Revenue Caps and Democracy, Part II

By Dr. Nelson Easterling

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The debt limit has been increased and the crisis has been averted, for now. It will be resurrected in about eighteen months. But, for the moment, catastrophe has been postponed. We now have time to look at what happened and what needs to be done when the issue returns.

Some are saying that since most parties to the debate are unhappy with the results, it must be a good resolution. That would be inaccurate. Most progressives can list a whole host of problems with the "compromise". It is not balanced since the people who created the economic downturn do not have to suffer at all. The entire cost for postponing the debt crisis is being borne by those who have been hit hardest by the recession and had no culpability in its causes.

But the lack of balance is just part of the problem. The real issue is that it created no path for a return to economic stability. Indeed, the economic future of this country has been endangered by the cost cutting that is in the compromise.

People seem to have forgotten what happens when we suffer an economic calamity of any size, much less one that was as severe as the 2008 recession. Millions of people lost their jobs. Millions lost their homes. Small businesses collapsed.

This put an enormous strain on governmental revenues and expenditures. Revenue plummeted. That, in itself, is devastating to the debt and deficit issue. In addition, however, the need for governmental expenditures skyrocketed. Unemployment claims, the need for food stamps, Medicaid coverage – every aspect of the social safety net that this country has put in place – had enormous pressures put on them. The simultaneous pressures of reduced revenues and increased demand for governmental support created a major part of the recent need to borrow money.

For many decades, under administrations of both political parties, the answer was always the same. We used deficit spending to protect the social safety net and increase economic activity. In early 2009, proposals were made to follow the precedent of earlier Congresses and Administrations. But there was enormous resistance. The debt had grown so large from unnecessary deficit spending during the period 2001-2008 that there was resistance to increasing the debt. This resistance came largely from the party that had run up enormous deficits purely for political reasons during the early 2000s. A stimulus package did get through Congress, but it was inadequate to do anything more than to make relatively minor reductions on the effect of the excesses of the years immediately previous. The economy stabilized but did not begin anything like a robust recovery.

When the debt limit debate began, the need for active involvement in economic recovery had not diminished. But the effect of the twin negative consequences of the recession, revenue loss and increased demand for services, had become the latest straw in a long tale of adding weight to the national debt.

Nevertheless, if there had not been a Debt Limit Law, the debate on the proper role of governmental spending in times of severe economic need probably would have been different.

No lesser an economic mind that Alan Greenspan, a man conservatives love to quote, has argued that the Debt Limit Law was unnecessary and counterproductive. Congress makes decisions on deficits every time it passes appropriations. If the deficit is too large, Congress has the authority to either reduce expenditures or increase revenue. It is clearly the responsibility to make those decisions every year, not just when an arbitrary law forces them to. If they allow the debt to grow too large, the bond market will send them signals by increasing interest rates. Then, without the pressure of arbitrary deadlines, Congress can adjust their spending and taxing decisions.

The Debt Limit Law, however, gave people who want to dismantle the social safety net a large weapon. And they used it. Now the safety net is being reduced. That will weaken the economy. The weakened economy will produce fewer revenues. The loss of revenues will add to the pressure to cut spending for the people who need it the most. And the spiral will continue downward.

Until and unless a balanced solution is reached, the future looks bleak. Eventually the people who refuse to participate in the burden of salvaging the economy will begin to suffer the effects of their own greed. By then, it may be too late.

Those of us who understand the consequences of recent decisions must save the greedy from themselves. It is the only way we can save the future for ourselves and our progeny.

Dr. Nelson Easterling, Chair of the Florida Center on Fiscal and Economic Policy, is a former senior staff member for the Florida Senate. He earned his doctorate in public policy and economics from Florida State University and has taught graduate courses there.