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Steer Clear of the Cliff

By: Pete du Pont

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While we will certainly witness a vigorous debate between now and November about the proper roles of the federal government, there should at least be agreement that two of its primary ones are encouraging a strong economy and ensuring a robust national defense.

Unfortunately, unless President Obama and Congress come to some kind of agreement before January, our nation will find itself face-to-face with a destructive combination of large tax increases and mandated spending cuts that will do much harm to both our economy and our military preparedness.

The coming tax increases arise from the expiration of the Bush-era tax cuts, the end of the Obama payroll tax cuts, and the commencement of taxes on investment included in ObamaCare. The looming spending cuts are the result of the budget sequestration deal negotiated last year.

This so-called fiscal cliff of large tax increases and sequestration spending cuts has drawn economic warnings from across the political spectrum. Bill Clinton said: "What I think we need to do is find some way to avoid the fiscal cliff, to avoid doing anything that would contract the economy now," while Paul Ryan has pushed to stop the coming income tax increases and said that "allowing the sequester to occur would be a failure of leadership and a failure to govern." The nonpartisan Congressional Budget Office reported just this month that, barring significant action on this imminent crisis, our economy, already struggling to eke out much growth, will be pushed back into recession. The CBO adds we should expect the unemployment rate to rise.

The damage will extend beyond the economy and jobs. In what must now seem like a terrible mistake on the part of congressional Republicans, they agreed with the Democrats' push for half of the sequestration's mandated spending cuts to come from defense. Someone who should know about these things has said that the men and women of our military "deserve better than the threat of sequestration" and that it "could very well threaten the programs critical to our nation's security." That statement came not from a conservative Republican but Leon Panetta, a Democratic former member of Congress, Clinton White House chief of staff, and Mr. Obama's secretary of defense.

The cuts to our military, along with the downward pressure on defense spending we see under Mr. Obama, are indeed an affront to our servicemen, and could well be a serious detriment to their ability to do their jobs safely and effectively. The impact of the impending defense cuts is also beginning to affect the economy as companies announce likely layoffs.

That we are in this position is certainly disappointing, not just because of the possible blow to our struggling economy and not just because our nation's military will shoulder more than its share of the mandated cuts, but because the folks in Washington have known for a long time that this day was coming, and yet failed to do much about it.

It did not have to be this way. Washington has known for two years about the tax increases that will hit us after December. Sequestration is happening only because of the inability of the White House and Congress to make hard decisions on the deficit. They agreed on some spending cuts but resorted to setting up a commission to determine the correct mix of spending cuts and tax increases to garner another roughly \$1 trillion in deficit reduction, with the proviso that if the commission failed to come up with the full amount, spending cuts would occur automatically starting in 2013. Not surprisingly, the commission was not able to devise a plan agreeable to the president and both parties in congress, thus triggering the sequestration for this coming January.

There should be no mistake. Our federal government spends too much money and it needs to spend less. Sequestration's mandated \$1 trillion 10-year reduction in the growth of spending is not much when compared with the \$47 trillion the federal government is expected to spend over this period (it's less than 3%). Nor is the 2013 cut of \$110 billion significant compared to the close to \$4 trillion to be spent that year (again, less than 3%). Still, the immediate impact of the sequestration cuts will hurt our struggling economy.

The real damage comes from the fact that its broad-ax approach is simply not the right way to achieve the reduction in spending we need over the long term. It basically exempts entitlements (nothing for Social Security or Medicaid and only a small reduction in Medicare's growth), yet entitlements will be a major contributor to our exploding deficits. Instead, the cuts fall far too heavily on defense. There is simply no judgment involved, and Mr. Ryan is correct to label it a failure on the part of Washington.

With the prospect agreement on a solution before the election seeming rather slim and the concern over leaving such an important process to the short lame-duck session at the end of this year, perhaps our best bet is to enact a short-term delay in both the tax increases and the sequestration cuts. This will allow time in 2013 to get this situation right. While a short-term delay will not do much in terms of providing the certainty our economy needs, this may be the best doable option.

If that happens, on what should the president and Congress agree for the long-term solution? First, we need a real effort to reduce spending, and that must include entitlements as well as areas in which the federal government should have no role, such as counterproductive stimulus measures, green subsidies and the many targeted grants covering things like the preservation and study of video games.

Second, we must see true pro-growth tax reform that reduces rates but widens the tax base by reducing or eliminating loopholes and the deductions and credits that Washington has woven through our tax code to encourage certain behaviors or reward certain special interests.

Third, now is the time to replace ObamaCare with real health-care reform that increases, instead of decreases, flexibility, choice and innovation. Stopping ObamaCare's new taxes will do much to help our economy grow.

Finally, Washington must encourage business investment and job creation by reducing onerous regulations and getting out of the habit of trying to pick winners and losers in the marketplace.

That's what the president and Congress should do, but what will they do? Obviously, what ends up happening in 2013 will be dependent on whether we have a President Obama or a President Romney, and on whether Republicans or Democrats control each chamber of Congress. And that is what elections are all about.