revenues — even with large tax increases — in 2020. The result: the U.S. faces having its debt downgraded beginning in 2018.

Today, House Budget Chairman Paul Ryan will unveil a plan to save America's future. A lot of attention will be paid to the numbers. It cuts over \$6 trillion off the Obama budget deficits. It cuts discretionary spending to 2008 levels and then caps it at that level for years. It includes a tax reform that lowers the top rate to 25 percent for both individuals and corporations.

But the most important accomplishment would be to leave the next generation a strong and robust economy — and *no* debt: in 2050 all federal debt would be paid off.

So the debate will begin. The first layer will be the by-now-familiar debate over using tax increases versus spending controls to reduce budget deficits, a gulf that continues to divide the parties. Republicans won't take the bait to raise taxes, painfully mindful of those occasions in the past when they traded tax increases for illusory spending cuts. Democrats reflexively defend the bloated welfare state. The new element in this debate is that the president's own Commission on Fiscal Responsibility and Reform has fingered spending growth as *the* problem and advocated its own rollbacks and reforms of key planks

of the expensive federal entitlements.

So the debate will shift to the proposals for Medicare (“premium support”) and Medicaid (“block grants”). From the left, there will be shrieks about attacks on the aged and poor. These complaints are disingenuous at best. The future aged and poor are already in dire trouble because Medicare, Medicaid and Social Security are simply unsustainable. Doing *nothing* is the greatest attack on those constituencies. It is also the Democrats’ current plan. It is time for Democrats to man up and propose an alternative.

However, the real attack may come from the right. Conservative budget cutters’ distaste for the Obama era leads them to seek a balanced budget, at least by the end of 10 years. That is a commendable goal. Unfortunately, real reforms to the entitlement programs will take time, making balancing the budget in the near term implausible. Demography is especially stacked against balancing the budget. The Social Security and Medicare programs have nearly 80 million baby-boomers just beginning their march through the system. The only way to balance the budget in the face of this is to hit *current* beneficiaries with large reductions.

That would stop real reform in its tracks. So the irony is that more aggressive budget cutting runs the risk of preserving the very programs that lie at the heart of deficits in the long run. In effect, it would serve to preserve the architecture of the welfare state that guarantees a future of budgetary bloat.

Conservatives would be left only with the task of raising taxes to pay for it.