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America's Fiscal Woes, Again

The fiscal year of the US government ended on September 30. The budget deficit for the year was under \$1.3 trillion, considerably less than had been anticipated last February, but still uncomfortably high. The \$850 billion stimulus package of February 2009 has been run through, and the hope that by now private consumption and investment would have taken up the slack was unhappily not realized. Thus the economic recovery of the United States languishes. Claims that the stimulus package did not work lack credibility, except in the sense just described: private demand did not pick up sufficiently when government demand slackened. The unemployment rate, currently 9.1 percent would have much exceeded the rate of 10.1 percent reached in October 2009 if the stimulus package had not been undertaken, so it is disingenuous to argue that the additional government spending did not create employment. But assuredly it did not create enough employment to generate enough private demand to compensate fully for the planned decline in stimulus spending.

President Obama proposed in mid-September additional government "spending" (much of it in the form of tax relief aimed at increasing employment) of \$447 billion. He subsequently suggested that this additional stimulus (the term itself was not used, having become toxic) need not increase the budget deficit if additional taxes were imposed on the wealthy (generally those earning \$250,000 or more per year) and by closing some of the loop-holes in business taxes that had accumulated over the years, including especially those benefiting the oil and gas industry. These tax increases have virtually no chance of passing the current Congress. The proposed package includes reductions in payroll taxes (normally used to finance pensions and health care for the aged) both for workers (thereby raising their disposable income) and for small businesses (thereby lowering their labor costs), as well as proposals for improving infrastructure in the United States, such as highways and airports. Some parts of the additional stimulus package, particularly the extension and enlargement of the reductions in payroll taxes and the extension of unemployment compensation, have some prospects of making it through the Congress, despite grumbling by some Republicans who under no circumstances want to help President Obama achieve a "victory," even when it involves helping the American economy and the American people.

The latest drama involved government expenditures in fiscal year 2012, which began on October 1. The one annual constitutional responsibility of the House of Representatives is to approve expenditures by the government, called appropriations. Without congressional approval, the US government cannot legally spend money. (The Senate has the additional responsibility of providing "advice and consent" for all senior appointments in the government below the President and Vice President, including importantly judges and ambassadors, and military officers.) Congress has signally failed in recent memory to appropriate the necessary funds before the beginning of the fiscal year. The budget for 2011 was not finally approved until April, more than half way through the fiscal year. A patch

called “continuing resolutions” is usually provided to allow government agencies to spend at the rates of the previous year until a new budget is approved.

To avoid the government having to close on October 1, the Republican-controlled House of Representatives passed a continuing resolution in late September. It was rejected by the democratic-controlled Senate. Why? The quarrel was over emergency financial relief of about \$3.7 billion. It is normal practice to provide financial support from the Federal government to regions that have been hit by natural disasters such as storms, floods, drought, or wild fires. This is one tangible mechanism for all Americans to share the hardships of particular Americans. The House supported emergency relief, but insisted that it should lead to a corresponding reduction in other government expenditures; the Senate insisted that the emergency relief, as is normally the case for unanticipated emergency expenditures, be put on top of the normal (2011) budget. A compromise became possible when the Federal Emergency Management Agency, which administers relief funds, mysteriously discovered that it did not need the extra money after all. Congress passed a continuing resolution covering the four days up to October 4, avoiding an immediate shut-down of the government, and promised to extend it to mid-November in the first week of October.

The House Republicans are once again shirking their constitutional responsibility, which is to pass appropriations for all government expenditures. This is normally done under twelve headings, between them covering all the major ministries, the independent agencies (except for the central bank, which has its own source of funding), the court system, and Congress itself. The place to quarrel over which expenditures should or should not be made is these appropriations bills, which as noted have not yet been passed for the fiscal year that has just begun, and for most of them not close to being passed. Continuing resolutions are designed to keep the government running while the appropriations are still under debate, albeit late. Mandating across-the-board cuts in such resolutions is a crude measure, and an evasion of responsibility.

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