

The Sydney Morning Herald

America fell off the fiscal cliff a long time ago. Now it's all about the landing

By: Chris Berg - January 13, 2013

Bipartisan brinkmanship is to blame for not cutting spending sooner.

KARL Marx famously said history repeats itself: first as tragedy, then as farce.

After avoiding the "fiscal cliff" a fortnight ago, the US faces yet another budget crisis in two months' time. Yes, another one. Another round of brinkmanship, another round of negotiations.

So, Karl, what comes after farce?

The deal struck between Republicans and Democrats on New Year's Day merely postponed what has been termed "sequestration": a provision in a 2011 bill that automatically cuts government spending across the board if Congress won't reduce spending itself. But this is all more a political crisis than an economic one. The US budget drove off the fiscal cliff a long time ago. This is the fifth year in a row the budget deficit will be above \$US1 trillion - that is, there is a trillion dollar difference between what the government spends and what it taxes. Out of a \$3.6 trillion budget, this is an enormous shortfall. A trillion dollars is nearly the size of the entire Australian economy.

Advertisement

The responses are predictable. Democrats think taxes are too low, and want to raise them. Republicans think spending is too high. Yet for some reason it's fashionable in Australia to chalk the madness of the US budget crisis solely up to nut jobs in the Republican Party. Wayne Swan called them "cranks and crazies".

According to received wisdom, Barack Obama and his fellow Democrats are pragmatic and reasonable while trying to negotiate with gun-wielding Tea Party fanatics across the aisle. This is nonsense. The Democrats are being just as stubborn as the Republicans, just as political, and, if anything, are more delusional about what has to be done to keep the country solvent.

In the middle of the negotiations, Obama reportedly told the Republican Speaker of the House, John Boehner, that "we don't have a spending problem". Really? Spending in the US budget has doubled since Bill Clinton left office. It's grown far quicker than inflation or population growth. What on earth would a spending problem look like?

The very bill that held back the crisis on January 1 shows how ludicrous Obama's claim is. Buried in the 157-page bill are taxpayer subsidies for all sorts of weird and wonderful things: two and three-wheeled electric vehicles, car racing, and even asparagus farming. Reckless spending is pathological. They can't help themselves. Couldn't the government

simply ramp up taxes on the rich? The rich are always good for money. As the Cato Institute's Michael D. Tanner has written, even if the government confiscated every dollar of income the rich of America earned in one year, there still wouldn't be enough.

Millionaires and billionaires earned \$840 billion in 2010. That money wouldn't cover the trillion dollar budget shortfall. And even if the government confiscated everything they owned it wouldn't pay off accumulated US debt. There's too much.

So it has to be spending. And the only way spending is going to be reduced is if Congress insists. Thank god for multiparty democracy. But we can't exonerate the Republicans. The Iraq war and the bank bailouts happened under George W. Bush. And the reason Republicans are desperate to avoid the automatic spending cuts is because those cuts disproportionately target the military.

As they should. A massive 48 per cent of all military spending on the planet is spent by the US. The defence budget has nearly doubled since the Cold War. There are still 75,000 US troops in Europe defending against a non-existent Soviet threat. But sophisticated Republican thinking on foreign policy has disappeared to such a degree that military spending is sacred. They won't touch it.

So sequestration may not be too bad. Having your government cuts done automatically isn't the best way to go about things, but at least it's something. American taxpayers might hope the next round of budget negotiations fail.

The Nobel-winning economist James M. Buchanan died last week. Buchanan made his name by developing a theory of how public spending spirals out of control.

It's in the interest of taxpayers to keep taxes low, and in the interest of politicians and bureaucrats and special interests to keep spending high. The only solution, Buchanan argued, was to write rules which prevented politicians from being reckless with taxpayer money.

In a way, that's what the fiscal cliff issue is all about: constraining politicians. Same with the "debt ceiling" - a legal limit on how much the government can borrow. The current proposal to mint a trillion-dollar platinum coin is just a tricky way to get around the limit.

But Congress will increase the debt ceiling. It always has. Buchanan would say a rule about government debt is a good idea. But you have to enforce the rule somehow.

In March, Congress will kick the can down the road again. Politicians first and foremost want to get to the next election. But the US has already gone off the fiscal cliff. We don't know what will happen when it hits the ground.