Public Deficit Attention
To Government Budget Disorder
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There is a tide in the affairs of men,
Which, taken at the flood,
Leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.

--William Shakespeare,
from *Julius Caesar*

More than one observer has noted that the tide is up and the U.S. is drowning in a sea of red ink. We have been through such periods before, brought on by wars and recessions, and eventually there comes a tipping point at which the public and government respond with alarm (or at least considerable concern) at rising deficits and debt, and their seeming intractability.

At times, government has taken the problem at the flood and dealt forcefully with the deficit issue, helping to spur economic recovery, job growth and renewed prosperity. At other times the business cycle has pulled us out of recessions without substantial government intervention. The latest economic collapse, verging on depression, has been deeper than most, and some experts worry this could augur a more lasting change in the underlying structure of our economic system—well beyond a simple downturn in the business cycle.

After a brief period of budget surpluses during the late 1990s, thanks in large part to the dot.com boom (and, to a much lesser extent, the 1997 bipartisan balanced budget agreement),[1] deficits reappeared in the early 2000s when the bubble burst, and the country was thrown into a recession, exacerbated by the economic hammer-blow of 9/11 and the subsequent launching of two costly wars. The collapse of banks and brokerage firms triggered by the subprime mortgage crisis came closest to delivering a knockout punch to the economy as unemployment rates raced to double digits. These factors contributed further to ballooning deficits as revenues shrunk from

[1] The 1997 balanced budget agreement struck between President Bill Clinton and the Republican-controlled Congress called for achieving a balanced budget by 2002. But the economic boom of 1997-98 far outstripped that, goal, bringing in record unanticipated revenues that moved the budget into a surplus of $69 by fiscal 1998.

the business slowdown and job losses, and government counter-cyclical assistance for the unemployed rose dramatically. The bank and auto-bailouts and two huge economic stimulus acts compounded the surge in government spending and deficits.

When deficits first reappeared at the beginning of this decade,[2] the public did not immediately react negatively, perhaps out of an understanding of the serious economic blows the 9/11 terrorist attacks and U.S. counter-strikes had dealt the nation. But as U.S. war weariness began to grow by mid-decade, so too did the public's impatience with mounting fiscal difficulties. The Democratic retaking of Congress in 2006, and its increased majorities in 2008 along with the election of a Democratic president, affirmed the realization that the public was ready for a change, even if it did not necessarily provide a clear mandate on just what direction that change should take.

As the new Administration pushed forward in 2009 with addressing the recession and unemployment crises while simultaneously attempting major new energy/climate change, healthcare and financial reform initiatives, a public backlash began to set-in over what some perceived as government overreach. The so-called "Tea Party Movement" was one visible manifestation of that, even though its numbers were not sufficient to explain shifts in attitudes taking place among the general populace toward pending health care legislation and government growth and activism.

The pubic had gone from thinking the country was on the wrong track under the previous administration, to right track at the outset of the new administration, and now was back to the wrong track perception as patience wore thin over not seeing more instantaneous results from the economic recovery package and bank bailouts. The common refrain, voiced by people in both parties, was that the government cared more about helping those on Wall Street than it did about helping those on Main Street.

Such public mood swings eventually get the attention of elected officials at both ends of Pennsylvania Avenue who vow to do more to create new jobs while at the same addressing concerns about the rising tide of deficits. It is at such conflicted moments that Congress and an administration take symbolic steps to demonstrate that concern while avoiding major steps that might sidetrack or derail whatever momentum there for economic recovery. The Senate failed to

[2] The first deficit of the millennium of -$158 billion occurred in fiscal 2002 after four consecutive years of surpluses in fiscal years 1998-2001.

invoke cloture on a debt bill amendment to create a bipartisan deficit reduction task force sponsored by Sens. Kent Conrad (D-N.D.) and Judd Gregg (R-N.H.), thanks in part to "no" votes by seven Republican Senators who had previously supported the idea). The President immediately pivoted and created a similar deficit reduction commission by executive order.

The main difference from the task force proposal was that the president's commission would have six instead of two presidential appointees on the 18-member body, and its recommendations could not be subjected to a mandatory up-or-down in Congress (though House and Senate Democratic Leaders promised such a vote). As with the rejected Conrad-Gregg Senate task force proposal, the presidential commission's reporting deadline for recommendations will not come until after the 2010 midterm elections.

The pattern of offering-up symbolic budget process reforms is a familiar one in such situations. The thinking goes: If you don't have the political will to deal directly with the deficit, at least make the motions that you are moving in that direction by adopting one or move deficit reduction processes. At least that will buy enough time to perhaps allow the economy to pull out of it and replenish the coffers with new revenues.

A variation on this is to pass a budget reform as a sweetener for something that would otherwise be a tough vote. That's what happened last month as the Senate was trying to raise the public debt limit by a sufficient amount to carry the government through the November elections. In order to get that done, it attached the statutory pay-as-you-go language that the House passed three times last year as a concession to keep the moderate Blue Dog Democrats on board with other tough votes on the stimulus bill and other legislation.

A similar situation developed in 1985 over raising the public debt. In that instance, the Senate tacked onto the debt limit bill the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act that established a glide-path to a balanced budget and threatened across-the-board discretionary spending cuts (sequestration) if Congress did not adhere to those declining deficit targets. Of course, the targets proved illusory (mainly due to unforeseen mandatory spending increases), and Congress had to keep readjusting the deficit targets until it decided to abandon the process altogether out of futility.

The next deficit crisis in 1990 led to a huge reconciliation process involving both spending cuts and tax increases (breaking President George H.W. Bush's campaign vow not to raise taxes). To help that medicine go down, Congress replaced Gramm-Rudman with a new deficit reduction approach—the Budget Enforcement Act of 1990. That budget process reform introduced the original statutory PAYGO for entitlement benefit increases and tax cuts (requiring offsets to achieve deficit neutrality); and statutory spending caps for discretionary funds to replace the GRH declining deficit targets. It was a vey successful process while it all lasted, but was eventually abandoned as deficits were replaced by surpluses. There was little interest or need, it was thought, to keep the deficit reduction mechanism well-oiled during good times.

House Democrats, to their credit, took the initiative when they returned to power in 2007, to at least partially restore the pay-as-you-go system by way of a House rule. The Senate did not come around to fully restoring PAYGO until the debt limit crisis cited above in February of this year. Still, the new statutory PAYGO came under fire for exempting so many things from its strict requirements: Expiring middle class tax cuts, the alternative minimum tax (AMT) fix, Medicare physicians' reimbursements, unemployment compensation, and on an on. The response, of course, was that many of these were emergency spending items necessary to counteract the recession. Still, doubts remained about just how serious Congress would be returning to a more strict fiscal discipline.

While Congress waits for the new deficit reduction commission to get organized and begin its work, some in Congress worry their constituents will not abide waiting until sometime next to begin dealing with deficits. This mood in turn has spurred the predictable return to process nostrums previously trotted out in similar situations. Two weeks ago, for instance, Rep. Bobby Bright and his Blue Dog Democratic colleagues introduced a constitutional balanced budget amendment on March 2, while the next day, Republican Conference Chairman Mike Spence (Ind.) and Republican Study Committee Chairman Jeb Hensarling (Tex.) were rolling out a Constitutional amendment to limit spending to a one-fifth of GDP. Line-item veto bills and constitutional amendments had already been introduced by others in this Congress and will likely receive renewed increased attention as deficit fever builds.

Meantime, the House and Senate Budget Committees are proceeding to develop their own fiscal blueprints for the coming fiscal year with one of the key questions being whether they will outright reject or simply finesse the president's call for a three year discretionary spending freeze (not counting defense, homeland security and veterans). House Speaker Nancy Pelosi has already publicly expressed concern that defense is not being held to the same standards, while others are worry about any premature reining-in of spending could jeopardize the recovery.

Conclusion

It's clear that there is a newfound public awareness and trepidation about rising deficits and what it means for the country's future. That concern has already been reflected in the words and deeds of the administration and Congress as the midterm elections grow near. Whether the issues of deficits and national debt will eclipse jobs and the economy by the Fall is anybody's guess, but it's clear the issue will not soon go away so long as deficits remain high for the foreseeable future.

The rising tides of deficits and debt inevitably bring with them the parallel flow of budget process reform tides. As was demonstrated by polls in the early 1990s—from Ross Perot's run for the presidency in 1992 to the Republican takeover of Congress in 1994—such catch-phrases as "balanced budget amendment" and "line-item veto" do poll well with the people, while more detailed discussions of their feasibility and efficacy get lost in the din of popular agitation for action.

At best, the reemergence of budget process reform initiatives tells us the issues of spending and deficits are once again on people's minds as a legitimate topic for debate in the run-up to the midterm elections. At worst, talk of budget process reforms may only serve to delude some into thinking that the imposition of certain procedural mechanisms will somehow put government on an automatic glide-path to a balanced budget.

What they ignore is the ultimate reality that the system still requires elected officials to carry-out the requirements of any new processes, and that in turn requires a huge amount of political will and leadership—things too often lacking in today's hyper-politically charged environment that discourages rather than encourages real profiles in courage.

A day of reckoning with our dire fiscal situation will come sooner or later, but perhaps not soon enough to adequately address it, leaving us in similar straits as bankrupt countries like Greece today. Perhaps the reconciliation process for fiscal 2012 will be more than a series of technical fixes for a new entitlement program and instead will be a genuine attempt to save from bankruptcy existing entitlements like Medicare and Social Security.

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