

## Fiscal Cliff Hanger

31st December 2012

By appearing as a live Sky News interviewee on the afternoon of 31st December 2012, Ian Harris did his media bit to help the USA avoid the fiscal cliff and thus avert a global financial cliffpocalypseageddonocaust. In this blog piece, Ian outlines what he said on the telly (just in case a few members of the Z/Yen and Long Finance communities weren't glued to Sky News that afternoon) and also sets out some Long Finance thoughts on the subject that subsist in his mind beyond that fiscal cliff hanger.

I suspect that the Sky News team really wanted Michael Mainelli's reassuringly professorial monicker and mild American accent, to fill an interview slot on the fiscal cliff, as the deadline loomed on 31 December. But Michael was still in Germany enjoying his seasonal break the European way. In the end, I guess the Sky researchers were content to go with anyone who might look and sound reasonably credible and was willing to turn up that afternoon. Still, they clearly couldn't even dredge up anyone who fitted that modest specification, so instead Sky asked me in for a brief interview.

The "brief interview" actually ran live on the news for best part of six minutes between 14:30 and 14:40. Rachel Younger was the host that afternoon; she made me feel very much at ease and was clearly well briefed about the points I had been through with the researchers. I started by deriding the term fiscal cliff as sensationalistic. I also milked a seasonal analogy by describing the matter as more like a fiscal toboggan ride than a cliff, perhaps a bumpier or steeper downward gradient than the down hill ride the US economy would in any case enjoy, even if the so-called fiscal cliff were avoided.

I placed emphasis on confidence as a highly significant factor for financial markets all around the world and explained how important US consumer spending power is to economies all around the world, not just for the US economy itself. For those reasons, I suggested that, in particular, a failure to avert tax hikes for ordinary American tax payers would have a strongly negative effect on economies and markets all around the world.

Rachel then gifted me a question about the best hope being another stop gap solution, yet the problem has been around for years. I agreed, responding, "one of the things we look into a great deal is something that we call Long Finance, which is trying to take a longer term look at the commercial world, economics and finance. The problems that people are trying to sort out all around the world are actually long term problems, which is why I don't consider the fiscal cliff to be that significant. We are in a long term problematic period in the Western economies. Whatever happens today, whether there is a short term solution or not, the longer term problem is that growth is very difficult to achieve in Western economies and all the Western economies are in budget deficit... just to achieve reasonable levels of growth, America has to look at [massive] levels of budget deficit. And every European country is in a similar position."

Rachel then asked me if I thought the US political system was broken, because the the two houses of Congress are in the hands of different parties and the President cannot seem to drive

home an agreement. I responded, "...it is very rare, actually, for a President to be in control of both houses. And some would say...the deadlock that you tend to get on Capitol Hill, or the checks and balances as the founding fathers would have described it, is actually one of the very good things about US politics... However there are occasions when deadlocks really do need to be broken and this is one of them."

Despite their short-term, time-limited nature, these words of wisdom are clearly of great value in their broadcast form, as we would need to part company with actual money to enable you to see a clipping of the broadcast itself.

In retrospect, thinking about the longer-term or long finance implications of this subject, my views become increasingly harsh and resigned in equal measure. Harsh, because the reality is that the US has tied its own hands in the medium term with spending promises and taxation requirements. The so-called ideological gulf between the Democrats and the Republicans is no such thing; it is a tinkering at the edges of who must suffer the lions' share of the pain. The deal agreed on 1 January is hardly a real deal; the US will stumble from one mini-cliff to another in the wake of the so-called deal, unless there is an unlikely and marked change of tack from one or other of the main players. Indeed, I was thinking that the US is starting to resemble the EU more and more by the day before the Economist published a picture of President Obama dressed up like a French onion-seller which made that point better than I ever could.

Another longer-term points that resonate with me is the redistributive nature of the ongoing financial crisis. Redistributive in two ways:

- increasing indebtedness to and therefore shift of wealth away from the Western powers towards the East; China, the Gulf States, South-East Asian tigers and the like;
- inevitable domestic increases in the tax burden on the wealthier segment of society to meet social security promises and to try to increase tax revenues without quashing consumer spending too much.

I don't think this form of redistribution is a bad thing per se – indeed in principle I think it is a good thing. In the recent boom times, both income and wealth inequality increased markedly, perhaps to an unacceptable extent, in the West, especially in the US. Some movement back to previous levels of income and wealth inequality would not be a bad thing. Similarly, the international shift of balance should help get yet more people in the developing world out of poverty and it is their spending power that will, in the longer-term, get us all out of this mess.

My worry, though, is that I am not wholly convinced that shifting the balance in these ways will enable both growth and debt reduction to occur in the West within politically acceptable timeframes. My suspicion is that we are chasing growth in the West that simply cannot be achieved for many years. And the thing that worries me the most, if the next year or two seems to be an ongoing series of failures and mini crises, is that the next set of big political ideas will be truly venal; of the protectionist or nationalist kind. Japan, now 20 years into its economic troubles, might be on the verge of that ideological switch (I hope not) and some Western nations might not be so patient. Acceptance that our Western economies might be destined to

bump along the bottom with low or no growth for some time, while we restore something closer to budget balance is, to me, a more palatable medium to long term plan than many of the unpalatable alternatives.