

Fiscal Ultimatum Fatigue

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The possibility of a range of spending cuts beginning automatically on March 1st due to the sequester remains very real with only a few days remaining until the deadline. The sequester will cut spending, but also likely impact economic recovery and growth. While some may laud the sequester for finally reducing spending, it is also a clumsy tool for making policy relying upon broad, but moderate, cuts rather than more well thought out cuts to specific programs. Despite this, few ordinary Americans are too concerned about the potential sequester.

During the last several years the American people have become increasingly familiar with this kind of government blackmail, where the politicians tell us that if they cannot make a deal, one kind of fiscal calamity or another will hit the country. Congress seems to no longer debate spending or propose budgets, but rather they lurch from one spending related crisis to another, each with more dire consequences. Debt ceilings, defaults and sequesters have replaced rational, or even irrational, discourse about how to raise and spend that revenue.

The political system in Washington has evolved from one where meeting the political opponent halfway has been replaced with waiting to see who will blink first. This is not only an ineffective way to make policy, but it contributes to the frustration many Americans feel towards Washington. Ordinary Americans are regularly having to learn about a new budget disaster facing the country that is the result of both years of poor fiscal policy and an inability of the people in Washington to govern.

In an environment like this it is easy to blame both the White House and the congress, as well as both political parties. There is some truth to this. In recent decades, both parties have contributed to the budget problems. The Democrats and Republicans have both supported expensive, although occasionally different, spending programs. Both have, for the most part, been reluctant to confront the seriousness of the budget problem, particularly when they are in office, and have been comfortable borrowing substantial sums of money.

In the last several years this dynamic has changed because the Republicans in congress have begun to address the budget issue, something about which they for the most part only became concerned since Barack Obama became president, not by proposing concrete fiscal solutions, other than, of course, calling for tax cuts, spending cuts and magic. Instead, the party has sought structural remedies, or more accurately, gimmicks, to draw attention to the deficit. The debt ceiling debate, for example, is not a real problem, but one that was created by the Republicans, seemingly to draw attention to the deficit. These gimmicks, however, often present genuine danger to the financial health of the country. While most agree that running large deficits is bad, almost everybody would agree that defaulting on loans would be worse, but this is the position in which the Republican in Congress have been willing to put the country.

This reflects an asymmetry of concern around the debt. The Republicans, at least publicly, see the debt as an enormous crisis and threat to the safety and future of the country. In their view,

presumably, the debt could lead to the financial and general collapse of the United States. Thus solving this problem requires every possible approach, except, naturally, raising taxes. The Obama administration has not evinced a concern about the budget that is comparably alarmist. Instead, the administration appears to see the debt as one of several problems, such as joblessness and a stagnant economy, which require attention and solutions.

Because the parties see the problem differently, finding a solution has been difficult. The pattern of budget talks throughout Obama's time in office has been that Obama offers compromises drawing ire from his base for offering too much and from his opponents for offering too little. The Republicans invariably respond to Obama's offers with a counteroffers that concede nothing, forcing the two sides to see who will give in first. There is then a standoff which, in one manner or another, Obama usually wins, albeit usually in a way that does not help him very much. This is invariably followed by the next manufactured crisis and deadline.

The result of this is that many Americans are losing faith that the government is able or interested in doing anything about the budget or about creating a financial plan for the country. The threats, inevitably, are less meaningful over time as people grow accustomed to this pattern. Right now, few people outside of Washington care about the sequester because most of them, and us, think that the crisis will be averted at the last minute and replaced by a new one in a few months; and they, and we, are probably right.