Fiscal Hell without the Hand Basket: Of Debt and Job Destruction

The federal government does make it hard for me to enjoy my vacation. Capitalism Today has returned to find the economy in a bigger mess than it was in just a month ago. It is time to get back to work.

Congress and the President passed an increase in the debt ceiling this week to take them through the next election campaign. Stock markets responded by taking a hard nose dive. It makes you wonder what a default would have done. Did the accompanying deficit reduction package accomplish tax or entitlement reform? No. Did it cut spending enough to avoid a drop in the US bond rating in the next three years? No. Did it give confidence to domestic and international investors that the US government understands its debt problem and will work intelligently to rectify it? Not remotely.

What did the debt deal do? Well, it set up another crisis for December 23rd. Yep, another [Festivus](http://en.wikipedia.org/wiki/Festivus) miracle! A bipartisan committee has to come up with a trillion and a half dollars worth of spending cuts (over 10 years) and Congress has to pass them or Medicare providers and the Pentagon will have to split the cuts between them. Only Congress thinks that they can cure uncertainty by creating more uncertainty. Any chance they wait until the last minute on this one?

What is obvious is that cutting even a little bit is hard in today’s political environment. Reducing planned expenditures by $900 billion over ten years when you plan to borrow $15 trillion more during that same time doesn’t account for much. Nor does cutting “future” spending mean much. Future congresses and future presidents can spend as much as they want. The only way to bind future lawmakers is via a constitutional limit on spending or debt. Alas, the US Senate made sure that a balanced budget amendment was not part of the debt ceiling deal.

Has Congress bothered to pass a 2012 budget yet? Nope. The 2012 fiscal year starts in less than two months (October 1st) and Congress is now out on August recess. With no hope of a budget in time for the beginning of the fiscal year, the government will either be run on continuing resolutions or shut down. The battle over taxes and spending is only getting started. It’s going to be a bumpy ride that likely won’t bode well for the economy.

The best way to solve the US debt crisis is to get the economy growing again at 3% plus rate. The US economy only grew at a 1.3% rate in the second quarter of this year and proceeded by a mere .4% in the first. The current economic outlook is bleak. Yet, President Obama still refuses to intervene to allow Boeing to create jobs in South Carolina. Nor does he seem to be in a hurry to end the FAA shutdown. This is in sharp contrast to President Reagan who fired air traffic controllers in 1981 for illegally going on strike. Who needs airport infrastructure projects anyway and the jobs they create? Apparently not us.

Continued borrowing and economic redistribution is not going to get the economy going again. It will send the economy to hell without a hand basket. We’ll have had to give our hand basket to the “less fortunate”.