

Fiscal cliff fiasco exposes dysfunction of US Congress

AFP, Washington

Lawmakers on Capitol Hill are on the brink of letting their nation slide over the so-called fiscal cliff -- leaving senators to fume that nobody does dysfunction better than the US Congress.

Americans would likely agree; the country's elected representatives have long been derided as hapless slackers, but this year with a fiscal crisis now staring at Americans like a deer in the headlights -- it's different.

The 112th Congress is being seen as the least effective in decades.

On Sunday, during a rare holiday-week Senate session, they cemented that reputation, when the mood among many lawmakers inside the US Capitol reflected the wintry conditions outside: cold, dark, and somewhat unforgiving.

With 36 hours before the US economy was to suffer a half trillion dollars in tax hikes and spending cuts in 2013, Senators shuffled between the chamber and their caucus lunches, unable to agree on a path forward to avoid a crisis that has been nearly two years in the making.

Many of them said they had little knowledge of the horsetrading that was going on behind closed doors.

"I haven't heard there's a deal," Senator Barbara Boxer accurately pointed out to AFP.

"It's a little bit like choosing the new Pope," she said. "The smoke comes out and it's white and you know. But I haven't seen any evidence of that."

Neither had anyone else, and with the fiscal cliff barely a day away, lawmakers were looking squeamish.

Senator Barbara Mikulski, the longest serving woman in the history of Congress, sounded nearly apoplectic, describing the gridlock as "one of the lowest points" in her 35 years as a lawmaker.

"I have lived through 9/11, when we were attacked by outside forces. I've lived through the impeachment of a president, which was so enormously difficult. But this is what we're doing to ourselves," she winced.

President Barack Obama and Republican House Speaker John Boehner hardly set the



The Capitol Dome is seen on Capitol Hill in Washington, DC. US lawmakers will work on New Year's Eve for the first time in more than 40 years in a last-ditch attempt to save the United States from a fiscal calamity that will result in stiff tax hikes and drastic spending cuts.

worthy example Sunday, pointing the finger of blame at one another as they explained away the lack of a deal.

Lawmakers mulled over an alphabet soup of negotiating points such as the AMT, Medicare SGR, UI, and change to the apportioning of Social Security benefits known as "chained CPI." Many offered conflicting details of what might or might not be in the parties' deal offers.

"Is this sloppy, is it frustrating, is it enough to make you want to tear your hair out if you're watching from afar? Yeah," posed Claire McCaskill, a Democrat from Missouri.

"But on the other hand, we do it better than anybody in the world," she added.

"We don't have armed coups. We just go to the ballot box, and sometimes the results are not the kind of thing that everybody holds hands and sings Kumbaya. This is definitely not a Kumbaya moment."

Republican Richard Lugar, a soft-spoken, 36-year veteran of the Senate who departs January 3 after losing a party primary challenge to a hardline conservative, spoke of the despair

which comes with legislative problems "that seem to be veering out of control."

"Really in both parties, the polarization has increased, become more intense, and is represented in what we're seeing this afternoon," the soft-spoken Lugar said.

Studies show polarization has gripped the electoral map. Nate Silver of The New York Times wrote recently about the gradual erosion of House districts that swing between political parties.

While there were some 103 swing districts in 1992, just 35 exist today, Silver found, while the number of districts where parties win by landslides has soared. Such changes have made compromise harder.

Senate Democrat Dick Durbin acknowledged that while "it looks awful," US lawmakers routinely wait until their backs are against the wall before accomplishing major legislation.

"It's human nature," he explained.

"That's the reason why we put off our trips to the dentist," Durbin said.

"When it's something painful, we put it off to the last minute, and this is a pretty painful exercise."

Facts on the US fiscal cliff, debt ceiling showdowns

AFP, Washington

The "fiscal cliff" is a combination of dramatic spending cuts and tax increases mandated to take effect beginning in January if President Barack Obama and Republicans cannot bridge their differences on how best to reduce the nation's budget deficit and debt.

To add to a drama that could reverse the slow US recovery and impact the global economy, the United States is also about to reach its borrowing limit, so Congress will also be asked to raise the government's debt ceiling.

WHAT IS THE FISCAL CLIFF?

The Budget Control Act of 2011 codified in law a grudging political compromise forcing the government to slash spending by \$1.2 trillion over 10 years from January 1, 2013.

Next year's cuts, called "sequestration," would be about \$109 billion.

Also on that date, a package of tax reductions and an extension of unemployment benefits will expire, meaning taxes will rise significantly for most Americans.

WHY WILL THIS HAPPEN?

Democrats and Republicans have long been deadlocked over whether to address a \$1 trillion-plus annual budget gap with higher taxes or lower spending.

The Budget Control Act was a poison-pill deal designed to force them to find a less austere compromise, but political wrangling and dysfunction meant no deal was done, and the deadline is now looming.

WHAT HAPPENS IF THE CLIFF IS NOT AVOIDED?

Together, higher taxes and lowered spending could slice the \$1.1 trillion deficit racked up in fiscal 2012 (ended September 30) by almost \$500 billion next year, according to the Congressional Budget Office, vastly improving the government's financial picture.

But the CBO estimates the shock treatment would send the country back to recession and push the unemployment rate to 9.1 percent.

Deep cuts would come to both defense and non-defense spending. Government suppliers and contractors

would lose business, and temporary furloughs could be in store for tens of thousands of federal employees.

Taxes and automatic paycheck deductions would increase for most Americans, reducing the cash they have for spending, and taxes on capital gains and dividends would rise, hitting investors.

WHAT IS THE DEBT CEILING?

The US government will hit its statutory \$16.39 trillion debt limit on Monday, according to Treasury Secretary Timothy Geithner.

The limit is set by Congress, and if it is not raised, the United States will not be able to borrow any more money and would, in theory, be forced to slash spending to make ends meet.

Possible, but desperate, remedies would include halting pay to the military, retirement health benefits, social security, and failing to pay government debts.

WILL THE US DEFAULT ON ITS DEBT?

Not immediately. The Treasury has various extraordinary measures in its armory, including halting the issuance of securities to state and local governments, which could buy about two months of leeway.

WHAT WOULD A DEFAULT MEAN?

No one is sure: the dollar, and Treasury bonds, are the primary currency of global finance, and holders do not really have any alternatives. And most believe that eventually the US government would make good on its debts. However, the country's credit rating could be further downgraded, likely pushing up its borrowing costs over the medium term and possibly diminishing the dollar's cachet in world finance.

WHAT WILL CONGRESS DO?

Eventually, Congress is likely to raise the debt ceiling but Republicans who run the House of Representatives will use the showdown as leverage to demand spending cuts from Obama in return. It is uncertain how high the raised borrowing limit will be, and any resolution will likely trigger a new confrontation between Obama and Republicans the next time around.

IMF, EU push for less drastic deficit cuts

AFP, Paris

The International Monetary Fund and European Commission officials have encouraged France and its eurozone partners not to fixate on deficit reduction targets if it would exacerbate the bloc's debt crisis.

The head of an IMF mission in France, Edward Gardner, urged officials in Paris last week to consider their 2013 budget targets "in a broader European context."

The IMF and the EU Commission expect the French public deficit to amount to 3.5 percent of gross domestic product (GDP) next year.

They do not believe France can reach its 3.0 percent goal, the eurozone limit, without additional measures that could aggravate an already tenuous economic situation.

"The credibility of the medium term orientation policy" was more important than a specific deficit target, Gardner told reporters.

Loosening the criteria would "be more effective, more credible in a coordinated fashion" across the 17-nation eurozone, he suggested.

In Portugal the public deficit fell at the end of the third quarter to 5.6 percent of GDP from 6.7 percent at the same point a year earlier, while neighbouring Spain has promised to slash its deficit to 3.0 percent by 2014 from a blowout shortfall equal to 9.4 percent of output last year.

Germany expects its budget to be in balance this year, two years ahead of schedule, but IMF head Christine Lagarde has suggested that Berlin ease up a bit in its drive for healthy finances.

"Germany ... and others ... can allow themselves to go a little more slowly than others in the push to straighten out their public finances," Lagarde told the German weekly Die Zeit in comments published last week.

Her call echoed other European voices that are now arguing for greater emphasis on growth rather than austerity measures.

"The IMF is beginning to understand that the French situation has become dangerous," economist Marc Touati at the ACDefi consulting group said. Unemployment is climbing and the economy is still struggling, he pointed out.

Singapore likely in recession after GDP data

AFP, Singapore

Singapore likely slipped into recession in the three months to December, analysts told AFP on Monday, as data showed growth in 2012 came in lower than expected.

In his New Year's message, Prime Minister Lee Hsien Loong said "growth was slower this year, at 1.2 percent", which is well off the official growth forecast of 1.5-2.5 percent.

However, CIMB Research economist Song Seng Wun said the figures for the year indicate the economy shrank 3.5 to 4.0 percent quarter on quarter in October-December, which followed a contraction of 5.9 percent in the previous three months.

Two consecutive quarters of contraction point to a technical recession.

The year the Indian economy stalled



A man cycles past residential buildings under construction in Kolkata. India's economy is expected to grow 5.7-5.9 percent for the fiscal year ending in March, the slowest since 2002/03.

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The year 2012 has seen the worst an emerging market economy can tolerate. Had the government been a little less reticent and more proactive, growth would not have dropped this low in spite of the economy being mauled by inflation. Other emerging market economies did exactly that.

The year had started well. In January, inflation had eased and the Sensex had gained 11.5 percent, raising hopes of an upswing. But some adverse factors proved more enduring and the budget only added to the gloom that followed. Some factors were beyond our control; others were politically difficult or conceptually faulty.

We could do nothing about the adverse economic conditions in Europe, the United States and Japan which had caused the sharp drop in our exports after January when they peaked at \$25 billion. That had an impact on industrial growth, which also weakened due to diversion of consumer purchasing power to the agricultural sector.

March, growth turned negative with the capital goods sector underperforming the most because of the fall in corporate investment following high rates of interest and paralysis in governance. The Reserve Bank of India (RBI), with its strong orthodoxy, ensured that interest rates were well above the rate of inflation though some out-of-the-box policies could have eased inflation and saved growth as well.

The stock market was more optimistic than industry. But for the two unreasonable fiscal devices -- General Anti-Avoidance Rules (GAAR) and retrospective taxation -- introduced in Budget 2012-13, FII inflows would have been sustained and the rupee prevented from depreciating too fast. Fortunately, the situation was partly retrieved by the Shome committee.

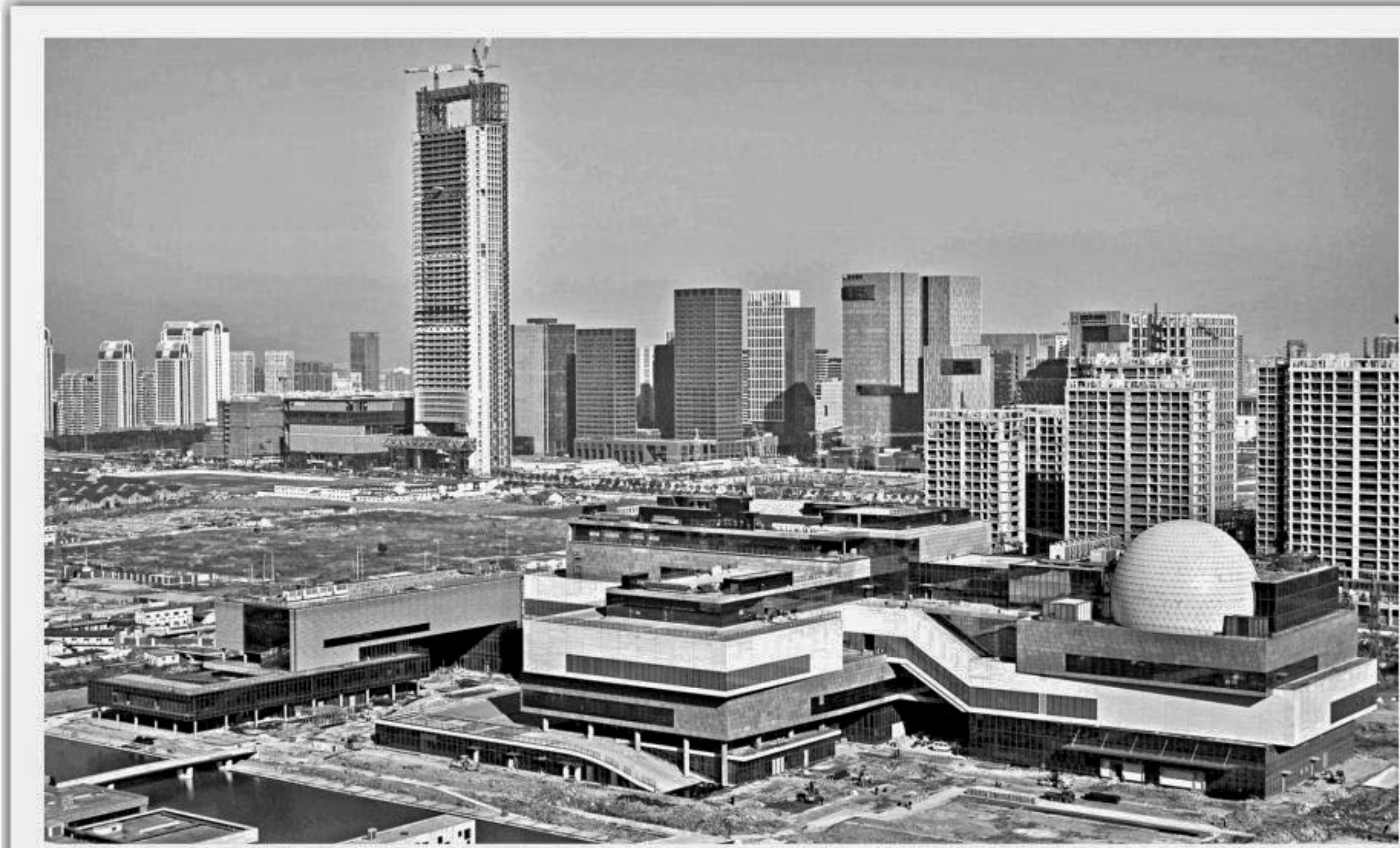
The government, which had given in to political blackmail by the Trinamool, finally sensed the inevitability of reforms and took the risk to announce a slew of measures, including foreign investment in multi-brand retail. With the Trinamool out of the coalition, the government had to have support

from the Samajwadi Party and Bahujan Samaj Party to carry forward its agenda. The winter session of parliament will possibly be historic since it broke a three-year stalemate in economic reforms and won political friends for the Congress. This will ease the way for pending bills on banking, insurance or pension funds.

But the economy had to bear the stress caused by political hesitation. GDP growth, which was at over 9 percent, had dropped to 8.4 percent in 2010-11. Since then, it went downhill to 5.3 percent in July-September quarter. That appears to be the floor laid out by the fast expanding services sector, mainly in finance and commerce, and sets the stage for recovery.

Expectations are that recovery should begin in the first quarter of 2013. Even the RBI governor who had displayed indifference to growth appears to have changed his mind. A cut in interest rates along with the reforms that have been adopted and will be introduced should get the economy back to growth.

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Global Shipping Square, the soon-to-be-completed highest building in Ningbo in eastern China's Zhejiang province, stands against the skyline. China's manufacturing activity surged to a 19-month high in December, HSBC said yesterday, adding to signs of recovery in the world's second-largest economy.