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# Do-Nothing Congress as a Cure

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WASHINGTON

**A trick question: If Congress takes no action in coming years, what will happen to the budget deficit?**

**It will shrink — and shrink a lot. This simple fact may offer the best hope for deficit reduction.**

**As federal law currently stands, some significant tax increases are set to take effect in coming years.**

**The most important is the scheduled expiration of the Bush tax cuts at the end of 2012.**

**Of course, both parties favor the permanent extension of most of those tax cuts — the ones applying to income below \$250,000. Both parties also oppose big cuts to the military, Social Security and Medicare, at least in the short term. Unfortunately, the deficit is likely to remain frighteningly large over the next decade without either cuts to those programs or tax increases.**

**Democratic and Republican leaders alike dance around this point. President Obama may call for “tax reform” in his deficit speech on Wednesday. He may even suggest that tax reform can reduce the deficit. He is very unlikely to explain which taxes will go up in his vision of reform, aside from some of those on the affluent. And while those increases will certainly help, they’re not enough.**

**The Republicans’ numbers are even fuzzier. The [recent plan](#) from Paul Ryan, chairman of the House**

Budget Committee, includes highly specific tax *cuts* for the affluent and still claims to reduce the deficit long before his proposed overhaul of Medicare begins. How? Partly by eliminating tax breaks — that is, raising taxes — although Mr. Ryan doesn't say which ones. The savings simply appear under the heading "Tax reform."

It's as if tax increases were a mere technicality in any deficit-reduction plan. In reality, finding a way to raise taxes may well be the central political problem facing the United States.

As countries become richer, their citizens **tend to want** more public services, be it a strong military or a decent safety net in retirement. This country is **no exception**. Yet our political culture is an exception. It has made most tax increases, even to pay for benefits people want, unthinkable.

This is where the Bush tax cuts come in. They have created a way for inertia to be fiscally responsible.

They are scheduled to expire on Dec. 31 of next year, not long after the 2012 election. If Republicans win the White House and both houses of Congress, they will probably extend all the tax cuts, come what may for the deficit. If Mr. Obama wins re-election and Democrats control Congress, they are likely to extend the cuts on income below \$250,000.

But if Mr. Obama wins and Republicans control the House, the Senate or both — an outcome that many analysts, at least for now, consider **the most likely one** — things could get interesting.

Republicans have said that they will not extend only part of the Bush cuts. Late last year, when the cuts first expired, Mr. Obama yielded to Republican demands to extend all the cuts (while insisting that they expire again after 2012). He was right to do so, **in my view**, given the fragility of the economic recovery.

Next year, however, the economy should be stronger. When the economy is in good shape, modest tax changes often have little effect on growth. Look at the 1993 Clinton tax increase, which didn't prevent the 1990s boom. Or consider the Bush tax cuts, which were followed by the **slowest decade** of economic growth since World War II.

If Mr. Obama wins re-election, he could simply refuse to sign any budget-busting tax cut for the rich — who, after all, have received much **larger pretax raises** than any other income group in recent years and have also had their tax rates fall more. Republicans, for their part, could again refuse to pass any partial extension.

And just like that, on Jan. 1, 2013, the Clinton-era tax rates would return.

This change, by itself, would solve about 75 percent of **the deficit problem** over the next five years. The rest could come from spending cuts, both for social programs and the military.

Over the longer term — 20 years — letting all of the Bush cuts lapse would close only about 40 percent of the budget gap. But 40 percent is a great start. No one is seriously suggesting that all deficit reduction should come from higher taxes. Much of it will have to come from slowing the growth rate of medical spending, which is the main cause of the long-term deficit.

To be clear, the end of the Bush cuts is not the ideal way to raise taxes. A better approach would be to close some tax loopholes while possibly even reducing rates. The tax code would then become simpler. Businesses and households would have to waste less effort trying to qualify for tax breaks.

Economists from the right and the left — from President Bush's **tax commission** and Mr. Obama's **deficit commission** — favor this idea. Politicians, including Mr. Obama and Mr. Ryan, say they do, too.

The problem is that many of the biggest loopholes are politically popular. Saying you favor the vague principle of tax reform is easy. Coming out in favor of cutting the mortgage-interest deduction — or the tax exclusion for employer-provided health insurance or the **corporate tax break** for new machinery — is not so easy.

A small, bipartisan group of senators, known as the **Gang of Six**, is now working to do exactly that: devise a credible, specific deficit proposal. White House aides say Mr. Obama supports their overall effort. But they still face a tough task.

Ultimately, deficit reduction will have to involve cutting programs or raising taxes, if not both. Voters don't particularly like either. So keep your eye on Jan. 1, 2013. The best hope for a solution may be the possibility that the two parties can't agree to a solution.

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