WASHINGTON INSIDER

This summer’s headlines have been shouting at us about the Supreme Court’s decisions regarding Obamacare, gay marriage, the fate of the Confederate flag, and the international agreement limiting Iran’s nuclear program. Meanwhile, President Obama and Congress have been at work on matters affecting our nation’s economic future.

THE TRANS-PACIFIC PARTNERSHIP PROPOSAL
To their credit, President Obama and the Republican congressional leadership successfully navigated through obstacles thrown in their path by a determined organized labor movement and its congressional Democratic allies and granted Obama fast-track authority for a new trade
deal with the Trans-Pacific Partnership (TPP). Now it’s up to the President to conclude the deal and for Congress to approve it.

Considering how far along that process is and what Members of Congress already understand about it, the strong likelihood is that Obama will succeed on both counts. Of course, that does not mean there won’t be a struggle to secure final approval, but the die has largely been cast, and a final measure may be ripe for inclusion in an end-of-the-year omnibus legislative package.

SEQUESTRATION REDUX
Sequestration has largely been sidelined for the last two fiscal years because of the landmark Ryan-Murray Bipartisan Budget Act of 2013. Following the government shutdown of October 2013, congressional Republicans reversed course and reached a compromise with the President and congressional Democrats that raised sequestration funding limits for two fiscal years and also raised the national debt limit such that Congress will not likely have to raise it again until this November, based on current predictions. The result has been a welcome fiscal cease-fire.

But the cease-fire is quickly expiring, and Congress and the President must once again come to grips with the same fiscal issues that have plagued the political parties. Republicans oppose tax increases while proposing increased defense spending. Democrats oppose cuts to social programs while proposing increased infrastructure and investment spending and higher taxes. This fundamental discord will surely resurface this fall.

Perhaps the best news for the nation is that the Republican congressional leadership has foresworn threatening the nation’s ability to borrow as it did in 2011 and promised not to hold the debt limit hostage to a budget agreement. Likewise, having been so badly stung for its role in shutting down the government in 2013, Republicans are far less likely to let that happen again. With their presidential candidates on the campaign trail and the first primaries set to be held in early 2016, it would be an entirely self-inflicted wound to the Republican brand to be perceived as responsible for yet another shutdown.

While history rarely repeats itself, it often provides instructive lessons. Following the failed strategy of forcing a government shutdown, the solution became readily apparent. The Ryan-Murray compromise included all the necessary elements to bring the two warring sides together. It increased defense spending and funding for the domestic budget, including Obama’s priorities. It offered out-year cuts in 2022-2023 that will likely never be implemented, and it raised revenue through measures not considered “tax increases,” e.g., increased passenger fees and higher retirement benefits contributions by federal workers.

Cobbling together these elements, the compromise provided important relief from the oppressive limits of sequestration that would otherwise have taken effect in 2014.

SEQUESTRATION AUSTERITY IS ILL-TIMED AND ILL-CONCEIVED
As it turned out, the compromise proved positive for the nation’s economy, which really did not need a dose of austerity. Since the compromise, the economy has continued to grow at a modest
rate; unemployment has dropped to 5.3 percent (below the level of 5.5 percent that economists had previously considered full-employment); the stock market has reached new all-time highs, and the annual budget deficit has been cut by three-quarters.

Nonetheless, the economy remains fragile. Federal Reserve Chairman Janet Yellen and her colleagues have repeatedly postponed their long-signaled increase in the Federal Funds interest rate because of weakness in the labor market and headwinds from abroad, like the Greek debt crisis. While unemployment has dropped from its recent peak of 10 percent in October 2009, this is partly because many Americans have left the labor market. Too many workers remain underemployed, and wages have shown insufficient upward pressure. While conditions have improved, this progress can easily be derailed by completely unnecessary budget austerity in the form of a return to sequestration.

Moreover, the kinds of cuts that sequestration mandates are just the opposite of what the nation needs in terms of putting its fiscal house in order. Sequestration was conceived as a “poison pill” to spur the parties to agreement in 2011 following the ill-conceived Tea Party threat to refuse to raise the debt limit because of predictions that the debt-to-GDP ratio would reach 93 percent by 2021.

The cuts mandated by sequestration were supposed to occur only if congressional leaders failed to agree on a budgetary compromise. That failure triggered sequestration. And after two years of its bite followed by the ill-fated government shutdown of October 2013, the 2013 Ryan-Murray compromise resulted.

So the first thing to understand about sequestration is that it was a bad idea born of an ill-advised threat to refuse to raise the debt limit. Fears over the debt gradually eased and, in late 2013, the nation’s leaders had the good sense to circumvent its consequences for two years, which brings us to today’s choices. Is sequestration really the right remedy for what ails the American economy now, or is it a dangerous residue from an ill-conceived struggle?

There seems to be a remarkable bipartisan consensus about what our economy needs, i.e., more stimulus, not austerity. Sequestration imposes austerity when we need just the opposite. Furthermore, it will cripple our nation’s defense capabilities and undermine the productive domestic investments we need to spur the economy. It remains an economic poison pill.

LONG-TERM FISCAL STABILITY – THE ORIGINAL GOAL

It’s easy to forget that, spurred on by its...
emboldened Tea Party wing, the congressional Republican leadership forced the 2011 budget confrontation, hoping to remedy what it portrayed as the nation’s long-term fiscal collapse. Frightening rhetoric soared about how the U.S. risked becoming the next Greece – a nation that could not fund its debts.

Now that we’ve witnessed Greece’s fate as compared to our own, it’s apparent that the United States is no Greece. Nor is there any serious risk in the next decade that the nation will be unable to fund its debt. Indeed, the most recent mid-year report on the nation’s fiscal condition showed how much progress we have made in cutting annual deficits and reducing the long-term debt burden as projected over the next decade.

This same report, however, projected that the nation’s debt as a share of GDP will likely rise again thereafter. And the current level of about 75 percent is historically high, although it has been higher in the past and is on a par with Germany’s today. Nonetheless, it robs future policy makers of the added flexibility that a lower ratio would afford.

The threat to America’s long-term fiscal stability is often described as rooted in the growth of entitlement programs. And that was the purported aim of the 2011 fiscal showdown. But the showdown completely failed to address this root cause. And neither does sequestration, which mostly cuts discretionary spending, not entitlements like Social Security, Medicare and Medicaid.

So if reducing the debt remains a worthy goal, then why aren’t the 17 current Republican presidential candidates trumpeting specific proposals to cut Social Security, Medicare, and Medicaid benefits? Because, of course, they know that such proposals would spell political disaster for them.

Instead, the Republican Party’s shibboleth is that America deserves tax cuts. But tax cuts will only worsen the nation’s long-term fiscal health by increasing federal borrowing. So that doesn’t seem a credible remedy unless one believes we are on the portion of the Laffer Curve where tax cuts produce more revenue. On the other hand, President Obama and Democratic leaders have offered a way to cut the debt: Increase taxes. But they want to spend the revenue on investments, not debt-reduction.

CLEAR CHOICES

So if the goal is to improve our long-term fiscal health, the choices are clear: Cut key entitlements or raise taxes. Or, perhaps, compromise and do both. But manifesting the political will to do anything meaningful remains as elusive as ever.