

Gregg Easterbrook

» See all analysis and opinion

The phony-as-a-\$3-bill debt deal

AUG 1, 2011 11:55 EDT

47

Share

Recommend

584 people recommend this.

DEBT CEILING | U.S. DEBT | US POLITICS

Maybe Washington can start paying invoices with \$3 bills — because the “dramatic” agreement to “reduce the national debt” is as phony as a three dollar bill.

Weeks of nearly round-the-clock negotiations among the White House, House and Senate have led to an “historic” debt deal that consists almost entirely of fluff, doublespeak and empty promises.

The politicians involved get to claim victory, and presumably will be rewarded with votes and campaign donations from the special-interest groups that, pretty much across the board, were spared any pain. Young people of the United States once again are hammered. If the deal becomes law, the national debt will rise again dramatically, while there’s no guarantee any cut will materialize — and the bill for this recklessness will be passed along to those under age 30.

Consider:

* The closest thing to a tangible “saving” in the agreement is \$1 trillion in caps on discretionary programs, *spread over 10 years*. The new national-debt ceiling allows borrowing to rise by \$2.4 trillion, with a plan to pay back less than half that amount *over 10 years*.

Get it? A huge surge in spending now is called a “spending cut,” while actual cuts don’t take effect for up to a decade. And that’s setting aside that inflation means the present value of money spent today sharply exceeds the value of smaller cuts many years in the future.

* In December 2010, the White House and Congress agreed to \$930 billion in fresh deficit spending, as the fourth stimulus plan enacted since the 2008 recession. When special-interest groups say they want a “second stimulus,” remember, we’ve already had four. So \$930 billion in extra borrowing right away is followed by a plan for about the same amount in savings years in the future. This is what Democrats and Republicans alike today are calling “fiscal discipline” or “draconian cuts.” If you emptied your bank account today but declared you would become careful about money 10 years in the future, people would laugh at you.

* By projecting the only tangible savings — which aren’t even specified, but are merely caps — into the future, the plan allows Congress to cancel them. In 2012 or any future year, Congress will say, “We can’t have caps this year because of the [INSERT ANY WORD CHOSEN AT RANDOM] crisis. We are postponing action till next year.” Rinse and repeat.

* The deal raises the federal borrowing ceiling by \$2.4 trillion. *This means Congress will immediately spend another \$2.4 trillion.* That basic point is being overlooked.

You’ve got a debt ceiling on your credit card. The ceiling is there for emergencies, and all responsible borrowers work to stay below their credit ceilings. Experience with the national debt ceiling, by contrast, shows that every dollar of available debt is always spent. Announced in doublespeak as a “savings” plan, this deal guarantees the national debt will rise another \$2.4 trillion. The moment the deal becomes law, members of Congress from both parties will see an added \$2.4 trillion in the cookie jar and begin raiding.

* A new “joint bipartisan committee” will be charged with identifying another \$1.5 trillion in cuts. Doing nothing today, while appointing a committee that will make the tough decisions later, is one of Washington’s worst traditions of pure phonyness.

The president, Speaker of the House and Senate Majority Leader just negotiated nearly round-the-clock for weeks and they couldn’t even agree to cut programs that are [transparent boondoggles](#). So bring in the special committee! This is total abdication of leadership by the president and both political parties.

* Will the bipartisan committee have the stones to impose cuts? Since January 2007, Congress has already been operating under Paygo rules, which specify no more deficit spending — *unless waivers are issued*. [Waivers are always issued!](#) The national debt has increased by \$6.6 trillion since Paygo “discipline” was “imposed.” Likely outcome: the bipartisan committee holds somber meetings and recommends cuts, then Congress issues waivers, citing the [INSERT ANY WORD CHOSEN AT RANDOM] crisis.

It’s been a mere nine months since the last bipartisan deficit commission issued its recommendation, and those findings have been totally ignored by the White House and Congress. In a postmodern touch of humor, the last bipartisan deficit commission titled its findings “[The Moment of Truth](#).”

* Won’t the proposed balanced-budget amendment fix the problem? Assuming such an amendment passed Congress, it must be ratified by three-fourths of the states. There’s no chance of this — because the states love deficit spending! Nearly 40 percent of state and local government spending is financed by the federal government — [Washington borrows, then ships money to the states](#). If a federal balanced budget amendment went into effect, the states would have to fund themselves, rather than rely on Washington for free cash (all the while denouncing “the big spenders” in D.C.).

Calling for a balanced-budget amendment is classic political delaying tactics, since even a successful amendment would require many years to ratify. Nothing stops Congress from balancing the budget right now.

* Congress continues to drive the nation deeper into debt when there are many problems but no national emergency, and before the Baby Boomer retire. Extra borrowing sure hasn’t fixed the economy. Japan’s example shows that undisciplined borrowing slows economic recovery [by causing business to think the nation is going downhill](#), and thus to hoard cash rather than invest. That’s precisely what is being observed in the United States right now.

* The worst aspect of the phony-as-a-\$3-bill national debt deal is that the middle-aged men and women who run Washington are acting irresponsibly, then passing the problem along to their children. What kind of adult harms the future of his or her own offspring?

« Previous Post

Comments

AUG 1, 2011

1:42 PM EDT

28 comments so far | Comments RSS

Deficit does not equal stimulus. A loss of tax receipts due to lowered incomes and lower tax rates does little to fill the gap in aggregate demand caused by unemployment and the overhang of household debt. The same is true of income maintenance, e.g.

SEARCH

SEARCH

GREGG EASTERBROOK IS A REUTERS COLUMNIST. ANY VIEWS EXPRESSED ARE HIS OWN

AUTHOR PROFILE



Gregg Easterbrook

Gregg Easterbrook is the author of the bestselling 2010 book “Sonic Boom,” as well as five other books of nonfiction and two novels. He is a contributing editor to The Atlantic, The New Republic and The Washington Monthly, a former visiting fellow at the Brookings Institution and distinguished fellow of the Fulbright Foundation, and writes the Tuesday Morning Quarterback column for ESPN.

» [View Profile](#)

RECENT POSTS

- [The phony-as-a-\\$3-bill debt deal](#)
- [Why didn't the heat wave cause power failures?](#)
- [Facing down the debt](#)
- [The Journal's twisted self-defense](#)
- [Twilight of the WASPs?](#)

MORE REUTERS NEWS

- [Assad forces fire on protesters across Syria](#)
- [Moody's confirms U.S. rating at Aaa, outlook negative](#)
- [U.S. avoids default but fails to dispel economy fears](#)
- [Automakers warn of fragile demand](#)
- [HIV epidemics emerging in Middle East, North Africa: study](#)

[afghanistan](#) [auto bailout](#) [bailout](#) [Barack](#)

unemployment insurance and food stamps – spending which rises in a deep, prolonged recession, but can't do much more than blunt the worst deflationary effects. These kinds of things account for most of the added deficit, and tarring them with the brush of failed 'stimulus' is just plain wrong.

If government spending is slashed in a way that further depresses aggregate demand while the economy remains in recession, the long-term result will be to aggravate, rather than alleviate, the burden of national debt.

The problems are too intractable to solve by merely throwing money at 'special interests', but the situation remains too dangerous for brute-force 'fiscal discipline', no matter how well intentioned. Any maybe it's all too complex for representative democracy, as we now understand it.

Posted by TheCageNovel | [Report as abusive](#)

AUG 1, 2011
1:55 PM EDT

So, are the rumors not true – the GWB era created 5-6 trillion dollars of the current 14 trillion? And the debt ceiling has been raised repeatedly in previous administrations, including those of Ronald Reagan and GWB.

Isn't the bigger issue military spending? Totally off the books, in terms of accountability (cf. Peter DeFazio's address to Congress a few weeks ago on that) – but more importantly, the one budget which has clearly outgrown its mandate.

Wikipedia on "military budget of the US":

According to the Congressional Budget Office, defense spending grew 9% annually on average from fiscal year 2000–2009.

The 2009 U.S. military budget accounts for approximately 40% of global arms spending and is over six times larger than the military budget of China ...

Posted by hyperlux | [Report as abusive](#)

AUG 1, 2011
1:59 PM EDT

"total abdication of leadership by the president and both political parties"

Which assumes they ever had "leadership" to begin with.
Big assumption, Mr. Easterbrook!

Posted by nadie | [Report as abusive](#)

AUG 1, 2011
2:08 PM EDT

hyperlux It is 7-8 Trillion. Obama has accounted for only 1.44 Trillion(as of when the numbers were published at the beginning of the year)

Posted by Magickseeker | [Report as abusive](#)

AUG 1, 2011
2:54 PM EDT

"You've got a debt ceiling on your credit card. The ceiling is there for emergencies, and all responsible borrowers work to stay below their credit ceilings. Experience with the national debt ceiling, by contrast, shows that every dollar of available debt is always spent."

You got it!

"Weeks of nearly round-the-clock negotiations among the White House, House and Senate have led to an "historic" debt deal that consists almost entirely of fluff, doublespeak and empty promises."

And your point is...?

Posted by OneOfTheSheep | [Report as abusive](#)

AUG 1, 2011
2:55 PM EDT

This article is 'right on' – this 'deal' is a show hoax of political grandstanding and brinksmanship which does nothing to solve any of our problems. They would have to pass a deal with spending cuts and revenue increases that would reduce our debt by \$1 Trillion per year for the next ten years to make a correction useful enough to keep the country from going down the tubes. We need to be back at a pre-Bush debt and this would require pre-Bush tax rates and spending. Neither party has the guts to do this since their 'real constituents' would squeal with horror – and folks, the real constituents aren't the middle class sheeple. Why don't any of the media writers show a chart of the debt over the past 20 years so that people can see what is really happening? (ie the debt is rising exponentially like the buildup in a nuclear reactor that is about to blow).

Posted by Eric93 | [Report as abusive](#)

AUG 1, 2011
2:58 PM EDT

hyperlux – It's probably impossible to cut defense spending without damaging the finances of defense contractors, increasing unemployment, decreasing the flow of currency through the US economy, and sending the global economy into collapse.

Given the failure of representative democracy (TheCageNovel), and given the enormity of the US defense sector in the global economy (hyperlux), and given the well disciplined, well organized, and heavily armed nature of the US military, one could argue that the solution to the economic and political crises of the US in particular, and the world in general, is so obvious that there's no need to state it.

Posted by OttoZilch | [Report as abusive](#)

AUG 1, 2011
4:31 PM EDT

Correct me if I'm wrong, but isn't the "1 trillion dollar spending cut" only a reduction in the CBO baseline for spending? My understanding is that spending will continue to rise, hopefully, by 100 billion a year less (if you believe in the tooth fairy).

Posted by MikeStover | [Report as abusive](#)

AUG 1, 2011
4:34 PM EDT

Congress must vote NO on this debt ceiling compromise!

If the package worked out through the debt ceiling negotiations with the Obama administration is passed, it means that the United States is sunk overnight, and the U.S. and the world goes into a Dark Age.

This agreement supersedes the authority of congress entirely, creating a super-congress, a group of 12 congressmen that will ram through massive austerity cuts, even if the rest of the Congress votes NO on the proposed cuts.

TAGS

Obama [billionaires](#) [capital punishment](#) [china](#)
[climate bill](#) [climate change](#) [Dmitry Medvedev](#)
[economic recovery](#) [egypt](#) [environment](#)
[EPA](#) [global warming](#) [government](#) [greenhouse](#)
[gas](#) [guns](#) [hurricanes](#) [income](#) [iraq](#) [japan](#) [middle](#)
[class](#) [middle east](#) [NASA](#) [nuclear weapons](#)
obama [osama bin laden](#) [pakistan](#)
[philanthropy](#) [politics](#) [second amendment](#) [stimulus](#)
[plans](#) [superfund](#) [supreme court](#) [taxes](#) [terror](#) [toxic waste](#)
[u.s.](#) [u.s. debt](#) [u.s. politics](#) [united](#)
[states](#) **US Politics** [war](#) [wealth](#)

ARCHIVES

[August 2011](#)
[July 2011](#)
[June 2011](#)
[May 2011](#)
[April 2011](#)
[March 2011](#)
[February 2011](#)
[January 2011](#)
[December 2010](#)
[November 2010](#)
[October 2010](#)
[September 2010](#)
[August 2010](#)
[July 2010](#)
[June 2010](#)
[May 2010](#)
[April 2010](#)

Lyndon LaRouche issued this urgent call. "We are in an emergency situation...What the press is saying is misleading. This is intended to be the Hitler Coup, right now. You're going to see a lot of dead Americans piling up on the streets, and I mean it literally-unless we turn this thing around."

Everybody needs to mobilize today, before this vote comes up, and call their congressmen, city councils, institutions, and stop this atrocity before we lose the United States!

The only line of defense we have to this coup is Glass Steagall, a bill in the congress right now (HR1489), which will put up a firewall between the US population and the toxic financial institutions--no more bailouts, no more budget cuts!

Call your Congressperson today and fight like hell! Don't stand by and let Hitler's Ermächtigungsgesetz destroy the United States today!

Here is an emergency leaflet--get it out everywhere! <http://www.larouchepac.com/node/18953>

Posted by aperebik | [Report as abusive](#)

AUG 1, 2011
5:03 PM EDT

I could not agree with this article more. The result from this deal leads to nothing except more debt and more pain. We have already dug a grave, now this debt deal is the engraved tomb stone.

Posted by Dahc | [Report as abusive](#)

AUG 1, 2011
6:42 PM EDT

What a well written, realistic picture of where we are on debts and deficits as a country. Great job.

Posted by Sensibility | [Report as abusive](#)

AUG 1, 2011
7:29 PM EDT

Yes, the first \$1 trillion in "cuts" is reductions of planned future increases. The new Deficit Commission Du Jure is charged with making actual cuts, not just reducing the rate of increasing. When Ronald Reagan proposed his first budget, for FY82, establishment Washington spoke as if the world were ending — because the budget contained reductions of future increases, though hardly any actual cuts. To paraphrase Reagan, government spending isn't the problem — the assumption that government spending must always rise is the problem.

Posted by Gregg Easterbrook | [Report as abusive](#)

AUG 1, 2011
7:53 PM EDT

aperebik – The Great Dark Age started when humans first learned to talk. Don't panic. We never had anything worthwhile to look forward to to begin with. (To apocryphally quote that redoubtable foe of Nazi gangsters, Winston Churchill, the preposterous rule on prepositions is a rule up with which I will not put.) Our collective wisdom reached its nadir with the development of comment sections on web pages. We have no place to go but up, surely.

Posted by OttoZilch | [Report as abusive](#)

AUG 1, 2011
8:56 PM EDT

I've always thought Ronald Reagan should be the face on the three dollar bill.

Posted by borisjimbo | [Report as abusive](#)

AUG 1, 2011
10:00 PM EDT

I would be fine with substantial military cuts if...

The military had veto power on ANY military action not supported by a formal declaration of war. As long as the politicians get to order our men and women to their deaths WITHOUT a CONSTITUTIONALLY mandated declaration of war, then I want them to have the best of the best equipment.

Seems like a fair tradeoff to me.

Posted by iq160 | [Report as abusive](#)

AUG 1, 2011
11:07 PM EDT

Sorry. If you cut government spending kiss any recovery goodbye. It would take more effort to explain than I am prepared to do on an obscure blog to make this clear, so if you're wondering, go look at real econ explanations and stop getting your thinking done for you on Wikipedia and the Op-Ed pages.

Remember that the primary source of US GDP is domestic, not international trade. International trade is a larger percentage component of Germany's individual economy than ours! This is why the dollar is strong, we have capital. (well, that and carrier groups help, but that's another story)

So, what good is GDP as a measure of economic strength, you ask? Who the *%#@ knows, but everyone, including Easterbrook is obsessed with the fact that the debt to GDP is roughly 1:1. If you're paying \$26K for a car, what is the difference to tack on a \$3K for a sound system and a sunroof to make it more enjoyable, and up the resale a litte?

People do it all the time. And if you're reaction is " I have NEVER opted for that!" to my example, I feel safe in assuming you have never started a business either.

Posted by dzoo35 | [Report as abusive](#)

AUG 1, 2011
11:32 PM EDT

Debt ceiling to be raised by \$2.4 trillion dollars. So they are going to borrow \$2.4 trillion by the end of 2012, an average of \$133 billion per month, every month.

Who is going to lend the US government another \$2.4 trillion? China the 'fool'? Tsunami Japan? Pound-challenged UK? You?

Nobody except one. This one is the ultimate Fool – the Federal Reserve. They are going to buy \$2.4T of Treasuries. Adding to their \$10 trillion of Treasury bond holding. In effect, this is QE3.

So the 'deal' is: World, we are going to debase the dollar yet again, by printing \$2.4 trillion, and we hope you will continue to keep your dollar holdings yielding zilch return while we depreciate its value. Thank you very much world. You are so smart.

Posted by TomKi | [Report as abusive](#)

AUG 2, 2011
12:38 AM EDT

My question for TheCageNovel is what if this need for delayed consolidation extends for several more years at which point where we are too close to a debt limit imposed by ever growing Medicare disbursements instead of one that we merely impose by law.

Posted by threeRivers | [Report as abusive](#)

AUG 2, 2011
12:40 AM EDT

Gregg – Brilliant!! An outstanding job in exposing this charade for the smoke-and-mirrors BS that it is. Well written. Gregg for Secretary-Treasurer of the United States!!

Posted by elusivesolution | [Report as abusive](#)

AUG 2, 2011
2:40 AM EDT

Some think that leaving in place the Bush era tax "discounts" is a big crime, but thing about this:

In 17 years or more (I do not recall exactly someone can correct me), Federal corporate taxes have been 15% for the first \$50K earned. Now, if u consider 3% inflation, real or apparent, or perceived, or whatever per year, those \$50K should be \$ 80K today.

Same applies to our personal income tax etc. All brackets should be adjusted higher following inflation.

What we do not realize that inflation is chocking us both ways, one on the capacity to purchase with the \$ earned and two with the fiscal imposition that gets heavier and heavier every year.

We need to find a way to stimulate the small business, perhaps taking away the ability of the big guys that use the offshore loopholes, but helping companies that employ US work forces and pay taxes in the US.

But we need to lower taxes just to follow inflation.

Inflation is gradually lowering the US debt on bonds because those bonds actually give a return that is way below inflation.

So the government must to have the courage to stimulate for real, just helping the small business.

It is not right also to under reward savings with bank CD rates and bond yields that r way below inflation.

Curb spending abroad, invest domestically and give us the ability to compete globally. The real free trade.

Posted by robb1 | [Report as abusive](#)

AUG 2, 2011
4:40 AM EDT

I think the biggest thing everyone is overlooking right now is the US Dollar index. It is hovering right around 73. If it goes below 70 our economy is finished. It has never gone below 70, ever.

Posted by gruen137 | [Report as abusive](#)

AUG 2, 2011
7:27 AM EDT

This is an extremely well-written exposé of the hypocrisy existent in today's elected officials mindless attitude toward "governance"

Wish we could throw all of them out, but sadly replace them all with what...more of the same? I think we are doomed to suffer for a long, long time.

Posted by 21jotage | [Report as abusive](#)

AUG 2, 2011
8:19 AM EDT

Reading all of the article and your varied comments the one thing that stands out is that everyone has their individual interests at heart rather than the US as a whole. Comments are rarely supported with facts other than those gleaned from odd sources and inevitably focussed away from the issue onto your own special requirements.

The common theme of a lack of leadership both now and in the recent past demonstrates how poor the pool of talent must be from which you draw your politicians. As voters are you voting with your heart or your head? I suspect neither, your being drawn along by media hype and fear of change beyond your norms. If I were to say what should be done in the first instance it would be to call your elected representatives to account. How many of you have even considered a face to face with them?

You will always get the leadership you deserve, if you are apathetic before, during or after an election then you only have yourselves to blame for allowing such a terrible mess to happen. It is not too late, get off your backsides and do something useful like challenging them in person, you all have the right of access so use it.

Posted by TommyUK1 | [Report as abusive](#)

AUG 2, 2011
9:26 AM EDT

I attempt to avoid the bickering, the surveys, the rhetoric and focus on my personal situation to have a reliable source to compare...

We have a Congress that is battling the forces of hard opinions in the United States and parts of the world and it is justified by them as being in the best interest of "all" Americans...

Time to be honest and say it is politics, as each party looks for leverage at our expense and their gains...

So the comparison is or, rather a question; "do we have anything in common with that person who represents us in Congress?"

True or False: Did Congress receive a \$3,000.00 per month COLA adjustment this year?

Thank you.

Posted by chapapet | [Report as abusive](#)

AUG 2, 2011
9:39 AM EDT

The debt crisis was a smokeshow for most of Americans for the following reasons: Americans actually cut their consumption in June, this is a clear symptom of a middle

class not able to come with high fuel prices and a poor job outlook.
... that making the wealthy pay more tax is bad because
Americans can see that 'those who create jobs' are not
... a money and running. The real issue behind the debt

[Back to top](#)

crisis is Government's inability to raise revenue through taxation.
[Reuters.com](#) [Business](#) | [Markets](#) | [World](#) | [Politics](#) | [Technology](#) | [Opinion](#) | [Money](#) | [Pictures](#) | [Videos](#) | [Site Index](#) | [Mobile](#)
There is a growing gap between those that have that those that do not have.
Throughout history this has been the fuel of bloody uprisings and revolutions.
[Legal](#) | [Bankruptcy Law](#) | [California Legal](#) | [New York Legal](#) | [Securities Law](#)

Americans are beginning to be afraid that those with nothing left to lose will continue to
be ignored by society and will begin to foment violent unrest.
[Support & Contact](#) | [Contact Us](#) | [Advertise With Us](#)
Posted by [lotuslandjoe](#) | [Report as abusive](#)

[Account Information](#) | [Register](#) | [Sign In](#)

AUG 2, 2011
[Connect with Reuters](#)
9:59 AM EDT | [Twitter](#) | [Facebook](#) | [LinkedIn](#) | [Google+](#)
The US needs tax revision. A flat tax everyone pays, no exceptions, no exemptions, no
debt. Our system now pits one group of voters against another. It course the voters who make less than whatever the govt

determines to be "rich" are in favor of taxing the rich. The politicians understand this
and use it to get themselves re-elected. Everybody needs some skin in the game
everybody needs to feel each increase in taxes. When that happens, a lot more voters
will pressure their elected politicians to "not spend" a fortune on some stupid
Thomson Reuters is the world's largest international multimedia news agency, providing investing news, world news, business news, technology news, headline news, small business news, news alerts, personal
finance, stock market, and mutual funds information available on Reuters.com, video, mobile, and interactive television platforms. Thomson Reuters journalists are subject to an Editorial Handbook which requires
fair presentation and disclosure of relevant information.

THOMSON REUTERS **EIKON** | THOMSON REUTERS **ELEKTRON** | THOMSON REUTERS **ACCELUS** | **WestlawNext** | **ONESOURCE**
Our Flagship financial information platform incorporating Reuters Insider
An ultra-low latency infrastructure for electric trading and data distribution
A connected approach to governance, risk and compliance
Our next generation legal research platform
Our global tax workstation
[Thomsonreuters.com](#)
[About Thomson Reuters](#)
[Investor Relations](#)
[Careers](#)
[Contact Us](#)

y cycles, and seeing the bleakly obvious. I doubt we ever left the late 1970's
ession – just kept borrowing from Peter to pay Paul

Posted by [auger](#) | [Report as abusive](#)

Thomson Reuters is the world's largest international multimedia news agency, providing investing news, world news, business news, technology news, headline news, small business news, news alerts, personal
finance, stock market, and mutual funds information available on Reuters.com, video, mobile, and interactive television platforms. Thomson Reuters journalists are subject to an Editorial Handbook which requires
fair presentation and disclosure of relevant information.
AUG 2, 2011
4:15 PM EDT
NYSE and AMEX quotes delayed by 15 minutes. Last updated on 8/1/11 at 4:15 PM EDT. For more information on our data feeds, please click here.
the \$66 Trillion in unfunded entitlements the PIMCO leader made mention of today!
The US government has gotten deeper into debt than they're growing while not big government
is the problem, not the answer and honesty is the best policy! Tea anyone?

Posted by [DrJJJ](#) | [Report as abusive](#)

POST YOUR COMMENT

[Submit Comment](#)

We welcome comments that advance the story through relevant opinion, anecdotes,
links and data. If you see a comment that you believe is irrelevant or inappropriate, you
can flag it to our editors by using the report abuse links. Views expressed in the
comments do not represent those of Reuters. For more information on our comment
policy, see <http://blogs.reuters.com/fulldisclosure/2010/09/27/toward-a-more-thoughtful-conversation-on-stories/>