TO: Interested Parties
FROM: Jim Kessler, Senior Vice President for Policy and
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RE: Failure Has Consequences: The Need for a “Super Committee” Failsafe

One of the secrets of the newspaper business is that obituaries for famous people are written in advance of their death. Similarly, in Washington, DC news offices, obituaries are being prepped for the super committee and the fall-out from its failure.

Anticipating failure is a reasonable response given the current events. Democrats have insisted they won't accept any spending cuts without some revenues. Republicans haven't budged from their spending cuts-only position. Just as a brush with death can be a life-changing experience, facing the possibility of failure could soften partisan positions and help the super committee succeed.

This memo takes a hard, cold look at the consequences of failure through a series of potential newspaper headlines and stories should the super committee fail. They show how the pain of failure is at least as bad as the struggle for compromise. A clear view of the downsides should make it easier for the super committee to agree to at least the minimum of $1.2 trillion in deficit reduction as Third Way’s failsafe proposal recommends.¹ Our failsafe plan [http://thirdway.org/publications/442] bridges the divide—raising revenue without touching tax rates; reducing entitlement spending without overhauling benefit, and making real progress on the deficit while leaving room for a jobs package.

Consequence #1: Confirming America’s Disillusionment with Congress

Headline: Congressional Approval Sinks to Record Low on Super Committee Failure

As expected, the so-called congressional super committee failed on a partisan vote to control the federal deficit. Democrats accused Republicans of keeping the wealthy from paying their fair share in taxes. Republicans said Democrats were unwilling to control the exploding costs of entitlement spending. This failure leaves Congress with no plan to reduce the federal deficit to a sustainable level for the next ten years and beyond just as a new poll shows only one-in-ten approve of the job Congress is doing.

The public is already extremely dissatisfied with government—but a failed super committee would push the limits. According to Gallup, “a record-high 81% of Americans are dissatisfied with the way the country is being governed.”² And 82% of Americans don’t approve of Congress’ performance.³
Super committee failure would become the symbol for failed government. The deficit ranks high on the public’s concerns, second only to jobs and the economy, and it is completely within Congress’ power to fix it. Democrats, Independents, and Republicans all want the super committee members to compromise (only Tea Party supporters favor no deal over a compromise). Failure is a powder keg ready to explode all previous levels of dissatisfaction with politics.

**Consequence #2: Another Looming Credit Rating Downgrade**

Super committee failure dares the credit rating agencies not to downgrade us. In rating a nation’s credit worthiness, the credit rating agencies look at the fiscal capacity of a nation to pay its debts and its political will to control the build-up of debt. The S&P credit rating downgrade that followed the debt ceiling debate could very likely be echoed by the two remaining major ratings agencies.

If the super committee cannot come to an agreement, then that would be an unavoidable signal to the credit rating agencies that the U.S. may not be able to control its rising debt and guarantee payments.

The August statement by Standard and Poor’s when it downgraded the U.S. credit rating after the debt ceiling debate makes it clear how their political assessments affect their economic judgments:

> In our opinion, the political aspects of the U.S. credit profile have also deteriorated in recent years, relative to sovereigns we score in our highest category. Our opinion of the U.S.’ political situation is linked to our opinion of U.S. fiscal deterioration because the debate over fiscal policy appears to us the most intractable of current political debates.

> In our view, sovereign governments that merit high scores have effective, stable, predictable, and proactive policymaking, combined with political leaders who regularly demonstrate an ability and willingness to implement reforms (popular or not) to ensure sustainable public finances over the long term. Moreover, at the ‘AAA’ level, we believe there should be no genuine question within policymakers’ circles of the paramount importance of honoring the government’s market debt obligations in full, on time, and unconditionally.

The super committee must at least show progress toward financial stability in order to prevent another possible downgrade in the nation’s credit rating.
Consequence #3: Unstable and Sluggish Financial Markets

Headline: U.S. & World Markets Shaken by Failed U.S. Deficit Talks

The stock market tumbled today following news that the Super Committee came up empty on a deficit reduction agreement. Investors say that the last shred of confidence in Congress is hanging by a thread. The news could not come at a worse time as European nations continue to struggle for a toehold to climb out of their debt-ridden budgets.

Political failure by the super committee would have economic consequences beyond the nation’s credit rating. Fidelity has warned of instability in financial markets: “We may also experience market volatility if deadlines are missed, if the agreement reached does not match up to expectations, or if credit rating agencies do not view the agreement reached as credible.”

Economic growth could also be affected. A recent analysis by J.P. Morgan Chase & Co. highlighted research that shows “when debt ratios in the U.S. and in other advanced economies have exceeded 90%, economic growth suffered notably.” Without further progress on deficit reduction, the U.S. will fall off that 90% cliff in less than a decade.

Consequence #4: Deeps Cuts to Federal Programs

Headline: Federal Government to Slash Defense, Law Enforcement and Consumer Protection

In the wake of the failed super committee, the federal government is bracing for 10 percent across-the-board cuts starting at the end of next year. Only a limited number of programs such as Social Security, Medicaid, and military and civilian retirement are exempted. A bipartisan group of former federal budget chiefs said today “these cuts are a body-blow to the federal government’s ability to serve the public efficiently and effectively. The nation’s safety and well-being are now at risk.” Unable to secure the 60 votes to exempt national security from the cuts, the Pentagon is set to draw up a list of proposed cuts that could include the largest reduction in armed forces since the post-Vietnam War era.

Should the super committee fail to agree on at least $1.2 trillion in deficit reduction, automatic reductions would take effect to achieve the same amount of deficit reduction, a process called sequestration. The Congressional Budget Office projects that sequestration would initially require 10% cuts to defense and civilian spending that is discretionary. These cuts would be much larger than what the

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* Discretionary spending is subject to annual appropriations, and mandatory spending like Social Security is simply authorized by Congress. The bulk of mandatory spending programs like Social Security and Medicaid would be exempt from automatic cuts. Medicare would also receive special treatment with cuts limited to 2%.
President and Congress agreed to in the debt ceiling debate. That agreement simply limited the growth in discretionary spending to an annual increase that is below the rate of inflation.

Should they come to pass, such substantial and sudden cuts to a myriad of government programs would produce a backlash that would cause Congress to reconsider sequestration. It is entirely possible that all the gains in deficit reduction over the last year would be rejected. That is even more likely since the cuts would be unbalanced. For example, federal education funding would be cut by 10 percent while wealthy seniors would share in none of the sacrifice.

It is simply unsustainable for discretionary spending to bear the brunt of deficit reduction. Discretionary spending is a shrinking portion of the budget: In 1990, 46-cents of every federal dollar was spent on Medicare, Medicaid, Social Security, and interest on the debt. In 2030, it will be 70-cents.  

**Consequence #5: A Major Setback to Any Hope of Future Deficit Reduction**

**Headline: Debt Hits $15 Trillion while the Two Parties Bicker over Solutions**

As the U.S. national debt hit $15 trillion today, both parties seemed further apart than ever on ways to control it. In what has become a daily ritual since the collapse of the super committee late last year, the leaders of the two parties again issued statements blaming the other for the failure and painted a severe picture of the impact of spending cuts or tax increases. Meanwhile a new poll shows that neither party is trusted to handle the nation’s finances. Support for third party candidates continues to grow rapidly echoing Ross Perot’s presidential campaign in 1992.

Super committee failure would not only be a setback for immediate deficit reduction, but future efforts as well. A deal will ultimately require leaders in both parties to stand up for an agreement that will be unpopular with their base voters. They need to demonstrate that compromise can be an effective electoral strategy. Leaders are more likely to succeed if the stakes are lower than if large deficit reduction amounts are attempted all at once. Failure now would raise the stakes in the future by requiring a future Congress to deal with an even larger deficit.

Failure would also rob both parties of the credibility they need to win votes for their own plan for fiscal discipline. How could either party effectively push for deficit reduction in the future after walking from the opportunity presented by the super committee?

The public is not likely to sit and wait for solutions for such an important problem. Third party candidates are likely to emerge in response to the failure of the two parties just as Ross Perot did in 1992. One way or another, the public will find a vehicle to vent its frustration with a federal government that fails to solve critical problems.

In sum, the question for the super committee is simply whether it can prevent the turmoil that its failure would create. That’s a standard for leadership that is surely within reach.
Endnotes


3 Ibid.


