Establishment Screams: Avoid Fiscal Cliff and Borrow, Borrow, Borrow!

All of official Washington and their media lapdogs are shaking in fear of the so-called "fiscal cliff" that is looming January 1, counseling that the economy needs to continue its wild trillion-dollar deficit spending habits into the indefinite future.

The possibility that the federal deficit might not be as large next year has the establishment frightened, especially Federal Reserve Chairman Ben Bernanke. "The realization of all of the automatic tax increases and spending cuts that make up the fiscal cliff, absent offsetting changes, would pose a substantial threat to the recovery — indeed, by the reckoning of the Congressional Budget Office (CBO) and that of many outside observers, a fiscal shock of that size would send the economy toppling back into recession," Bernanke told the New York Economic Club November 20. He instead urged Congress to avoid fiscal reality, even as he acknowledged that "the federal budget is on an unsustainable path."

Of greater importance is continuing deficit spending and currency inflation, which will somehow magically cure the economy and deficit, according to Bernanke: "Preventing a sudden and severe contraction in fiscal policy early next year will support the transition of the economy back to full employment; a stronger economy will in turn reduce the deficit and contribute to achieving long-term fiscal sustainability." Of course, this is the same prescription Bernanke has advised since becoming Fed chairman in 2006, with less than spectacular results.

The fiscal cliff would cut the federal government's $1.1-trillion budget deficit by $500 billion or more in the next year. It includes $100 billion in cuts from projected spending increases and nearly $500 billion in a variety of tax increases. Because the spending "cuts" are largely cuts from proposed increases, even the leftist *Washington Post* acknowledged that "the fiscal cliff is the combination of federal spending cuts and tax increases that are scheduled to shrink the federal deficit to $641 billion from $1.1 trillion in the current fiscal year, a decline of $487 billion in one year. Tax increases account for $478 billion, or 98 percent, of the deficit reduction." Other estimates have the tax increases at substantially more than $500 billion. The spending cuts would be split equally from defense and domestic discretionary spending.

Like Bernanke, Treasury Secretary Timothy Geithner has weighed in favor of a debt limit of infinity, saying on Bloomberg TV's *Political Capital* to host Al Hunt November 16 that he would favor elimination of a statutory debt limit. “It would have been time a long time ago to eliminate it. The sooner the better.”

Part of this fear by Washington Democrats has to do with angering their political base. *The Fiscal Times* reported that President Obama and Vice President Biden have recruited much of the nation’s mayors in the effort to stop spending cuts and continue borrowing:

> The bipartisan group of 1,296 mayors from cities with populations above 30,000 met with Vice President Joe Biden, as well as House Minority Leader Nancy Pelosi, D-Calif., and Senate Majority Leader Harry Reid, D-Nev., to voice concerns that the $54 billion of non-defense discretionary spending cuts next year would threaten social programs, while the expiration of Bush-era tax cuts and other tax laws would hurt the ratings of municipal bonds.
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> According to the group, American cities house 84 percent of the nation’s population, and provide 86 percent of its jobs, and account for 90 percent of its GDP. “Cities and metro areas are the economic engines,” says Michael Nutter, the mayor of Philadelphia and president of the Conference of Mayors. “We are the economy of the United States of America.”

Of course, if the nation’s cities are really the place where all the jobs are and they really “are” the economy of America, then why couldn’t they just raise local taxes in lieu of federal aid to pay for these supposedly needed programs?

Even traditionally Republican institutions fear the fiscal cliff’s tax increases. Diana Furchtgott-Roth of the *Wall Street Journal*-owned MarketWatch.com fretted November 23 that “increasing taxes by $514 billion next year will make America less competitive and slow the economy. More businesses will go offshore and make fewer investments. People will spend less because more is going to Uncle Sam.”

A few dissident voices are noting that as bad as the fiscal cliff is, it’s not as bad as the alternative of racking up debt indefinitely. BlackRock Inc.’s Bob Doll told the *Wall Street Journal* November 19 that going over the fiscal cliff may not be as bad as some economists are predicting. “He sees the fiscal cliff causing a 1.5% hit to U.S. economic growth, not nearly as bad as the 4% drag some economists are predicting.”

There’s little doubt that tax increases are bad for the economy. But as long as Congress continues to spend wildly, the spending will have to be paid for somehow — through a combination of taxation and borrowing, the latter very much including creating money out of thin air through the Federal Reserve system, leading to the further devaluation of the dollar and higher prices. Free market economists — hardly mentioned in the press — counsel spending cuts, but note that tax increases are less of a drag on the economy than racking up a national debt. “We need a bigger cliff; this one is actually too small,” Euro-Pacific Capital CEO Peter Schiff told Fox Business Channel November 15. “I think that taxes are less damaging to the economy than the deficits that replace them. But the real problem is the spending.” Indeed, the record among advanced economies over the past decade has revealed that nations carrying a large national debt grow much more slowly than nations with low debt (even those with higher taxes).

Simply put, taxes need to be lowered *through less government*.