Solve the Fiscal Cliff With a Spending Cap

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November 13, 2012

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The election is over and Hurricane Sandy has passed, just in time for us to careen over the edge of the so-called "fiscal cliff." More important than the fact that we stand at the edge of the cliff is how we got here in the first place. Rather than addressing our fiscal problems, Washington's strategy has long been to kick them far enough down the road so as not to interfere with upcoming elections. The scary part is that every time we do this, the cliff gets steeper.

From August 2011 to January 2012 Congress increased the nation's debt ceiling three times, adding $2 trillion and bringing the ceiling to $16.4 trillion. That money will be gone by Christmas. With the election in the rearview mirror, Congress is posturing to increase the debt ceiling yet again, this time by $2.4 trillion to nearly $18.8 trillion. If they are successful, it will have been raised a total of $8 trillion over the past four years.

[See a collection of political cartoons on the fiscal cliff.]

Senate Majority Leader Harry Reid has made his willingness to face down congressional Republicans clear. But he would do well to recall what he said when the shoe was on the other foot. In 2006 he demanded that Republicans "explain how more debt is good for our economy," and explain why "they think it's fair to force our children, our grandchildren, our great-grandchildren, to finance this debt through higher taxes," and "foreign creditors." Those were good questions in 2006, and they are good questions now.

From 2007 to 2011 federal spending increased from 20 percent to 25 percent of GDP. This was largely a result of "stimulus spending" designed to stave off a depression. The increased spending increased the deficit, making it difficult—so Congress claims—to extend the Bush tax cuts. Now, in order to pay for all of this spending, which is already leveraged on the backs of Americans yet unborn, we face the specter of increased taxes too.

[See a collection of political cartoons on the budget and deficit.]

The Urban-Brookings Center for Tax Policy estimates that the average middle-income household will pay around $2,000 a year in higher taxes if the Bush tax cuts expire. The Obama administration instituted a payroll tax cut in 2011 that is also scheduled to expire in January. Toss that in and the average middle-class American household will end up owing the government more than $3,000 a year in additional taxes if the tax cuts are allowed to expire.

The Congressional Budget Office estimates that allowing the tax cuts to expire will increase tax revenues by $600 billion. Oddly, returning government spending to 2007 levels would also save $600 billion. Why isn't this option on the table? Because, while taxpayers are expected to tighten their belts in hard times, government only grows.

[See a collection of political cartoons on Congress.]

As long as Congress has the ability to declare that it can borrow more money, we don't have a "debt limit." We have a "debt suggestion," which Congress can extend at any time. Without a real debt limit, government only grows, and taxpayers—and their children and grandchildren—are left to pay the bill. What we need is to force government to make the same hard choices that taxpayers make. The government does not need a debt ceiling that it can extend at any time, it needs a constitutionally imposed spending cap. Historically, tax revenue has been about 20 percent of GDP. Therefore we should allow the government to spend an amount of money equal to 20 percent of GDP. What it spends the money on and how it goes about raising it is a matter for politics. The limit must be a matter of simple mathematics.

Without an inescapable spending cap, politicians' choices will invariably come back to increasing taxes or increasing debt because they are driven to find short-term answers to long-term problems. Staying on this path will eventually crash the economy. It is not a question of if, but of when. A simple spending cap tied to the GDP is the only thing that would bring the long and short term into consonance. It would save the politicians from themselves, and the rest of us from them.

- *Read David Brodwin: Cutting Social Security Won't Fix the Fiscal Cliff*
- *Read Chad Stone: Tax Increases and Spending Cuts Needed for Deficit Reduction*

- *Check out* U.S. News Weekly*: an insider's guide to politics and policy.*

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