

The Debt Deal and a Bigger Storm Coming (*SB News-Press*)

(August 13, 2011) CNN reported it “dramatic,” as I watched the Senate debt vote from my hotel in Kobenhavn. Are you kidding me? There was more drama with Danish weatherman Mikael Jarvig’s cartoon graphics on the Baltic Sea: “En storm er på vej” – but a great analogy. Like that kid telling Sarah Connor at the end of *The Terminator*: “Hay una tormenta,” the really big fiscal-political storm is still to come. The train I’m on now has some background music playing Morrison singing “*Riders on the Storm*” – just coincidence?

The debt ceiling was increased an initial \$400 billion, and Obama can request another \$500 billion by December. Picture him on the Treasury’s 1-800 customer service line: “For an additional half-trillion dollars to your credit, press 5; to speak with Tim Geithner, press 6; if you’ve lost your way fiscally, press 7.” Congress can deny this second request, but needs a two-thirds majority to trump the president’s veto. Now the train’s playing Eurythmics: “*Here Comes the Rain Again...*”

The fiscal storm continues to build as Obama can request another \$1.5 trillion, but only if a 12-person House-Senate committee implements \$1.5 trillion in budget cuts. Now I hear Fogerty warning: “*Looks like we’re in for nasty weather, one eye is given for an eye.*” But wait! Those cuts happen over ten years, only \$150 billion per year – just 4 percent of spending? So, Mr. President you get \$1.5 trillion more debt now, if we get \$1.5 trillion in spending cuts through 2022? Eye for an eye? - this feels more like a Moe Howard double eye finger-poke to me. The committee’s cuts are binding and cannot be changed by Congress;

but if the committee stalemates, or both houses reject the cuts, everything gets cut across the board \$1.5 trillion. Such typical Beltway logic: Congress okays higher debt, but spending is cut by the same amount? Why do you need *more* credit now, if you'll be spending *less* over time? The only logical answer is because you'll be spending *more now*, right? That makes as much sense as *Resan kan inte ombokas/återbetalas* on my train ticket. What's to keep Obama from running up another \$1.5 trillion in new debt if he only has to cut 4 percent next year? I look at the newspaper rack – *Svenska Dagbladet* has a photo of the president extending his hand to John Boehner, but now The Police is rocking, “...*his car is warm and dry.*”

This debt deal falls incredibly short of the bold changes needed in the federal bureaucracy. We'll borrow another \$10 trillion through 2022, but only see \$3 trillion in budget cuts. *Standard & Poor's* wanted \$4 trillion in total cuts, so our AAA-rating is gone. U.S. stocks responded with a 6.7 percent plunge, a 4.7 percent gain, a 4.4 percent drop, then up 4.6 percent and 1 percent – in just five days! The net for the week? The DJIA started Monday at 11,284 and ended at 11,272 just before Friday's close, as investors try to decide what's next for the global economy. Now I hear Sinatra crooning: “*Stormy Weather.*”

The House won't raise taxes (a *good* thing), but the president and his Senate majority won't reform Social Security, Medicare, Medicaid, and our ridiculous tax code. That leaves the budget's one-third “discretionary” spending as the only slice of the pie to cut. Like my lunch in Oświęcim. The café priced a quarter pizza at 4 zloty – or I could buy one whole pizza for 20 zloty. Yes, I tried to explain this to the guy behind the counter, but he said “Americanski don't get Polish math” – just like I'll never get *DeeCee-ski* math. Based on the CBO

analysis, the initial “discretionary” cuts would be only a *half-percent* of total spending next year, and one percent in 2013.

There *are* two good provisions in the deal: Congress must vote on a balanced budget Constitutional amendment, and there are no new taxes. The president wanted both more debt *and* higher taxes to supposedly bring in more revenue. But he doesn’t understand that increasing taxes will further stall the private sector and this already pathetic economy – “growing” at a 1.5% annual pace (essentially no-growth), with unemployment at 9.2 percent and on the uptick. Next to me, techno-Lars has his headset volume maxed and I can hear Scorpion’s metal anthem “*Rock Me Like a Hurricane.*”

So Obama gets \$2.4 trillion in new debt - \$400 billion now, plus \$500 billion, plus \$1.5 trillion – in exchange for 4 percent spending cuts? I guarantee the really huge storm surge won’t make landfall until November 2012, when voters go the polls and send Obama a clear message, by putting a fiscal conservative and true reformer in the White House, along with a House and Senate majority who together will rein in spending, balance the budget, reform entitlement formulas, and cut taxes. I cannot imagine what would be happening now if Obama had Democratic majorities in the full Congress. Please tell me that’s not the Classics-4, “oh Stormy . . .”

So here’s our fiscal weather forecast: mandatory budget cuts, no new taxes, zero interest rates through 2013, and 15 months of intense market volatility until the general election. And Congress will have to go on record regarding balancing the budget. While they’re at it, they should also eliminate their: 1) on-going tenure pay after their term is up, 2) private retirement, and pay into Social Security like everyone

else, and 3) private health plan, and buy insurance in the market like the rest of us.

Finally at the Stockholm station buying a 9-dollar soda and I hear the 1960s Serendipity Singers on the café speakers: *“Uh oh, oh no, don’t let the rain come down.”* I’ve got to stop thinking about this fiscal mess and president Obama, but as I hand my 100-krone to Elsa at the register she’s singing along in her Swedish accent, “There was a crooked man and he had a crooked smile...”