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Deseret News

The end of the great fiscal compromise

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For the last generation a great compromise between the left and the right has dominated American politics. At the heart of that compromise has been a shared commitment to deficit spending and mutual — but ultimately unserious — recrimination. That compromise is beginning to come apart.

The left has dreamed of a larger state, one that more closely mirrors the high-tax, high-benefit model of Western Europe. The right has longed for a smaller state, one that provides fewer benefits and demands fewer taxes. The public debt has mediated the clash between these two visions.

The left has been unable to construct social democracy in America, and the right has been unable to roll back the welfare state. Both sides, however, have claimed modest victories by cooperating with one another. The right has agreed to piecemeal increases in the generosity of the state, in return for which the left has agreed to limited taxation.

Both sides are nominally committed to a government that pays for itself rather than leaving future generations with the bill. Fiscal rectitude, however, can be achieved with a large, high-tax state or a small, low-tax state. Balancing the books tells you nothing about the ultimate size of the bill.

Because accounting is agnostic about the size of the state, both sides have grasped at the mantle of responsibility, accusing the other of authoring the deficits that they have jointly created.

Liberals can point out — rightly — that conservative tax cuts contribute to the deficit. Conservatives can point out — rightly — that the growth in government spending pushes the nation into the red.

For the last thirty years, the deficit — save for the four years of surplus during the boom of the late 1990s — has ranged in size from about 1.5 percent of GDP to 6 percent of GDP. In other words, despite the dazzling number of zeros involved in government expenditures, the deficit has actually been fairly modest in relation to the size of the American economy.

That changed with the 2009 and 2010 budgets, where the deficit soared to nearly 10 percent of GDP. These deficits are mainly the result of plummeting tax receipts. They have been helped along by $288 billion in tax cuts and $499 billion in additional spending.

As the economy recovers we can expect the red ink to recede somewhat, but the sheer size of the 2009 and 2010 deficits — unseen since the end of World War II — foreshadows a limit to the viability of the great fiscal compromise.

The bulk of government spending goes to retirees in the form of Social Security and Medicare. As this group grows, their demands on the public purse will explode. In 1966, when Medicare began, these programs were just 16 percent of the budget. In ten years they will account for nearly 40 percent.

As these expenses crowd out other forms of spending, it will become increasingly difficult for the left and the right to pursue the compromise that have served them for the last generation.

At some point, America will be forced to choose between the government benefits that it has promised itself, or the level of taxation that it seems to want. When we do, the politics of the great compromise and its phony recriminations will be at an end.

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