

Debt Ceiling Deal Done, Debate Continues

August 03, 2011 10:00 AM Ryan Rivet
rrivet@tulane.edu

The federal government avoided a first-ever default on its debt when President Barack Obama signed a bill on Tuesday (Aug. 2) raising the nation's more than \$14 trillion debt ceiling. The bitter partisan wrangling that led to the deal reframed the argument about how to get the economy back on track, says Tulane economics professor Steven Sheffrin.



"They've basically made a choice that says 'we're focusing on deficit reduction and nothing else,'" says Steven Sheffrin, executive director of the Murphy Institute. (Photo illustration by Tracey O'Donnell)

That the House and the Senate approved the emergency legislation, allowing some breathing room until after the 2012 election, was no shock to Sheffrin, executive director of the [Murphy Institute](#) at Tulane University, who predicted the vote would come down to the [11th hour](#). The takeaway message for him was how the GOP refocused the discussion away from taxes and onto spending cuts.

"The Republicans in the House really changed the nature of the debate," Sheffrin says. "They've moved the debate away from any type of active fiscal policy and

focused totally on deficits.”

Politicians and pundits on the left are lamenting that increases in taxes for the wealthy and closure of corporate tax loopholes were left off the table. Sheffrin says the White House lost any leverage on those issues when the president signed the extension on the Bush tax cuts. In retrospect, says Sheffrin, Obama should have forced the debt ceiling deal then.

“I don't think the Democrats were in that strong of a position,” Sheffrin says. “So the idea that this would have been the time to raise tax revenues never struck me as very plausible. Given the polarization in Congress, this [compromise] was the only thing they could get.”

Sheffrin notes a provision in the deal that calls for across-the-board spending cuts if proposals to trim \$1.2 trillion from the deficit are not made by November, which could rankle both parties in the run-up to the 2012 elections.

“To make both parties willing to make those cuts,” says Sheffrin, “Congress included poison pills for members of both parties ? Medicare cuts for Democrats and fairly large defense cuts for Republicans.”