

A reason to bargain

From the Editors in the [November 28, 2012](#) issue



House Speaker John Boehner. [Some rights reserved](#) by [House GOP Leader](#).

As the dust of the election settles, the nation's economic woes are what they were before campaign fever set in: an immediate unemployment problem and a longer-term deficit problem. And when it comes to solving the latter problem, the two parties remain divided on the relative merits of cutting social spending and raising taxes on the rich.

There is one difference now. Twice in two years, Washington resorted to kicking the can of fiscal problems down the road. As a result, we have reached the brink of the "fiscal cliff"—and there's a real chance that our leaders will take decisive action to avoid it.

A 2010 deal extended the Bush era tax cuts for two years. Then in 2011, Congress set up a bipartisan "supercommittee" charged with reducing the deficit, and it mandated massive across-the-board spending cuts should this panel fail to act. Fail it did, and the spending cuts are set to start kicking in early next year, the same time that the Bush tax cuts expire.

This one-two punch would do away with much of the deficit—but it would decimate the economy. With the economy in a slow recovery and unemployment still high, huge cuts in government spending and a significant tax hike would likely spark another recession. To promote jobs and growth the country needs a policy of stimulus—including both targeted tax cuts and targeted spending—not austerity.

Going over the fiscal cliff would be too much deficit reduction too soon.

Neither party ever wanted the looming spending cuts. They were designed to include much that's dear to each side so as to create an incentive for compromise. But compromise has remained elusive.

Reaching a large-scale compromise, however, is how a reelected President Obama aims to avoid the cliff. While he's failed to craft such grand bargains before, this time he has serious leverage. House Republicans can't simply refuse to deal with the president and then blame him for the gridlock, because doing nothing means allowing policies that Republicans loathe to take effect: major tax increases and deep cuts to defense spending. So both parties have to come to the table this time, and both spending cuts and tax increases will be on that table.

All this drama has focused on how to reduce the deficit. Recent GOP rhetoric about the fiscal cliff highlights a different issue: when to focus on the deficit at all.

During the campaign, Republicans lambasted the mandated defense cuts, using economic arguments. They claimed that the cuts would threaten thousands of jobs (a Romney press release warned of a jump to 12 percent unemployment). These worries are completely legitimate. They also directly contradict the GOP's standard claim that government spending doesn't create jobs. *Stimulus* has become a dirty word in Washington. Republicans openly mock it; Democrats resort to euphemisms. Yet both parties implicitly acknowledge that it takes spending to fight unemployment.

To get past the gridlock, a fiscal plan will need to reduce the deficit in a balanced way. To move the economy forward, the plan will need to delay the deficit reduction element and focus on stimulating the economy. That's a lot to expect from one bill, but the current incentives for both parties make a grand bargain likely. If it happens, it would be good news for the struggling economy.