

America's Maastricht moment

Christopher Swann / November 21, 2011, 0:22 IST

Zero hour is fast approaching for the US Congress' budget "super committee." The 12 lawmakers tasked with slashing spending have until Monday to reach consensus. As that looks hard, the temptation to fiddle a way to \$1.2 trillion of cuts is intense. Doing so would ape states which fudged euro entry rules in the past. Markets and the public will, probably, be far less tolerant this time.

Governments are masters at finding ways around self-imposed budget rules. As the deadline approached to meet the Maastricht Treaty's three per cent deficit ceiling in the late 1990s, Italy tried to beautify its ugly-looking balance sheet by using swaps to defer interest payments. Even the Germans, normally paragons of fiscal rectitude, mulled a few tricks and plumped for selling more shares in Deutsche Telekom. Greece, which adopted the euro in 2001, used swaps to hide debt and, at times, would leave military or hospital costs out of the budget.

With no agreement on a credible plan in sight as the "super committee" members approach their final weekend of horse trading, the pressure to obfuscate is mounting. A variety of escape routes look possible. Counting money saved from ebbing military spending in Iraq and Afghanistan would be the most blatant hoax, knocking an artificial \$700 billion off the deficit over the next 10 years. Including saved interest payments in this money would boost the pretend savings by an extra \$140 billion, according to an estimate by the Cato Institute.

Loading any cuts towards the end of the decade is another favorite, making these easier to reverse later. Congress could also draw on some techniques used in April's budget deal: One trick involved cutting funds not being spent anyway. The touted savings of \$38.5 billion actually amounted to just \$352 million this year, according to the non-partisan Congressional Budget Office — though some cuts would create savings in future years.

The United States' public finances are still far from crisis point. But, that seemed true in Europe a decade ago, too. With the continent's current debt crisis demonstrating the consequences of sweeping tough decisions under the carpet, the markets and the American public are likely to be far less tolerant of any "super committee" shenanigans. If its members resort to cheap tricks, it will reinforce fears that only a crisis can spur Congress to meaningful action. That is a dangerous message to send.