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Will the United States government ever again have a functioning budgetary system?

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It is an honour to have been invited to contribute a keynote article for this year's volume of the *Economic and Labour Relations Review* (ELRR). For over two decades, ELRR has provided an important outlet for economic research and commentary of the highest order. It is, therefore, a great pleasure to have been given this opportunity to share my views on the budget situation in the United States, to try to explain to an international audience how my country has brought itself to the brink of political stasis and economic catastrophe.

In this article, I will attempt to summarise the political economy of the current budgeting process in the United States. This will involve some description of the underlying fiscal realities facing the country; however, because the political situation has recently become so completely divorced from those realities, the discussion necessarily focuses on the crisis of governance that has gripped the United States in the last few years. In so doing, I offer my best prescription of what the United States should do to pull back from this self-imposed political insanity. I offer no predictions as to what will happen next, but I hope that readers will come away with at least some sense of why this seemingly inexplicable crisis is happening now, and what would have to happen to restore our system to a politically sustainable path.

It hardly needs to be said (although I will say it anyway) that the stakes of this crisis could not be higher. No matter what one thinks of the influence of the United States on the global economy or geopolitical affairs (subjects on which reasonable people can find much to criticise – and, it must also be said, much to commend), a dysfunctional government in the United States is bad for everyone. Even if the global influence of the United States is inevitably going to decline over the course of this century, a sudden (or even a slow-motion) collapse of the US economy would bring pain and potential ruin to people around the world.

The answer to the question posed in the title of this article – 'Will the United States government ever again have a functioning budgetary system?' – might seem obvious: It

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must! As I describe here, however, there are scenarios in which the answer to that question really is 'no', and even those in which the answer is 'yes, sort of' would bring with them serious problems that people outside of the United States should prepare to face, as well as they possibly can. To be as frank as possible, there really is no obvious path back to political sanity, based on where we are now. The possibility of a catastrophe does tend to focus the mind, but it is possible that the underlying systemic problems have simply become impossible to rationalise. The best approach for observers both inside and outside the United States, therefore, is to be hopeful yet pessimistic.

The discussion here proceeds in three parts. First, I offer a brief history of budgetary politics in the United States, explaining how an utterly unsupportable belief in fiscal orthodoxy came to dominate US political debates over the past several decades. I then describe the current budget situation in the United States, explaining that our current and future positions (as a matter of macroeconomics) are neither scary nor unsolvable, notwithstanding much hand-wringing commentary to the contrary. Finally, I explain the political and constitutional origins of the seemingly permanent budget impasse in US politics. This also allows me to explain a limited solution to the problem, as well as to explain why the political leaders in the country are unlikely to avail themselves of that solution. I then offer some concluding remarks describing what must happen for this crisis to be resolved.

Budgetary politics in the United States before the global financial crisis

Before proceeding, it is important to note that discussions of US debt often become confused by the existence of two separate measures of federal debt. Gross federal debt is the aggregate dollar value of all debt instruments in existence at any particular moment. Net federal debt excludes the debt that is held in internal accounts within the federal government – which, currently, is mostly the debt held by the Social Security retirement system (for reasons beyond the scope of this discussion). In this article, except in those cases where I specifically state otherwise, I refer to net debt, since that is the amount of money that the federal government owes external lenders. (It would be even better, of course, to aggregate the entire government sector's finances – combining all levels of the federal system – but the data are generally not readily available in that form. Moreover, because most political discussions focus on federal debt, it makes sense here to do the same.)

Like Britain, the United States responded to the Great Depression of the 1930s by adopting a set of fiscal policies based on revolutionary ideas developed by John Maynard Keynes and his associates. Although the United States was initially timid in its approach – adopting policies that were inadequate in size, and pulling back on fiscal stimulus too quickly – the military build-up required to fight World War II (WWII) (along with the labour shortages that the war inevitably created) ultimately brought the US economy well beyond any prior estimate of its productive capacity.

Prior to the 1930s and 1940s, the government sector (both at the federal level, and in the states and municipalities) was quite small, and government debt accordingly was insubstantial. Sensibly, however, the US government financed anti-depression New Deal spending, as well as war-related military spending, by rapidly increasing government debt. Coming out of the war, the United States had a ratio of debt to gross domestic product (GDP) that was just above 100%.

From its post-WWII peak, the debt-to-GDP ratio had fallen below 30% by the late 1960s, and it did not go above that level again until 1983, in the early years of Ronald Reagan's presidency. After rising through the 1980s, it fell again during Bill Clinton's presidency, again almost falling to 30%, before rising during George W. Bush's 8 years in office, due to a combination of tax cuts (mostly benefiting higher income taxpayers) and spending on the wars in Afghanistan and Iraq. Before the 2008 crisis and the recession that followed, the debt-to-GDP ratio in the United States was at 40%. It has since risen to over 70%, as the United States has experienced much lower tax revenues and higher spending needs during the grindingly slow recovery that followed the official end of the recession in June 2009.

The decline in the debt-to-GDP ratio experienced during the decades following WWII was not caused by running annual surpluses but rather by running annual deficits that were smaller than the annual increases in GDP. Indeed, in only seven of the years from 1946 through 1980 did the federal budget turn to surplus – even as the debt-to-GDP ratio fell by more than three-fourths during that period.

The US federal debt situation was, therefore, completely under control during the post-war economic boom that ended with the Reagan presidency. Even for those who view government borrowing as an unalloyed evil, there would seem to have been little about which anyone could complain. Nevertheless, the politics of budget deficits never moved past the puritanical idea that debt is an indication of moral failing. Government deficits were always a favourite target of politicians, especially (but not exclusively) conservative politicians, who would invoke folksy ideas of prudence and living within one's means to condemn the very idea of government borrowing. Their emotional appeals were often based on inter-generational concerns, where anti-government politicians warned that we were 'impoverishing our children and grandchildren'.

To a certain degree, of course, the politicians were merely posturing. Even as they inveighed against any deficit spending, after all, they simultaneously passed budgets that added to the federal debt in almost every fiscal year. Most Democrats, and many moderate Republicans, thus agreed to pay lip service to annual budget balance, but they all understood that actually balancing the budget would have been an affirmatively bad idea.

The anti-government movement in the United States, however, was gaining steam throughout the post-WWII era, and especially after the end of the Vietnam War. When Ronald Reagan became President, he was simultaneously able to argue that fiscal deficits were the Devil's doing and to preside over a rather substantial increase in the debt-to-GDP ratio. Importantly, the political conversation began to turn towards ever more absolutist statements against government debt, resulting in an increasing number of proposals through the 1980s to require balanced annual federal budgets – including proposals to amend the US Constitution to prohibit government borrowing.

As a background note, one must also understand that the US government stands nearly alone in the world in failing to separate its spending into operating and capital accounts. Because the federal government has no capital budget, it means that running a 'balanced budget' literally means zero net borrowing or lending by the federal government in any given year, which would require that federal investment spending (on, e.g. infrastructure and education) be fully paid for each year. Moreover, it means that all spending cuts – from eliminating purely wasteful projects, to cutting research on cancer treatments – count equally towards cutting the deficit. Balanced budget advocates routinely reject the idea that even investment spending can be financed by borrowing. The idea that balancing the federal government's budget would force the government to 'run like a business' is, therefore, utterly false.

In a precursor to the problems that would come to dominate US politics in recent years, the mid-1990s saw a political showdown between a new, radicalised ultra-conservative faction of the Republican Party, led by then-Congressman Newt Gingrich, and then-President Bill Clinton. The result of the showdown was that the federal government was forced, for two brief periods in 1995 and 1996, to 'shutdown', that is, to suspend all non-emergency operations, because there was no lawfully enacted budget authorising the federal government to continue its normal functions. The Gingrich-led Republicans insisted that Clinton and the Democrats agree to, among other things, balanced annual budgets. When the two sides could not reach an agreement, no budget was passed, and the federal government could not legally function.

Politically, President Clinton was ultimately deemed the 'winner' of that shutdown, as the public blamed Gingrich and the Republicans for the embarrassing spectacle of seeing their government cease to function. Even so, Clinton made the political calculation that the public favoured balanced budgets, and for the first time, a Democratic leader agreed to make annual budget balance a goal of the US government. He then appeared to prove the 'fiscal responsibility' of Democrats by running surpluses during the rest of his presidency, encouraging Democrats to try to one-up Republicans in their anti-deficit rhetoric.

As a result of that odd history, both US political parties are now publicly (and emphatically) committed to the idea that the federal government should run balanced cash-flow budgets every year. This set the stage for the new century, in which Democrats loudly compared the Bush deficits unfavourably to the surpluses that had prevailed in the Clinton era.

The political atmosphere in the United States was thus completely incapable of dealing with the reality that the federal deficit from 2008 onwards would become larger than it had been at any time since WWII. The completely predictable increases in spending, and decreases in tax revenue, left the governing party – in this case, the Democrats – open to the charge that they were imprudent wastrels, squandering the economic heritage of generations of Americans to come.

To their credit, the Democrats – including President Obama – argued that the deficits in the last few years were good news, not bad. They were, however, unable to convince a public who had been told for years, on a bipartisan basis, that deficits were an unmitigated evil. Thus, even though the modest 2009–2010 fiscal stimulus package was estimated to have prevented the loss of as many as 3 million jobs – keeping the measured unemployment rate below 10%, rather than rising as high as 12% – the political result for Democrats was that they (perhaps with poetic justice) were blamed for the deficits that they themselves had argued, ever since Bill Clinton's presidency, were a sign of irresponsible governance.

Even as the fiscal stimulus programme was succeeding, a radical right-wing group that called itself the Tea Party arose, which was quickly absorbed into the Republican Party. (Actually, the Tea Party was mostly organised and financed by people who had long been active in the most conservative quarters of the Republican Party. Absorbing them back into the party was thus a simple process.) In the 2010 elections, the Republicans were able to elect dozens of Tea Party–backed candidates to Congress, turning the majority in the House of Representatives to the Republicans, while the Democrats' majority in the Senate was significantly reduced. President Obama was not up for re-election in 2010, which meant that he was faced in 2011 and 2012 with a divided Congress, half of which was dominated by a faction that was fanatically committed to opposing all of the President's efforts to revive the economy.

In the 2 years after the 2010 elections, the Republicans followed the Tea Party's wishes, but with an important twist. While the argument all along had been that budget deficits are bad for the country, the Republicans continued to be committed to an anti-tax platform that was even more important to the party than reducing the deficit. Thus, the post-2010 conversation in Washington turned to spending cuts *and* tax cuts. Although the Tea Party–backed candidates claimed to be against deficits and debt, in practice, they have been much more insistent that taxes do not increase (especially on higher income people), even if that has meant that deficits remain higher than they would otherwise be.

Even so, some Republicans publicly advocated not only running annually balanced budgets but also paying down all or part of the entire national debt. Even in the grip of the fiscal ignorance that is widespread in the United States (and, much more dramatically, among its elected representatives), such a radical policy regime seems unlikely. Yet, the simultaneous embrace of such inconsistent policy goals by one of the two major parties in the United States gives a rather depressing indication of the low level of policy discourse in the United States over the last few years.

Before the Great Recession, the best that could be hoped for was that both parties would act as if balanced budgets were always a good idea, with both sides blaming each other for never quite achieving their shared goal. In the meantime, because of anti-government rhetoric and anti-tax fervour, the day-to-day political warfare would centre around spending cuts, as both sides looked to reduce 'wasteful government spending' in the annual budgeting process.

The situation changed, however, with the Great Recession and the complete radicalisation of the Republican Party. Now, a new kind of political crisis has arisen – a metastasised version of the political dysfunction that caused the short-term government shutdowns in 1995 and 1996. The degree of damage, however, looks to be much worse than anything we have seen up to this point.

The current budget situation in the United States

As noted earlier, the annual budget deficits run by the US federal government have become significantly larger during the years after the global financial crisis. The political conversation in the United States, in turn, has focused on the question of how to 'tame' the debt problem faced by the federal government. The crude misunderstandings of debt issues in US political circles, however, have made it all but impossible for more sophisticated budget arguments to gain a footing in the United States. Even so, determining whether there is an actual economic problem – as opposed to a political belief that debts are a problem per se – is an important threshold question, before determining whether the United States might be able to again have a functioning budgetary system in the near future.

Most importantly, the conversation about the federal budget in the United States almost entirely ignores the important difference between the short run and the long run. The United States does not, in fact, have a short-run problem with budget deficits – or, more accurately, there is a problem, but the problem is that the deficits are too small. Democrats have allowed themselves to be cornered into negotiations in which they try to minimise spending cuts (especially for social programmes that are designed to assist low-income people), rather than aggressively fighting the continued economic slump with a new wave of fiscal stimulus.

Therefore, if an actual economic problem related to excessive debt exists at all, it is in the long run. Although the United States' short-term deficits have been relatively high for the last few years, the government could continue to run large fiscal deficits (even larger than those of the past few years) without damaging the economy.

As readers of *ELRR* know well, running deficits for several years following a recession tells us nothing about the long-term fiscal position of the United States (or any country). Fiscal problems, if any, only have effects in a long-run perspective, which is when both real and financial problems can manifest themselves. After all, even if one takes an absolutely orthodox view of the real costs of fiscal deficits, the problem shows up in a gradual decline in national output, as 'crowding out' reduces national saving and thus investment. (Please note that I am emphatically *not* embracing the orthodox view. I am all too aware of the excellent scholarship that has strongly undermined that orthodoxy. I am only saying that, even under the most orthodox of analyses, the real costs of fiscal deficits are not felt as a short-run matter, but as a long-run matter.)

Similarly, the supposed financial dangers from running fiscal deficits are also tied to long-run fiscal projections. The worst-case scenario invoked by those who inveigh against deficits involves a financial market crisis, in which a country's government debt is judged not merely to be too high in any given year but to be so high over the foreseeable future that financial market participants believe that it will become impossible for a government to repay its debt. Even a country that borrowed more than 100% of its GDP in a single year could, therefore, avoid a financial crisis if investors were convinced that the country's government was on a long-term path that made it possible to service the government's total debt load.

With these familiar concepts in mind, it is possible to assess the United States' budget situation, to determine whether there is a long-term problem that needs to be addressed. As it stands, the United States' debt-to-GDP ratio is about 74% at the end of 2012, which is about the same as Germany's, and less than the United Kingdom's and (obviously) Japan's debt-to-GDP ratio. Even after a major recession, therefore, the United States is not far above the arbitrary long-run 60% target for Eurozone economies (a target that was never strictly enforced, for good reasons).

The question, however, is whether the US government's debt is on a sustainable path. Again, however, there is very little guidance as to what benchmarks to use for sustainability. In the broadest sense, the concept of sustainability merely means that the debt-to-GDP ratio is *not constantly rising*, and that the payments on the debt could be paid without inflating away the value of nominal debt.

Many US commentators and politicians argue directly that the federal government faces an unsustainable long-run increase in its debt. Indeed, even the responsible policymakers who understand that short-run deficits are a non-issue have been arguing for years that the United States, supposedly driven by the ageing of the Baby Boom generation, will be unable to pay its debts, unless something is done to reduce the projected levels of spending by the federal government.

It is not, however, difficult to find forecasts that seem to show just such an unsustainable future. The Congressional Budget Office (CBO), a non-partisan federal agency that generates forecasts for the overall economy, as well as for government spending and tax revenues, issues each year a set of forecasts for the federal debt. Under some of its forecast scenarios, the debt-to-GDP ratio rises to 200% before the year 2040, and it continues to rise to unheard-of levels through the end of the 75-year forecast window. (The line literally goes off the chart, in most of the CBO's publications.)

It is important, however, to look at the subcategories that underlie that larger apocalyptic forecast. The *entire* problem arises from the CBO's forecast of unsustainable increases in health-care spending, mostly through the Medicare programme that pays for most old-age medical expenses. Everything else on the spending side of the budget – including, importantly, Social Security's retirement benefits (which will also be paid to that rising population of retiring Baby Boomers) – is under control throughout the forecast period. They are, in fact, not merely under control, but they are not rising at all, as a percentage of GDP, over the next 75 years.

It is equally important, however, to realise that the non-health-care portion of the federal budget could be cut to *zero*, yet health-care spending would still increase at rates that would make the long-term budget path unsustainable. Any long-term budget crisis, therefore, is a health-care spending crisis, not a general 'big government' crisis. (This is especially frustrating because the United States already pays 50% more – as a fraction of GDP – on health care than the next highest spending nation, and twice as much as many other wealthy nations. Even so, health-care outcomes in the United States do not even come close to measuring up to those in other post-industrial countries. By almost any measure – infant mortality rates, life expectancy or anything other than providing high-level care to the wealthiest people in society – the United States is on par with nations like Bosnia and Cuba, and not even close to countries like Australia or Canada.)

Even so, it is also possible to increase tax revenues by enough to make a difference. The CBO's forecasts include scenarios based on assumptions that tax revenues are allowed to increase in ways that completely eliminate the debt before the year 2070. That is, the federal debt would go to *zero*, not just level off at a sustainable level. That forecast, however, is almost surely based on tax increases that would be otherwise difficult to sustain, both economically and politically. Even so, much more modest adjustments on the tax side can make an enormous difference. Tax revenues in the United States have averaged about 18% or 19% of GDP, which is much lower than most advanced countries' tax revenues. If we were to increase United States' tax revenues to only 22% of GDP – still low by international standards – the budget path that US politicians bemoan over the next decade or so would be completely eliminated, and the United States might even be able to expand its miserly spending on human needs.

The evidence, and the best available forecasts, therefore strongly support the idea that the United States either has no medium- or long-term debt sustainability problem, or that any such problem can only be solved by bringing the United States' absurdly expensive health-care industry under control. There is no large, unavoidable problem that must be immediately addressed, as an economic matter.

Even so, the political din in the United States has convinced too many politicians – and, not incidentally, too many financial market participants – that something must be done right away. Unfortunately, the very forces that have made it more difficult to think clearly about the (rather unremarkable) economics of the United States' debt situation have made the political situation potentially incapable of dealing with any small real problems that might exist. Even worse, the political system in the United States is now so badly broken that it is creating its own series of crises that, although springing from no actual economic causes, threaten to become self-destructive events that actually create the problems that would not otherwise come to pass.

The new political crisis in US budgeting

As I write this article, after the Presidential election in the United States guaranteed that Barack Obama would serve a second 4-year term in the White House, the political discussion has turned to resolving a combination of political hurdles that has come to be known as the 'fiscal cliff'. The short version of the story is that unless new policies are adopted by the end of December of 2012, a combination of spending cuts and tax increases will take effect, threatening to put the US economy back into recession (and further harming the global economy as well).

As an initial matter, it is important to understand that this political crisis is based on a fear that the fiscal deficit will be too *small*. If debts were really the overriding problem facing the economy, especially in the short run, then there would be no problem to solve. The current combination of laws governing the path of taxing and spending would significantly shrink the federal government's deficits, preventing the federal debt from rising still further.

The so-called fiscal cliff, therefore, involves a negotiation in which both political parties are attempting to increase the deficit in the short run. There are important differences in priorities – a major sticking point being the Republicans' insistence that tax rates cannot be increased on higher income people or corporations – but the basic situation is one in which any damage that will come to the economy will be caused by the political system's failure to act in a timely fashion to prevent the imposition of fiscal austerity.

What is most important for the purposes of this article, however, is to understand why this crisis is not merely caused by standard political brinkmanship, but rather by Congressional Republicans' reckless use of an entirely new political weapon: the federal debt ceiling. Even without the debt ceiling, we could well see a catastrophic political deadlock. With the debt ceiling, however, the potential for deadlock and serious economic damage becomes immeasurably worse. Indeed, a big part of the 'fiscal cliff' was created at the end of a politically manufactured debt ceiling crisis that began in early 2011.

In order to explain how that crisis came about, however, it is necessary first to explain the basic rules by which the US federal budget is created. With a non-parliamentary system, the US Constitution sets up a complicated set of procedures by which Congress (the House of Representatives and the Senate, acting both independently and then in concert) passes an annual budget for the federal government. The resulting budget requires the President – as the head of the Executive branch of government – to execute the taxing and spending laws that together constitute the budget.

As a very simple example, Congress could pass a budget that called on the President (through the Treasury, which he controls) to undertake no more nor less than US$3t worth of spending, and to collect exactly US$2t worth of tax revenues. The US$1t annual deficit that is implied by that budget would then be financed by borrowing funds from private financial markets, necessarily adding to the federal debt. If the debt had been, say, US$14t at the beginning of the year, it would be on a path to reach US$15t by the end of the year.

These numbers, in fact, approximate the numbers for the US government in 2011. The new Republican-dominated House of Representatives agreed to a budget agreement that would have increased the debt by about US$1t over the course of the year. The problem was that there is a separate law in the United States, called the 'debt limit' or 'debt ceiling', that purports to limit how much the President is allowed to borrow to finance the government's operations. In 2011, that limit was US$14.3t, which was less than the total that would be required to execute the duly enacted budget.

The debt ceiling statute is a law that has existed in its current basic form since 1939. It limits the *gross* federal debt that can be outstanding at any given time to a specific dollar amount. The statute thus not only attempts to do something unnecessary – limiting the borrowing of the federal government, which is already limited by the annual budget – but it targets the *wrong* measure of debt. That is, if one really thinks that government debt is a problem, it surely matters how much the government owes to others, not how much it owes to itself. Limiting gross debt is thus utterly perverse.

The crisis in 2011, therefore, saw Congress refusing to increase the US$14.3t limit on gross debt, after having passed a budget that everyone knew would increase the gross debt beyond that amount. (If Congress had really wanted to limit gross debt to US$14.3t, after all, it could have passed a budget with a smaller deficit.) Congressional Republicans, however, decided that the existence of the federal debt ceiling gave them additional leverage, to try to force President Obama and his Democratic colleagues in the Senate to agree to further cuts in spending. If the Democrats did not agree, Republicans warned, they would refuse to raise the debt ceiling.

This tactic had simply never been deployed before 2011. Until that date, the debt ceiling was dutifully increased whenever was necessary – usually with a fair amount of political grandstanding about how irresponsible it is to run large deficits, but inevitably leading to an agreement to authorise the borrowing necessitated by the budget that Congress had passed.

For Congress to pass a budget that required gross debt to rise above US$14.3t, while requiring the President to borrow no more than a total of US$14.3t, thus created a political crisis that could have easily led to a financial crisis. This would not, however, have been a crisis based on financial markets' prediction that the government was on an unsustainable fiscal path. Instead, it would have been an immediate crisis, in which the US government would, on an arbitrary date, suddenly be without legal authorisation to borrow the money necessary to make legally required payments to bondholders, retirees, federal contractors, state governments and so on.

The potential crisis, therefore, became very real, because it raised the spectre of the US government, for the first time in its history, failing to make good on its financial obligations. Some Republicans argued that the President would have been able to 'prioritise' payments, using available money to pay the interest and principal to the holders of United States' federal debt obligations. Even if that dubious claim were true, however, it would still have meant that the US government would have defaulted on some legally required payments. (As a political matter, however, it stretches credulity to imagine that the US political system would tolerate seeing the government make payments to mostly wealthy bondholders – many of them from outside the United States, including the government of China – while denying payments to American citizens.)

Strangely enough, the political conversation in the United States immediately accepted the premise that drove the Republicans' strategy, which is that the President's only choice after the debt ceiling was reached would be to agree to negotiate with Republicans to pass a superseding budget (before the end of the fiscal year) that involved additional reductions in spending. President Obama and the Democrats called upon Republicans to agree to increase the debt ceiling, but the Democrats nevertheless said (and appeared to believe) that the President would have no room to manoeuvre, if the Republicans did not relent.

What made this concession on the Democrats' part so odd was that it ignored the impossible position into which the existence of the debt ceiling placed the President. The President is a political actor, of course, but in the US Constitutional system, he is legally required to carry out the laws that the Congress (usually with his assent) has passed. If the President were to agree not to carry out the spending that Congress had stipulated in the 2011 budget, the President would have been in violation of his oath of office. Indeed, under the Constitution, if the President fails to execute *any* law passed by the Congress, he can be impeached and removed from office.

The problem is that the President would also have been in violation of his oath of office if he had tried to collect more taxes than the Congress had authorised, or if he had tried to borrow more money than the debt ceiling allows. In a law review article that we wrote after the crisis was averted in 2011, Professor Michael Dorf (a constitutional law scholar at Cornell Law School) and I referred to the President's impossible position as a 'trilemma': the President would be in the position of being legally obligated to spend (under the simplified numbers that I used above) US$3t, to collect no more than US$2t in taxes and to borrow no more than an additional US$300b.

Faced with that impossible set of tasks, the President would then have to decide which law to break. Professor Dorf and I concluded that the worst option – and all of the options would truly be bad because all of them would be legally unauthorised – would be to ignore the debt ceiling, allowing him to spend all of the money that Congress had agreed to spend (committing that money to would-be recipients, who thus had a claim on that money) while collecting no more than Congress had authorised in tax revenues. Among other arguments, we observed that this choice would involve the least micro-managing by the President (choosing which spending obligations to abrogate) and that it would be the easiest for Congress to reverse in future years (if it decided that it really cared most about the level of debt, for some reason). Because spending decisions are based on a very delicate political balancing of interests, the Republicans' strategy would actually have given the President unprecedented power to rebalance spending choices that Congress alone is authorised to make.

Although that law review article was not published until a year after the crisis, I (and several other scholars) had made those arguments publicly, as the political standoff heated up. Nevertheless, the President reached an agreement with the Republicans in Congress, cutting spending during the remainder of the 2011 fiscal year, and agreeing to make further cuts in future years. (Some of those cuts, in fact, are part of the fiscal cliff.) In return, the Republicans relented and increased the debt ceiling by enough to finance debt through the end of calendar year 2012.

Even so, the Republicans quickly announced that they would henceforth use the debt ceiling as a negotiating tool in all future budget negotiations. They have proceeded on the assumption that President Obama will continue to choose spending cuts, if faced with a trilemma, rather than engaging in additional borrowing. So far, the President has not given them any reason to believe otherwise.

It is, of course, exceedingly important that the President prevent Congressional obstruction from ever putting the US government in the position where it would fail to honour its obligations. Although I believe that the President would be legally justified to announce that he would ignore the debt ceiling, which would effectively nullify that law and remove it as a bargaining chip in budget negotiations, it would still fall far short of solving the political dysfunction that has reached the point of crisis in the United States.

Because of the non-parliamentary form of government, a dedicated opposition party can, at least during the regular budgeting process each year, simply try to extract a budget of its liking from a governing party. Failure to reach agreement would result in a government shutdown along the lines of the experiences in 1995 and 1996. That would be extraordinarily disruptive, but it would put the President in a different kind of legal conundrum. Without any budget at all, he would not be violating one law in order to obey two other laws. Instead, he would be left with no spending or taxing laws to execute at all.

In other words, returning to a sane budgeting process requires as an initial matter that the President negate the debt ceiling but that is nowhere near enough to complete the task. What is necessary is for the American people to elect members of Congress who are unwilling to hold the United States and world economies hostage, and who are willing to understand that a functioning budgetary system is more important than the particular levels of government spending and taxing in any given year.

The political position of the Republican Party, however, has relied perversely on that party's ability to block the passage of policies that would allow the economy to recover fully from the Great Recession. The power of the Tea Party movement derived from the economic weakness that prevailed in 2010. Despite the modest improvements in the US economy even in the face of Republican obstruction, the elements for more forcibly reversing that economic weakness now look more tenuous than ever. It is difficult to see how monetary policy could help more than it already has. Weaknesses in Europe and elsewhere suggest that the United States' trade balance is likely to move in the wrong direction. The so-called expansionary austerity has not worked in Europe or the United Kingdom, and it should not be tried in the United States.

At this point, only a serious boost from expansionary fiscal policy will bring the US economy back to health. If that were to happen, it would undermine the political fortunes of those who claim that the government's size is harming the economy. However, this, of course, is the paradox: the weak economy empowers the people who are preventing the economy from getting stronger. While they are in power, however, they are manipulating the political process to make it increasingly difficult even for majorities of the population to turn them out of office in sufficient numbers to break the impasse.

Returning once again, therefore, to the question posed in the title of this article – 'Will the United States government ever again have a functioning budgetary system?' – one answer is that there might seem to be no choice. Continuing on the current path threatens to lead to an ever-escalating series of government shutdowns, debt defaults and (at best) short-term temporary agreements that leave everyone uncertain as to the path of policy, even a few months into the future.

As bad as that path might be, however, it is not easy to see how the system will right itself. With Republicans clearly having committed themselves to the idea that obstruction is preferable to compromise, the only choices are for the Democrats to capitulate to ruinous policy demands, for the Republicans to be driven from office, or for the Republicans to discover the wisdom of cooperation. As I noted at the beginning of this article, I am not making any predictions. No one should give up hope, but grounds for optimism are increasingly hard to find.

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Reference

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Author biography

Neil H Buchanan teaches tax law, tax policy, contracts and law and economics. His research addresses the long-term tax and spending patterns of the federal government, focusing on budget deficits, the national debt, health-care costs and Social Security. He is engaged in a long-term research project that asks how current policy choices should be shaped by concerns for the interests of future generations. Previously, he was an economics professor, specialising in macroeconomics, the history of economic thought and economic methodology.