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# Obama's Hostage Deal

By PAUL KRUGMAN

I've spent the past couple of days trying to make my peace with the Obama-McConnell tax-cut deal. President Obama did, after all, extract more concessions than most of us expected.

Yet I remain deeply uneasy — not because I'm one of those “purists” Mr. Obama denounced on Tuesday but because this isn't the end of the story. Specifically: Mr. Obama has bought the release of some hostages only by providing the G.O.P. with new hostages.

About the deal: Republicans got what they wanted — an extension of all the Bush tax cuts, including those for the wealthy. This part of the deal was bad all around. Yes, some of those tax cuts would be spent, boosting the economy to some extent. But a large part of the tax cuts, especially those for the wealthy, would not be spent, so the tax-cut extension increases the budget deficit a lot while doing little to reduce unemployment.

And by stringing things along, the extension increases the chances that the Bush tax cuts will be made permanent, with devastating effects on the budget and the long-term prospects for Social Security and Medicare.

In return for this bad stuff, Mr. Obama got a significant amount of short-term stimulus.

Unemployment benefits were extended; there was a temporary cut in the payroll tax; and there were

tax breaks for investment. Incidentally: how, exactly, did we get to the point where Democrats must plead with Republicans to accept lower corporate taxes?

Unemployment benefits aside, all of this is very much second-best policy: consumers would probably spend only part of the payroll tax break, and it's unclear whether the business break would do much to spur investment given the excess capacity in the economy. Still, it would be a noticeable net positive for the economy next year.

But here's the thing: while the bad stuff in the deal lasts for two years, the not-so-bad stuff expires at the end of 2011. This means that we're talking about a boost to growth next year — but growth in 2012 that would actually be slower than in the absence of the deal.

This has big political implications. Political scientists tell us that voting is much more strongly affected by the economy's direction in the year or less preceding an election than by how well the nation is doing in some absolute sense.

When Ronald Reagan ran for re-election in 1984, the unemployment rate was almost exactly the same as it had been just before the 1980 election — but because the economic trend in 1980 was down while the trend in 1984 was up, an unemployment rate that spelled defeat for Jimmy Carter translated into landslide victory for Reagan.

This political reality makes the tax deal a bad bargain for Democrats. Think of it this way: The deal essentially sets up 2011-2012 to be a repeat of 2009-2010. Once again, there would be initial benefits from the stimulus, and decent growth a year before the election. But as the stimulus faded, growth would tend to stall — and this stall would, once again, come in the months leading up to the election, with seriously negative consequences for Mr. Obama and his party.

You may say that economic policy shouldn't be affected by partisan considerations. But even if you believe that — how's the weather on your planet? — you have to consider the situation likely to prevail a year from now, as the good parts of the Obama-McConnell deal are about to expire. Wouldn't there

be pressure on Democrats to offer Republicans something, anything, to improve economic prospects for 2012? And wouldn't that be a recipe for another bad deal?

Surely the answer to both questions is yes. And that means that Mr. Obama is, as I said, paying for the release of some hostages — getting an extension of unemployment benefits and some more stimulus — by giving Republicans new hostages, which they may well use to make new, destructive demands a year from now.

One big concern: Republicans may try using the prospect of a rise in the payroll tax to undermine Social Security finances.

Which brings me back to Mr. Obama's press conference, where — showing much more passion than he seems able to muster against Republicans — he denounced purists on the left, who supposedly refuse to accept compromises in the national interest.

Well, concerns about the tax deal reflect realism, not purism: Mr. Obama is setting up another hostage situation a year down the road. And given that fact, the last thing we need is the kind of self-indulgent behavior he showed by lashing out at progressives who he feels aren't giving him enough credit.

The point is that by seeming angrier at worried supporters than he is at the hostage-takers, Mr. Obama is already signaling weakness, giving Republicans every reason to believe that they can extract another ransom.

And they can be counted on to act accordingly.

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