



## Fiscal Cliff: Democrats Fiddle While Nation Burns

December 21, 2012 By [Arnold Ahlert](#)

As the days dwindle down to a precious few, the political posturing with respect to the fiscal cliff has kicked into high gear. Thursday revealed the latest machinations, with House Speaker John Boehner (R-OH) [insisting](#) the president had “done nothing” in return for his concession on allowing tax rates to rise on wealthy Americans, even as he scheduled, and then [cancelled](#), a vote on a pair of bills known as “Plan B.” Senate Majority Leader Harry Reid (D-NV) [warned](#) that Plan B would not even be brought up for a vote in the Senate, even as he [sent](#) his colleagues home for Christmas. And White House Press Secretary Jay Carney [reiterated](#) the president’s insistence that Plan B would be the latest Republican effort vetoed, if it actually got to Obama’s desk. While such theatrics may be politically necessary, they are nothing more than a short-term diversion obscuring America’s real problem: an unsustainable level of spending, driving the nation inexorably towards bankruptcy. The president has no answers, doesn’t care about finding them, and is only winding down the clock until the bomb explodes and he can pick up the pieces.

Despite good-faith Republican efforts, the nature of the negotiations remains mired in largely meaningless — but politically useful— measures, namely, the incessant wrangling over raising taxes on the “rich.” Keeping the national conversation focused on this topic accrues to the president’s interest, not only because it allows him to posture as a crusader against the alleged depredations of the wealthy, but because it distracts from his reckless stewardship over fiscal matters during his first term — in particular, when the Democrats had absolute control over the House, Senate and presidency and refused even to pass a budget, but continued to spend, spend, spend. By drawing out negotiations over a singular issue and appealing to the worst of the voting public’s worst instincts — class hatred — the Democrats needn’t worry about explaining how their tax hike talisman will magically address the massive federal deficit. As Senator Rand Paul [recently noted](#), if the president’s proposal to tax the top two percent of earners were realized, it would fund current government spending for all of eight days.

For perspective’s sake, Americans should note the U.S. Treasury [reported](#) in October that the deficit for fiscal 2012 was \$1.09 trillion. In both 2010 and 2011, it

was just under \$1.3 trillion, and in 2009, it was \$1.42 trillion. As a result, the national debt has increased more than \$5 trillion in just four years under Obama, compared to \$4.9 trillion during eight years of the Bush administration. Prior to Obama, America had never run up an annual deficit even approaching one trillion dollars. We have now surpassed that mark four years in a row. Some Americans consider such an irresponsible debt increase “unpatriotic.” One of them used to be Obama himself, who in 2008, said that “driving up our national debt from \$5 trillion dollars to \$9 trillion is irresponsible. It’s unpatriotic.” We have now amassed over \$16 trillion of national debt—and counting.

Patriotism and irresponsibility aside, the president has said many times he wants a “balanced approach” towards bringing the nation’s fiscal problems under control. Yet once again perspective becomes the necessary ingredient to understand the difference between *political* balance, which is what the current impasse regarding the fiscal cliff is all about, and the *fiscal* balance critically necessary for the long-term health of the nation.

From 1998-2012, revenue collected by the federal government increased from \$1.7 trillion to \$2.4 trillion, representing a slight increase over the rate of inflation, at around 2.9 percent a year. Federal spending, on the other hand, rose almost twice as fast at 5.7 percent, from \$1.6 trillion to \$3.5 trillion over the same period, even exceeding the increase in the population. If spending had been limited simply to increases in inflation and population growth, the federal government would have spent \$2.6 trillion in FY2012, and our \$1.09 trillion deficit would have been a very manageable \$157 billion.

The Cato Institute’s Dan Mitchell reveals what a majority of Americans, if election results are any indication, don’t want to hear. “If you are on a path where government spending grows faster than the private sector of the economy, which is your tax base, then in theory there is no level of taxation that will be enough to stabilize the system,” he states.

In other words, spending is the problem. Yet here too, a paradox exists. Because the federal government has grown so big, a sudden and overly large cut in spending would create a temporary economic headwind. Thus, there would have to be something to counterbalance that headwind; for starters, lowering tax burdens. What they have tried in Europe is cutting government spending and raising taxes, due to the obstinate belief that the EU is in the midst of a debt crisis, as opposed to a spending crisis. Yet raising taxes causes further stagnation, because it discourages the one element that is critically necessary to reinvigorate any economy, namely growth. As Greece so clearly demonstrates, this approach has produced five years

of depression, and an unemployment rate that has more than doubled over the last two years to over 25 percent.

Across the pond, Democrats are not as ready as the socialist Europeans to come to terms with the need to cut spending, save for signing on to massive cuts to defense. Thus, we are reduced to politics that amount to nothing more than nibbling around the edges. Obama wants taxes raised on people making \$400K per year, and Boehner insists on a \$1 million threshold. The president has insisted he's open to spending cuts, but even the *New York Times* is forced to admit that the "one element missing from the debate" are the details surrounding those spending cuts.

According to CNN, "Obama's latest offer includes \$1.2 trillion in revenue increases on individual income and \$1.22 trillion in spending reductions, though Boehner's office says the math adds up differently." Even if one assumes the math is correct, and that raising taxes will not affect economic growth even one iota, a total of \$2.42 trillion in deficit "mitigation" over ten years amounts to \$242 billion per annum. Even if one believes a more optimistic report by Fox News, citing a "senior administration official" who believes "both parties are still extremely close on a massive \$4 trillion debt deal," such "massiveness" amounts to \$400 billion dollars per year over ten years—or *less than half* the deficit we ran in 2012 *alone*.

If no deal is reached, Americans will see an average tax increase of \$2000 next year. Perhaps they ought to. Nothing makes the politicians in Washington, D.C. shirk the nation's fiscal responsibilities more than the knowledge that the public's appetite for entitlements has increased exponentially—along with their appetite to have "someone else" pay for them. A \$2000 bite would not completely eliminate the "free lunch" mentality that apparently now infects a majority of the electorate, but it might be a good start.

But it would only be a start, and as revealed above, it would amount to a pyrrhic victory at most. The federal government has a monumental spending problem. It is so massive that the Congressional Budget Office (CBO) reveals if lawmakers do nothing about entitlement spending, public debt would reach 109 percent of GDP by 2026, and nearly *200 percent of GDP* by 2037.

And make no mistake: at the heart of the spending problem is an entitlement problem. As Dr. Merrill Matthews and actuary Mark E. Litow point out in a publication titled "The Coming Entitlements Cliff," current spending on entitlements amounts to \$2.2 trillion, which is only \$200 billion shy of the aforementioned \$2.4 trillion in *total* revenue collected by the government in 2012. Furthermore, they reveal that an astonishing 108 million Americans live in households where at least one person

participates in a means-tested program. Furthermore, even that number is increasing.

Thus, one may be forgiven for not getting caught up in the largely manufactured drama surrounding the so-called fiscal cliff. It is tantamount to haggling over whether bailing out a sinking Titanic using a thimble or a bucket is the better course of action. Sen. Rand Paul has the proper perspective. "There's a lot of talk right now about an impending fiscal cliff," he writes. "But we already went over a cliff economically in this country a long time ago." If Americans wish to raise themselves out of the abyss, they must accept economic reality, no matter how unpleasant. The late Herbert Stein, chairman of the Council of Economic Advisers under Richard Nixon and Gerald Ford, reveals the gut-wrenching alternative. "If something cannot go on forever, it will stop," he warned.