

## **Creative Ways Around a Blunt Sequester**

I would like to offer two simple plans, one for Republicans and one for Democrats, to avoid a blunt, across-the-board sequester with no realistic assessment of priorities. Each plan gives both parties something they want without abandoning their core principles. Each also strengthens the party making the proposal by putting the other one on the spot if it fails to move toward a moderate compromise.

First, Republicans. They should offer to empower the president, within fairly broad limits, to reallocate the direct spending cuts required by sequester and include entitlements in the offer. Yes, they would cede some power over a relatively moderate share of total spending, but they would retain their primary goal: forcing Democrats to tackle the spending side of the budget.

Next, Democrats. They should replace their demand that the sequester include tax increases with a simpler demand that the rich pay a fair share of any burden. Yes, they would give up their requirement of balancing tax increases with spending cuts, but they would retain their more basic goal: maintaining or enhancing progressivity.

To understand why these strategies would work, we have to go back to the root causes of the impasse. Both parties are fiercely fighting to compel the other one to ask the middle class for the inevitable to give up something, at least long term, to restore reasonable balance to the budget. Each party considers it political suicide to take the lead itself. Just think back to the presidential campaign, when each candidate indicated support for Medicare cuts, only to be viciously attacked by the other.

At the same time, both parties feel trapped and confused by years of mutual dissembling about subsidies that are put into the tax code.

Given that the American Tax Relief Act increased tax rates just last month, neither party is suggesting higher taxes. The debate now is over the tax base. Republican, Democratic, and independent economists all agree that subsidies in the tax code can be made to look just like direct spending. Therefore, any reasonable debate should be over whether all subsidies and spending programs work well and are worth every dime they cost, or whether they should be reformed not on which side of the ledger they sit.

For Republicans, the subtext is that direct spending also needs to be tackled, and much of that direct spending lies in so-called mandatory or entitlement spending, which occurs automatically with no new vote required by Congress. The push to enact yet more "tax increases," just after tax rates were raised, they consider unfair and imbalanced.

For Democrats, the subtext is that the rich have made out quite well in recent decades, so they should bear a significant portion of any deficit reduction. Excluding tax subsidies, which tend to be a bit more top-heavy and favor taxpayers with above-average incomes, they consider unfair and imbalanced.

As I noted, to an economist of any stripe, deciding which programs to fix according to the label we place on them direct spending or tax subsidy is silly. But this logic belies a long history where both Democrats and Republicans were quite happy increasing tax subsidies since they could then claim smaller government (through lower taxes) when they were actually increasing the scope of government activity (through more interference, along with deficits or higher tax rates to support the subsidies). Now that we have to cut back on automatic growth in direct spending, or tax subsidies, or (most likely) both, it's harder to change the terms of the debate.

In truth, Republicans should be just as happy cutting back on tax subsidies as on direct spending, as both mean less government interference in the economy. By the same token, Democrats should be just as happy with direct spending cuts as with cuts in tax subsidies. Since Democrats, too, end up with smaller government either way, they should focus on progressivity, not the more semantic debate over cuts in tax subsidies versus direct subsidies.

That's where my compromise proposals come in. If Republicans would simply empower the president to reallocate the spending cuts, then the bluntness of the sequester would be eliminated. Yes, they would be giving up some power, but come on, they control only one house of Congress. Look how they came out of the last debate, with only tax rate increases and a bloody nose to boot. Forcing the president to choose also enables Republicans to run later on how they would have chosen better. And if the president really cares about progressivity, he should want to extend those cuts to entitlements, many of which also provide more benefits to the rich than the poor.

As for Democrats, why not aim their sights at their real target: progressivity? If the Republicans would allocate spending cuts as progressively as the Democrats could ever expect tax base increases to come out, then they, too, will have achieved their principal objective. Moreover, if Republicans couldn't balance the burden of deficit reduction with spending cuts alone, they would be forced to admit that they have to go to the tax code to search for additional options, including tax subsidies.

A similar type of compromise might also be used to change the timing of the sequester, an issue beyond the scope of this brief column.

Simply put, to move beyond budgetary impasses, each party must figure out what it can give up to get what it really wants, while putting the other party on the spot for not responding to a reasonable offer of compromise. Neither of my suggestions is perfect, by any means, but I think either one or both could remove the bluntness of the sequestration.

**The Government We Deserve** is a periodic column on public policy by Eugene Steuerle, an Institute fellow and the Richard B. Fisher Chair at the nonpartisan Urban Institute. Steuerle is also a former deputy assistant secretary of the Treasury. The opinions are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.

*Note to Editors:* Publication of this column is encouraged and permission is hereby granted, provided that the author is properly cited. To link to the blog positing or make comments, visit <http://blog.governmentwedeseerve.org/2013/02/27/creative-ways-around-a-blunt-sequester/>.