Center for American Progress

AP PHOTO/JACQUELYN MARTIN

It's Time to Hit the Reset Button on the Fiscal Debate

Michael Linden June 6, 2013

Introduction and summary

The federal budget has dominated the policy and political debate in Washington over the past three years. During this time, both the underlying fiscal landscape and the broader economic context for the debate have shifted in very important ways, yet the debate has remained remarkably static. Most policymakers, organizations, and policy leaders seem to be stuck in 2010, as if nothing has changed in the years since.

Much has changed, however, and the debate should change with it. If we are to move forward, it's time to recognize all that has transpired in the past three years and begin the conversation anew. It's time to hit the reset button on the entire fiscal debate.

We have come to a moment in which the prospects for progress on federal fiscal policy appear very dim. President Barack Obama put forward a budget proposal that, by any reasonable standard, goes well beyond halfway to meet the demands of conservatives in Congress.[1] It includes enormous concessions without any promise whatsoever from the president's political adversaries that they will reciprocate. Indeed, even though the president agreed to accept significant benefit cuts in entitlement programs, the Republican leadership rejected his offer out-of-hand because the compromise would also entail somewhat higher revenue levels.[2] This rejection occurred despite the fact that such revenue would be accomplished not by raising tax rates but by broadening the tax base—a principle that conservatives have hailed repeatedly.

With conservatives calling the president's compromise offer "dead on arrival,"[3] we remain stuck in perhaps the worst of all possible fiscal realities. We remain living with the painful, counterproductive, and near-universally derided "sequester" spending cuts. The long-term fiscal challenges remain mostly unsolved. We remain unable to use federal fiscal policy to address immediate economic problems, to say nothing of underlying structural ones. And the budget issue itself remains an obstacle to progress on all manner of unrelated policy areas.

Part of the trouble is that the debate over these issues is stuck in a time and context that no longer exists. First and foremost, the fiscal outlook for both the medium-term and the long-term has improved substantially compared to what it was just a few years ago. This incredible improvement has been driven by three main factors:

- We have enacted about $2.5 trillion in deficit reduction with about three-quarters coming from spending cuts.
- Health care costs have slowed dramatically in the past several years.
- We have a better understanding of what is driving the debt in the long-term projections.

There have also been important changes in the economic context that surrounds the entire budget debate. These include:

- The key argument that high debt causes slower growth has crumbled.
- Countries around the world have experimented with austerity, and those experiments have failed spectacularly.
- The U.S. economy has not healed nearly as swiftly as was projected when the budget cutting began.
- The push for immediate debt reduction has resulted in some perverse policy outcomes.

These changes should dramatically affect the debate on federal economic policy in general and the federal budget in particular.

To start with, all of these changes mean that the deficit should no longer be the country's most pressing economic concern. The predictions that the abnormally large deficits of the past several years would inevitably lead to spiking interest rates or ruinous economic collapse have proved to be extraordinarily wrong. More importantly, between the legislated spending cuts and revenue increases and the slowdown in health care costs, the medium-term fiscal projections now look downright tame. Even the long-term outlook appears far less dire than it did just a few years ago. And the argument that higher debt leads to slower growth over a 90 percent of GDP threshold has collapsed. When considered all together, there is clearly no need for deficit reduction to take precedence over every other important issue facing the country. We need to stop allowing deficit concerns to hijack every other policy discussion.

We need to stop allowing deficit concerns to hijack every other policy discussion.

This is especially true when it comes to the automatic spending cuts known as the sequester. These cuts are economically damaging, shortsighted, and now completely unnecessary, but because of lingering deficit concerns, we remain stuck with them. The dramatic changes in the fiscal and economic landscape should prompt us to revisit the sequester and find a way to fix it before it can do more harm. To that end, we offer a reasonable plan to replace the sequester through 2016.

Second, the experiences of European countries and our own experience here at home have shown conclusively that the drive for deficit reduction itself carries risks and costs. Europe, for example, has learned the hard way that there is no such thing as "expansionary contraction," the notion that moving swiftly toward deficit reduction could address the looming risks of growing debt, as well as spark a faster economic recovery. Far from promoting recovery, austerity has dragged European economies down and left their budgets little improved.

In the United States we have managed to avoid the scale of austerity implemented by Greece or even the United Kingdom, but we have also suffered from ill-timed and ill-targeted cutbacks and fiscal contraction. In addition, the headlong rush toward debt reduction has resulted in some very odd and counterproductive policy outcomes, especially the large, across-the-board sequester spending cuts. With the economy still on fragile ground and the impact of the sequester only now beginning to be felt, we can no longer afford to act as if deficit reduction has only benefits and no costs.

Putting the federal budget onto a permanently sustainable path is still an important goal; that has not changed. But so much else has changed while the debate around these issues remains stagnant. Conservatives are still calling for draconian spending cuts. Any proposal to invest in either long-term growth or to take measures to spur economic growth is still labeled as unrealistic or relegated to a kind of political penalty box. And many voices continue to insist that debt reduction is our primary economic challenge.

Few policymakers or pundits have adjusted to the current reality. We have already made enormous progress toward debt reduction, and the long-term problems are not nearly as dangerous as previously thought. Furthermore, the push for debt reduction has, at best, made it harder to boost economic growth; at worst, it has actively dragged the economy down. The time has come to recognize and respond to the new reality: It's time to hit the reset button on the entire fiscal debate.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

Center for American Progress

1333 H STREET, NW, 10TH FLOOR, WASHINGTON, DC 20005 • TEL: 202-682-1611 • FAX: 202-682-1867 • WWW.AMERICANPROGRESS.ORG