U.S. Fiscal Brinkmanship: Too Close to Cliff's Edge

On February 28, 2013, United States President Barack Obama addressed public concern over the impending sequester of more than $85 billion from the fiscal 2013 federal budget while speaking to a group of Washington businessmen. The cuts, Obama said, would be not so much "a cliff, but… a tumble downward." (Uberti) The President's comment refers to the popular moniker for the sequester: "fiscal cliff." While this is certainly not the first time that partisan politics have driven the United States to the budgetary brink, actually stepping off the edge of the fiscal cliff – as the country did when the sequestration went into effect on March 1 – is relatively new territory. In the post-World War II era, with the occasional exception of a brief government shut-down, Congress and the President have historically reach some sort of a compromise before it was too late.

Although the possibility of a fiscal cliff has occurred a few times since the 1980s, at no point in time has a such a lethal combination of fiscal and political elements been mixed together as there has since 2008. At the end of the G.W. Bush era, the United States sank into its worst financial crisis since the Great Depression of the 1930s, and dragged down much of the globe with it.

Demanding change, American voters ushered President Obama into office. Obama, who became the first African American president on a platform of change, began his first term by signing into law a massive stimulus package, The American Recovery and Reinvestment Act of 2009, which was enacted less than 30 days after Obama's inauguration. (U.S. Gov. Printing Office 111-5). While the stranglehold on the economy has loosened somewhat since Obama took office, U.S. voters, in 2011, when the 2012 presidential campaign began to heat up, were still waiting for the promised change. At the time, job creation was still flat. Government spending had reached unprecedented levels. According to a March, 2012, CBS News graphic, the national debt had increased from almost $10 trillion at the time of Obama's election to nearly $15 trillion in the summer of 2011. (Knoller)

Armed with this ammunition, along with 2010 Congressional mid-term election gains, Republicans went on the offensive: more than a dozen threw their hats in the ring to challenge for the Republican nomination. Obama's approval ratings languished, and he buckled under Congressional pressure to do something about the spiraling debt. Enter the Budget Control Act of 2011.

In the post-World War II era, the United States has faced budget sequesters a handful of times, but only since the 1980s when the law making sequestration official fiscal policy was enacted. In the period shortly after the 1982-1983 recession, as the national deficit ballooned, Congress passed a measure called The Balanced Budget and Emergency Deficit Control Act of 1985. The law came to be colloquially known as the Gramm-Rudman-Hollings act, named for its three Senatorial authors. (Hoagland, Bell, Adler and Akabas)

Gramm-Rudman-Hollings was passed in a political climate that was almost inverse of today's: a Democrat-controlled Congress and a Republican White House. Yet, the economic conditions were similar, although to a lesser scale. The 1985 law included the historically first provision for budgetary sequestration. It basically allowed for a reduction "of spending regardless of congressional action." (Hoagland, Bell, Adler and Akabas). A sequester went into effect in 1987, after President Reagan had signed a sequestration order, as authorized by the act. It had the effect of balancing the budget, but the dollar amount concerned caused little political or fiscal harm.

Only later, in 1990, when the first President Bush was playing chicken with a gigantic sequester, did the potential of such an occurrence become clear to both politicians and the public. Emergency legislation was passed to avert the sequestration. Congress and President Bush pulled up short at the edge of the fiscal cliff and sent some smaller budget cuts skittering off the edge.

It was against this historical backdrop that the 2011 debt-ceiling crisis and subsequent fiscal showdown have played out. As Hoagland, Bell, Adler and Akabas point out, “History provides clear evidence that policymakers have rarely allowed sequesters to be carried out.” Thus, under pressure from Congress and – one would assume -- worried about his political future, President Obama signed into law the Budget Control Act of 2011.

The Act called for the formation of a bipartisan, Congressional “super” committee on deficit reduction. Like action heroes trying to diffuse a massive, ticking weapon of mass destruction, the members of the super committee were tasked with finding a way to cut $1.2 trillion from the federal budget over the following 10 years. The committee was given the fall of 2011, until the Congressional break for the holidays to establish a plan. If they had not formulated a plan by midnight on November 23, 2011, automatic, across the board cuts would be triggered, scheduled to go into effect for Fiscal Year 2013. (Cantrill and Thimons)

It seems that politicians on both sides of the aisle, as well as the President all believed that with the "fail safe" sequester built into the Budget Control Act that all concerned would be forced into a compromise. If not, the political and economic fallout would be too unpalatable to imagine. As it turns out, nobody blinked. Rather, the "super committee" disbanded, having resolved nothing, and went home for Thanksgiving. They, it seems, as well as the American public, largely forgot about the sequester until it reared its ugly head again, just after the 2012 elections. By that time, however, political futures had been decided for the next two to four years, and there simply was not much left to gain -- or lose.

Both parties continued to push their brinkmanship right up until the sequester was initially scheduled to kick in, on January 1, 2013. (Uberti)

At the last minute, Congress and the President reached a compromise that protected a few line items from the sequester, such as certain student aid programs. Apart from the discrete line items that were shielded from the fallout of the Fiscal Cliff, all the compromise really did was delay the decision about the sequester for another two months, pushing the date for the implementation of the cuts back to March 1, 2013.

What is different about the way the political parties, Congress and the President, have behaved in light of the current fiscal challenge is that they seem to be engaging in a kind of inertial ambivalence. With more than a year to work something out before the first sequestration deadline, all parties waited until the last minute to sit down at the table. Again, after buying themselves almost two months to work things out, neither side appeared to broach the issue except in the couple weeks leading up to the sequestration. Much of that “dialogue,” however, was characterized by public posturing and finger pointing.

Historically, when faced with a sequester situation, especially an enormous one, the parties have sat down in the weeks and months before the deadline and worked out a deal to avoid the cuts. Today’s Republicans and Democrats seem to have lost the will, the ability, the desire – or all three – to compromise.

Nor does either side seem to remember its own part in the process that led up to the sequestration. President Obama, in the hours leading up to the deadline, downplayed the effects, but clearly laid the blame at the feet of the Republicans. "This is not the apocalypse," he told reporters. "It's just dumb." (Hennessey and Parsons) Not all Americans, such as college students who stand to lose financial aid dollars or single mothers whose children have lost their Head Start slots, may agree with the President's claim about the apocalypse. Many, however, likely agree with him completely about how "dumb" it is.

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