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What is nation's fiscal plan?

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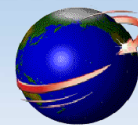
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Wednesday, November 13, 2013

What is nation's fiscal plan?

AS I SEE IT

By Marcus Goncalves

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To our dismay, the debt ceiling odyssey continues with the fiscal deal recently passed by Congress. The good news is that government reopened. The bad news is that there is no actual debt ceiling right now, and this stop-gap measure will only temporarily suspend enforcement of it.

For those intellectuals and economists who actually advocate the abolition of a debt ceiling altogether, the current state of affairs is actually sanguine news — it's carte blanche when it comes to government spending. No ceiling will exist, which means we will have no idea how much debt the federal government is going to rack up between now and Feb. 7, when limits are supposed to revert back into place and must, of course, be raised.

I think I feel a cold winter coming on.

Is it responsible governance to suspend a debt ceiling without a dollar amount? After all, common sense tells us that a true dollar figure in any budget, for a responsible individual or corporation, is a constant reminder of where we are in our personal or corporate finances.

Strangely, at this point, it seems a dollar figure in our federal budget may not be a good idea, especially when we have credit agencies watching us, which suggests to us all — taxpayers, Congress as well as foreign investors — that the United States is downright broke.

It makes me wonder if such a strategy has been expressly put in place to mask the real U.S. debt from taxpayers, large foreign investors and the creditors we depend on.

Any foreign investor and nation buying U.S. treasury bills will recognize a bad deal when they see it; my wife sees it, and my students see it. It is only a matter of timing. Once investors realize these treasury bills are the equivalent of junk, regardless of the official rating, the buying will dry up and disastrous consequences will ensue in the financial markets and the American economy as a whole.



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Meanwhile, Congress is still ignoring the elephant in the room, no matter how big and wide. Politically, it is much easier to vote on when we'll deal with a trillion-dollar problem than actually deal with the problem.

Don't get me wrong, I realize that hitting the debt ceiling, even if the U.S. didn't default, would have been catastrophic for the American economy and all who depend on it, beginning with the elderly, unemployed, those on food stamps, and of course, the rest of us.

My point is that while many analysts and economists insist on playing up the ominous possibility of the U.S. defaulting on its debt and triggering a financial predicament, others think the whole rhetoric is overblown.

It seems that everyone has an opinion, including myself, but no one is willing to think this financial impasse through, preferring to kick the proverbial can down the road, even if only for a few months.

Politics in Washington is taking precedence over the financial welfare of the greatest nation in the world, the largest economy on the planet, and the most tenacious and hard-working citizens — the American people.

While the Treasury can indeed avoid a default on debt payments despite the ceiling being raised, it is also true that this is far from certain. Even if we were paying only the interest on our debt, the whole strategy would still be highly disruptive.

Huge swaths of the global financial system are structured around the understanding that U.S. Treasury bonds are the safest asset in the world. Just imagine what would happen if that assumption were ever called into question. I believe havoc would ensue, which is precisely why Moody's thinks that a default on U.S. debt is unlikely, even if we smash into the debt ceiling.

I ask myself, until when will we print and borrow? What is the plan? It is disheartening to witness that so few in Washington are engaged in figuring out how to make real cuts in the federal budget.

As a nation, we are trying to figure out how to pay our bills, and how to continue to provide welfare to the American people, to the point of reaching a government shutdown, but yet both the House and the Senate, without money to pay civil servants, authorized \$20 billion more in military spending than the limit authorized by sequestration.

Meanwhile, we have not cut a single item in the budget; all we have done thus far was agree on "reductions in the planned rate of spending."

But again, what do I know of politics, economics, and foreign affairs? If you ask me, we are going to default one way or another. As a responsible taxpayer I must live a fiscally responsible life, and we are all called to do the same, for our own benefit, but also for the benefit of society as a whole.

But as long as the Federal Reserve, which in theory is apolitical but in practice is an enabler of both parties, is willing to enable Congress' debt addiction by monetizing the debt, the fiscal pill will continue to be avoided.

This cannot last forever. At some point the Fed's policies will result in hyperinflation and an economic crisis, much bigger than the one of 2008, and will force Congress to reduce spending. Hopefully, the growing number of taxpayers like you and me, who are awakening to the dangers of our current path, can convince Congress to take the pill of fiscal responsibility.

I believe wholeheartedly in Ayn Rand's assertion that every one of us builds our own world in our own image. We have the power to choose, but no power to escape the necessity of choice.

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