Reject the Deal

The White House and Senate have agreed to make the Bush tax cuts permanent for 99 percent of households, starving the federal government of funds. Even Mitt Romney could never have accomplished for the Republicans what Obama has just done for them. The Democrats in the Senate would have soundly rejected the plan if the Republicans had put it forward.

There has been a special absurdity to the entire negotiating process. Obama has insisted that his top aim is to protect Bush's tax cuts for 98 percent of Americans. In the process he has lost sight of the even more basic need to protect the long-term finances of the federal government.

We have been subjected to a White House negotiating process that violates every standard of rationality and transparency. The public never once saw an integrated budget proposal that showed the quantitative and qualitative implications of various policy options. The public has not been told that yesterday's agreement threatens the financing of crucial programs for education, job training, infrastructure, environment, energy, science and technology, health care, nutrition, and the poor for years to come.

Here are the simple facts. Government spending today is around 23 percent of Gross Domestic Product, including 13 percent for mandatory transfer programs (Social Security, Medicare, food stamps, veterans benefits, military retirement, and others), 2 percent for interest, 4.5 percent for the military, and 3.5 for civilian programs. Taxes are around 16 percent of GDP, but would probably produce around 17-18 percent of GDP in a more robust economy.

Allowing the Bush tax cuts to expire today would have raised tax collections by around 2.5 percent of GDP, to around 21 percent of GDP by the end of the decade, thereby allowing the government to pay its bills assuming that the useless wars are ended and the bloated Pentagon budget is brought under control. The Obama-Senate plan will instead keep taxes at around 18 percent of GDP. The CBO will soon "score" the new tax plan; Democrats will be shocked at what the White House and Senate have given away.

Whatever the precise numbers, the White House unilaterally and permanently gave away more than 2 percent of GDP in net revenues, all in the name of symbolically "taxing the rich" and "protecting the middle class." The pending agreement would raise taxes very slightly on the top 1 percent of households, perhaps by 0.3 percent of GDP, while making permanent well over 2 percent of GDP in Bush tax cuts.

Many people will say, "Yes, but why tax the middle class to collect more revenues? Why not tax the rich even more to get to 21 percent of GDP?" There are two answers. First, the pre-Bush tax schedule was in fact adequate. It was the schedule of the Clinton years that supported balanced budgets and a reasonably healthy macro-economy.

Second, yesterday's deal if approved by the House will make it impossible to get to 21 percent of GDP under any alternative scenario, and perhaps even to 19 percent. The Republicans will now block any attempt to raise revenues as a share of GDP and the White House will have no leverage. Obama is now a lame duck even before being sworn in for his second term, and he will have brought the Democrats down with him.

The White House should have put forward its own tax plan with adequate overall revenues. It could have told Congress to adopt the alternative plan or simply accept the expiration of the Bush tax cuts. That was the time for negotiating leverage. Instead, the White House gave up the revenues permanently without a fight.

With a revenue baseline of around 18 percent of GDP, there will be years of harsh spending cuts ahead. What will they be? Medicaid? Food Stamps? Roads? Water? Renewable energy? Education? Pre-School? Environment? It will probably be "All of the above."

Obama said yesterday that future deficit cuts must be "balanced" between tax increases and spending cuts. But what will be his leverage to pass tax increases that he didn't secure even when he had them in his pocket? None.

Why did he do it and why has the Senate gone along? The core reason is that Washington has become all politics and no policy. Obama's game plan was to get reelected (in part by promising an extension of the Bush tax cuts for nearly everybody) without thinking of what to do after that. It's policy by improvisation.

There is still time to resist this lousy deal. The House Democrats should try to vote it down today. If such a last-minute action is successful, the Bush tax cuts would end, and a new possibility for sound public finances would suddenly open.
If the deal passes, it will be a sad day for the Democratic Congressmen and Senators who really care. They’ve been sold out, and with no Plan B. It will be sadder still for the American people. The Federal Government is being dangerously weakened in its capacity to help America address the economic, environmental, and social challenges of the 21st century.

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