

ROLL CALL

It Takes a Crisis

September 24, 2008

We have confidence Congress, faced with collapse of the nation's financial system, will come to terms with the Bush administration and the Federal Reserve on a bailout package that will rescue the national economy from impending crisis.

But why, for heaven's sake, does it take impending doom for Congress to act to fix problems that, left untended, will result in crisis? And, coming out of this crisis, can Congressional leaders of both parties resolve to deal with those problems, preferably on a bipartisan basis?

We trust — because the problem is so obvious — that Congress will create what Treasury Secretary Henry Paulson calls a “21st century regulatory system” to oversee the increasingly complex financial system. This should have been done when the system was deregulated in 1999. It could have and should have been done anytime during the past nine years. But Congress failed to do it — for seven years while the GOP was in charge and over the past two years under the Democrats.

Will Congress also fail to avert what countless experts have warned are certain fiscal crises, short term and long term, because the government is plunging deeper and deeper into debt? What will it take? For credit-rating agencies Moody's and Standard & Poor's to downgrade the U.S. government's credit rating from AAA?

Or for the dollar's value to plunge to the point where foreign lenders stop financing U.S. borrowing?

Short term, this year's federal deficit is estimated at \$400 billion. Accurate accounting would put it at \$600 billion because \$200 billion is borrowed from the Social Security trust fund. The nearly \$1 trillion it will cost to rescue the financial system — including Fannie Mae and Freddie Mac, American International Group and Bear Stearns — should be added to that. Some of the money may be returned to the Treasury, but not immediately.

Medium term, the national debt has risen from \$5 trillion when President Bush took office to \$9 trillion, and now Congress is acting to raise the debt limit to \$11.3 trillion. The Congressional Budget Office estimates the debt will rise an additional \$2.5 trillion by 2013 even if Bush's tax cuts expire — though both presidential candidates want to extend some or all of them and add lots of spending.

And then, long term, there's the \$53 trillion in entitlement obligations promised to future retirees that everyone knows is unsustainable. According to the Peter G. Peterson Foundation, by 2027, just four budget obligations — interest on the federal debt, Social Security, Medicare and Medicaid — will eat up all federal revenues and account for 18.3 percent of the gross domestic product.

Congress knows this. In the House, Reps. Jim Cooper (D-Tenn.) and Frank Wolf (R-Va.) have proposed legislation establishing a commission to recommend entitlement reform. Sens. Kent Conrad (D-N.D.) and Judd Gregg (R-N.H.) have a similar proposal in the Senate. They've gone nowhere. This legislation may not be the final answer to the entitlement dilemma, but one must be found.

The question is: What crisis does it take?

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