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Make the Dollar-for-Dollar Rule Permanent

Matching debt increases with spending cuts will balance the budget in a decade without raising taxes.

By ROB PORTMAN

Congress and the president have finally agreed to raise the nation's $14.3 trillion debt limit, along with spending cuts of an equal or greater amount. There are many points of view about the final agreement, but here's a positive aspect of the underlying principle: If we pledge to hold all future debt-limit increases to the same "dollar-for-dollar" standard, we can balance the budget within a decade.

Increases in the debt limit used to be routine. In fact, for many years the House of Representatives did not even take a stand-alone vote to raise the debt limit, but rather employed the so-called Gephardt Rule to "deem" the necessary increase every time they passed a budget expanding the debt. As a result, the past decade saw the national debt soar to $14.3 trillion from $5.6 trillion with no significant deficit-reduction bills attached to any of its 10 debt-limit increases.

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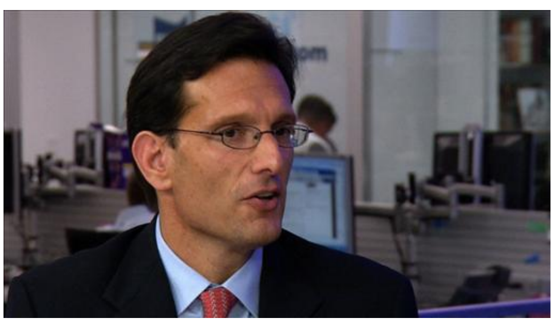

House majority leader Eric Cantor and Wall Street Journal columnist Peggy Noonan discuss the debt ceiling deal and the political fallout.

That era is over. With this latest debt-limit increase, Congress—at the wise suggestion of House Speaker John Boehner—adopted a new standard: that the bill raising the debt limit must also cut an equal amount of spending over the following decade. In this instance, rather than accede to President Obama's demand as recently as this spring for a "clean" debt-limit increase, Congress matched a $2.4 trillion increase with at least $2.4 trillion in spending savings over the decade.

My hope is that Congress and the president will make further structural spending reforms to respond to the fiscal crisis. But at a minimum, lawmakers should commit to making the "dollar-for-dollar" rule a permanent debt-limit policy. Using Congressional Budget Office data, I have calculated that if we apply this every time we reach the debt limit over the next 10 years, we will balance the budget by 2021 without raising tax rates over current rates.

That's more than $5 trillion in spending cuts over the decade. And because many of these spending reforms would necessarily carry over past 2021, the savings in the following decade would be even larger. If this framework were followed, starting in 2021 budget surpluses would end the era of debt-limit increases.

Granted, cutting more than $5 trillion over the next decade will be challenging. But that is out of the $46 trillion in projected spending which increases the annual budget by 57%. So there is room to cut.


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With this agreement, Congress has already begun a process to cut the first $2.4 trillion with nearly $1 trillion of those savings up front. I've identified more than $2.8 trillion in possible spending reductions that have received bipartisan support through either Vice President Joe Biden's working group, the Senate Gang of Six, or other bipartisan legislative or public pronouncements. Any of those proposed cuts that do not make it into this current two-step reform should be applied to the next round.

All spending should be on the table. Discretionary spending—both defense and nondefense—has surged in recent years and cannot be excluded from responsible spending reforms. Entitlement programs like Social Security, Medicare and Medicaid must also be modernized and reformed to aid 77 million retiring baby boomers and yet ensure solvency for future generations. Repealing the new health-care law would save hundreds of billions of dollars, while providing a second chance to get health reform right. Wasteful spending must be eliminated, and Washington must right-size the federal budget to fit the new realities.

The right tax reform can also reduce the deficit. The current tax code is so large and complex that Americans are forced to spend a combined eight billion hours complying with it annually. Worse yet, the tax code discourages the working, saving, investing and entrepreneurship that are vital to growth and prosperity. We should create a tax code that's fair for everyone, not just those who can manipulate it. Fixing the code can bring in new revenues not by raising taxes, but by creating economic growth, jobs and higher incomes.

These spending and deficit reforms are vital to encouraging economic growth and job creation. An April 2008 study by economists Carmen Reinhart and Kenneth Rogoff shows that when a nation's debt exceeds 90% of the size of its economy—which ours passed last year—growth is reduced by one-to-two percentage points. For the U.S., that means one million fewer jobs today.

Over 25 years, continuing this fiscal irresponsibility would leave the economy one-fifth smaller than otherwise. But by committing to the "dollar-for-dollar" rule that keeps spending cuts in balance with any debt-ceiling increases we could actually begin paying down the national debt, to strengthen our economic outlook and to save future generations from inheriting this unconscionable burden.

Mr. Portman, a Republican, is a senator from Ohio and a former director of the Office of Management and Budget.