

Inspired by Milton Friedman, new guide takes aim at an intractable problem

# How to Avert a Fiscal Catastrophe

**T**he past decade has seen numerous attempts to tackle America's growing debt crisis, and each has ended in defeat as the national debt has soared to more than \$26 trillion dollars. In *A Fiscal Cliff: New Perspectives on the U.S. Federal Debt Crisis*, a collection of essays edited by economists John Merrifield and Barry Poulson, the problem is tackled anew from a public choice perspective. The incentives embedded in the current budgetary process are the real driver of the problem, and real reform means process reform, not just articulating concrete policy objectives.

In the foreword, David Walker, U.S. comptroller general from 1998 to 2008, explains bluntly: "The truth is that federal policymakers have lost control of the budget. Today only about 30 percent of the federal budget is controlled by Congress (discretionary spending), down from 97 percent in 1913." By putting so much spending on autopilot, the annual budgetary process by politically accountable legislators is reduced to marginal tinkering around the edges. The results have been catastrophic.

*A Fiscal Cliff* is dedicated to Milton Friedman for his seminal contributions to rules-based fiscal and monetary policies. It grew out of the Friedman Project, "an ambitious program to restore America's fiscal constitution." The book collects papers written by the participating scholars on the topic of the debt crisis, and it is the first in a series of publications planned for the Friedman Project.

The bleak picture painted is that current policies are simply not sustainable. Entitlement programs are all on the path to bankruptcy, and state and local governments face fiscal cliffs of their own after years of inflated wages and benefits to public sector workers.

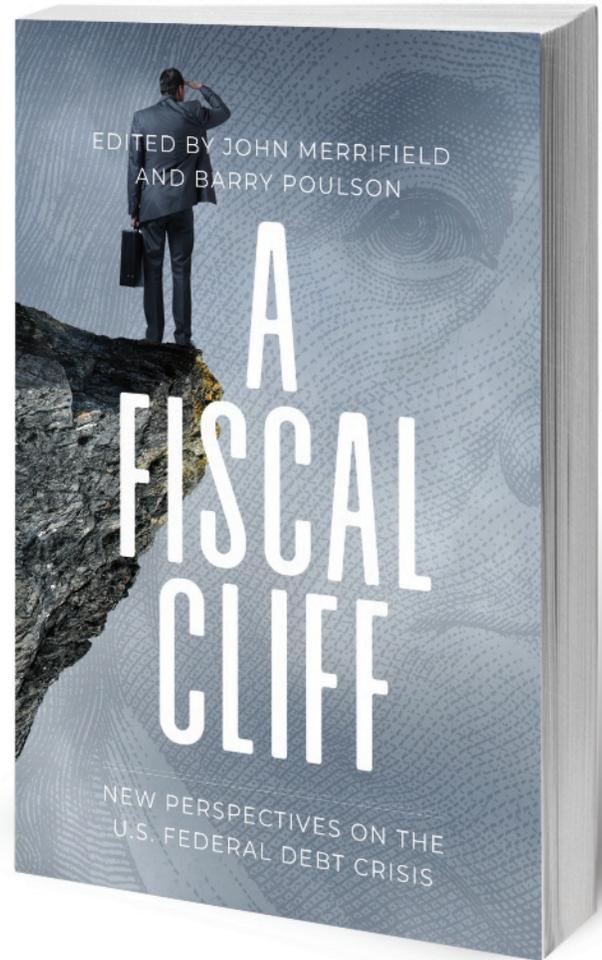
The first several chapters lay out the his-

tory of how we got here, putting us in a precarious position even before COVID-19 wrecked the global economy and government budgets. Then comparison is made to international fiscal rules and steps other nations have taken to avoid calamity. These rules include cyclically balanced budgets, adopted successfully in Switzerland, and have resulted in successful reductions in debt-to-GDP ratio.

*A Fiscal Cliff* might paint a dismal picture of the status quo, but it is not without solutions. One key fix would be moving more spending back into the budget, rather than leaving it on perpetual autopilot as so-called mandatory spending. Other rules would adopt stringent expenditure limits combined with automatic budgetary penalties if those limits are exceeded.

One important solution is already official policy and has been for decades; it just needs to be given teeth to avoid circumvention. The 1974 Congressional Budget Act requires lawmakers to agree on a budget resolution as the framework for the year's tax and spending bills, requiring Congress to set a revenue floor and an expenditure ceiling that are then enforced through automatic sequestration. But when Congress is up against the wall, it has almost always waived the limits intended to tie its own hands.

The book lays out the case for fundamental institutional changes. A no-bailout rule should be entrenched as a firm bulwark against moral hazard. Balanced-



budget and supermajority requirements could be adopted through amendments to the Constitution. Transparent and rational budgeting processes must be legislated and then vigorously enforced against efforts to undermine or evade them.

A debt crisis in the United States would be profoundly destabilizing to the global economy and could inflict immense harm on Americans. But the ultimate message of *A Fiscal Cliff* is that it's not too late. By adopting urgently needed changes, there is still time to turn away from the cliff. ■

**A FISCAL CLIFF WILL BE RELEASED IN OCTOBER 2020 AND IS AVAILABLE AT CATO.ORG/BOOKS AND THROUGH BOOKSELLERS AND ONLINE RETAILERS NATIONWIDE.**