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Could This Deal Raise Budget Deficits?

By FLOYD NORRIS

“From an accounting point of view, it seems obvious that you would reduce G.D.P. if you cut government spending,” said Randall Kroszner, an economics professor at the University of Chicago and a former Fed governor appointed by Mr. Bush. “But the key is really the impact on consumption and investment. If you reduce government spending and if people think that reduces uncertainty about the tax burden down the line, they may be more comfortable with spending.”

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Notions on high and low finance.

It is virtually impossible to think of the impact of the debt deal as doing anything to help the economy. But give Mr. Kroszner credit for trying, in [today's front-page article](#) by Binyamin Appelbaum and Catherine Rampell.

To come up with a rosy scenario, he suggests that uncertainty may somehow be reduced, leading to more consumption and investment. I cannot imagine anyone actually thinking this deal — with its clear potential for another bruising fight and deadlock that will do more to hurt the economy — decreases uncertainty.

In fact, this deal could manage to do the exact opposite of what it promises — raise the deficit.

If that happens, it will be because a major determinant of tax revenue is the health of the economy. Profits and growth bring revenues. This could damage the economy enough to send tax receipts down again. Although you never would have guessed it

from the rhetoric, tax receipts are at the lowest level in years, as a percentage of gross domestic product. Get a healthy economy and tax revenues rise while a lot of spending, on such things as unemployment benefits, goes away.

What this has shown is that the Republican Congressional leadership is terrified of the Tea Party and of people like Sarah Palin, who **hinted she would support a primary challenge** to any Republican who voted to raise the debt ceiling. The leadership knew that not raising the ceiling was unthinkable, but many of the members did not.

The next showdown — assuming Congress passes the deal on Monday — will come directly after the 2012 election, but with the current Congress. So even if these people are thrown out, they have assured themselves one last chance to be totally irresponsible. Then, when the new Congress tries to undo the damage, the ones who are still there can filibuster.

What has been proved by this is that there are a substantial number of members of Congress who basically are opposed to the government and welcome anything that would keep it from functioning. If the Republican leadership again grants them veto power over anything, some of them will think that forcing huge spending cuts at the end of 2012 will have been a triumph, no matter what it does to the economy or to Americans less well off than themselves.

If Mr. Kroszner's rosy scenario seems unreal, there might still be one. It relies on the fact that fiscal and monetary stimulus work with lags. When recoveries really get going, they can become self-sustaining quickly.

The normal course after recessions before the 1990s was for complaints that nothing was happening to turn overnight to amazement about how fast recovery is taking hold, and then to be followed by complaints that the last round of stimulus was unnecessary.

Is it possible that we have reached an inflection point, and that despite the weak economic numbers there is really no need for more stimulus?

Yes, it is.

Is it likely?

Not so much.

What is clear is that the lessons of the 1930s — that you don't deal with weakness by cutting back — have been forgotten or were never learned.