

## Catallaxy Files

Australia's leading libertarian and centre-right blog

### The Debt Failsafe Trigger

[10 comments](#)

It is absolutely shameful the way the political class keeps chasing down our money. In America, the almost trillion US-dollar stimulus has created a hole for which it is almost impossible to think of a solution that does not involve a major inflation. But a serious cutback on spending, you would think, would be at the top of any program to find a way out.

But the American President is made of sterner stuff. Whether he is simply incapable of understanding the problem he has created, or cannot bear to face reality, or is unwilling to accept responsibility for his own incompetence, or he thinks he can hold off these demons until he is reelected in 2012, or whether it is something else entirely is impossible to know.

So it is interesting in all this to find [the following snippet](#) by Dan Mitchell of the Cato Institute in relation to the President's proposed 12-year approach to dealing with the deficit.

[T]he most disturbing feature [of Obama's proposal] may be a provision that punishes the American people with higher taxes if politicians overspend.

Called a 'debt failsafe trigger,' Obama's scheme would automatically raise taxes if politicians spend too much. According to the talking points distributed by the White House, the automatic tax increase would take effect 'if, by 2014, the projected ratio of debt-to-GDP is not stabilized and declining toward the end of the decade.'

Let's ponder what this means. If politicians in Washington spend too much and cause more red ink, which happens on a routine basis, Obama wants a provision that automatically would raise taxes on the American people.

It may come to that, naturally well after the next election, even assuming a second Obama term. However, Buchanan and Wagner, in their brilliant 1977 *Democracy in Deficit*, have another suggestion that appeals to me. And rather than allowing politicians to have others fund their mistakes, this one would put a kind of automatic feedback mechanism into the deficit creation process that might actually lead to some kind of restraint amongst those who recommend these higher expenditures to governments. In speaking of the possible introduction of some kind of trigger mechanism that would immediately come into play if some threshold were passed, what they call "an automatic adjustment scheme", Buchanan and Wagner wrote:

One thing to be avoided in any variant of an automatic adjustment scheme would seem to be attempts to protect outlays on salaries for legislative and bureaucratic personnel. In fact, a strong case could be made for requiring disproportionate adjustment in this component of the federal budget, since this would provide an indirect means of encouraging compliance with the constitutional norm for maintaining overall balance in the fiscal account. *It would be difficult to think of much legislative or bureaucratic agitation to exceed budget-balance guidelines if the penalties were known to include explicit reductions in governmental salaries.* [My italics]

That is, if a significant component of the adjustment towards budget balance occurred by lowering the wages of public servants, they might not be so quick to raise expenditure in the first place.

Completely unrealistic as a mechanism since it would never get past Sir Humphrey. But it does have an appeal to we poor folk out here who must one way or another fund all this spending however useless and wasteful it may be.

*HT to Powerline for the Dan Mitchell quote.*

Written by Steve Kates

April 17th, 2011 at 5:05 pm

Posted in [Uncategorized](#)