Deficit Commission Report: Dead On Arrival

Now that the President’s Deficit Commission has failed to reach critical mass (14 favorable votes of the panel’s 18 members were required for the panel’s recommendations to reach Congress), it can now be seen for what it was all along: a gigantic misdirection of attention to the trivial and irrelevant.

The tone was set in the beginning when President Obama named former Wyoming Republican Senator Alan Simpson, whose voting record was always more about style than substance, and Democrat Erskine Bowles, former Clinton chief of staff, to co-chair the committee. And then by hand-picking the panel members, the President made certain to emasculate any real efforts by panel members Paul Ryan (R-Wis.), Dave Camp (R-Mich.) or Jeb Hensarling (R-Texas) to make serious cuts in government spending. By not even addressing the signature legislative victory of the administration Obamacare it was certain nothing of substance was going to be done. Ryan said:

> The reason I cant vote for the thing is because it not only didnt address the elephant in the room health care it made it fatter. If you repeal the tax exclusion for individuals while maintaining the structure of Obamacarethen all youre doing is youre accelerating the expansion of Obamacare.

I understand look, the president appointed most of these people. Theyre not going to turn around and repudiate his health care law.

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The 66-page report not once mentioned any constitutional limitations on the power of the central government even to involve itself in the areas under consideration. And there was never any intent actually to reduce spending, just to close the deficit but at a higher level of government spending. That’s why, if all of the panels recommendations were passed by Congress, the federal governments budget would exceed $5 trillion annually by the year 2020, up from the current obscene $3.5 trillion in 2010. It was, in other words, show business. Panel member Senator Judd Gregg (R-NH..) admitted that Yes, it does raise taxes. Yes, you are going to generate massive [additional] revenues [with this plan] Writing in RedState.com, Russ Vought concurred:

> Overall the Bowles-Simpson package is what this commission was designed to produce a massive tax hike that will keep the federal government at a size and scope that is historically high for this

country.

One major piece of the increase in taxes was the elimination of the mortgage interest deduction on personal residences over $500,000, as well as deductibility of interest on home-equity loans. This evinced resistance from those who benefited from the artificial stimulus provided by this deduction in the past, including home builders, realtors, and mortgage lenders. Interestingly, however, some of the critics of this recommendation came from people who should know better, including Linda Chavez who called this recommendation scandalous. She wrote that enactment of such legislation would reduce the value of all homes in the country by as much as 15 percent immediately. She explained

> Although most home owners may not think of it this way [but] when they buy a house under our current tax system, theyre investing not only in a place to live but also in an asset. The value of that asset [includes] the value of the tax deduction they receive on the mortgage interest.

A family that pays a $3,000 mortgage payment each month will likely get at least a $2,300 per month deduction [which], depending on the individuals tax bracket can result in a significant savings in taxes owed [to take this deduction away] would have unintended consequences, namely, lowering the current value of home real estate.

This represents the classic broken window fallacy that is taught in basic free market economics courses. When the free market is impaired, by allowing consumers to buy more house than they otherwise could, absent the tax deduction, the demand for houses goes up. With a greater demand, free market economics teaches that prices for those houses also increases. In other words, houses on todays market *are already overpriced* due to government attempts to stimulate the housing market which results, as always, in such price distortions. Chavez should know that. Houses, despite having lost much of their value in the Great Recession, are still over-priced relative to what they would be if the market were allowed to operate freely without such stimulus.

The analogy of the heroin addict is apropos: if the addict is denied his fix, he goes into withdrawal. If he is able to obtain another dose, he will recover, except that next time his fix will have to be larger. Without any additional stimulus, of course, the addict will go back into withdrawal. Such withdrawal will allow him to recover from his addiction, thus saving his life. If the flow of heroin continues, he will die.

All Chavez wants, whether she knows it or not, is to continue to drug the addict, rather than subject him to the pain of withdrawal. And it is this lack of understanding about basic fundamental free market economics that will cause people to object to real remedies, such as eliminating tax benefits for buying houses.

Rasmussen just completed a study that indicates that most Americans dont understand the basics. Forty-one percent of those polled favor limiting the income tax deduction that a homeowner can take, while 38 percent oppose any such cap.

While the Deficit Commissions report has arrived stillborn, the recommendations made by the panel will continue to resonate for many months to come. One is hopeful that as these are discussed, citizens will become better informed about the impact government interventions in the free market have, and what the repercussions will be if they are successfully restricted, reduced, or eliminated altogether.

Photo: Commission on Fiscal Responsibility and Reform co-chairmen Erskine Bowles, left, and Alan Simpson share a laugh on Capitol Hill in Washington, Dec. 3, 2010: AP Images

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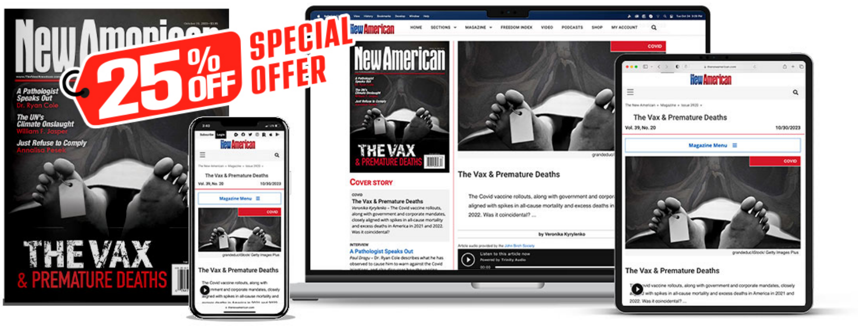

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