

America's nightmare: to be Greece with Google

Polarised politics is rendering the US ungovernable. But is it really on the verge of defaulting on its debts?

Anatole
Kaletsky



Now that a Greek default has been averted, or rather deferred until the next crisis, which can confidently be expected in the autumn, it is time to consider the real financial nightmare that could soon descend on the world.

In contrast to the mere bagatelle of the Greek crisis, or even the Lehman bankruptcy that genuinely shook the world economy three years ago, a default by the US Treasury, which runs out of legal authority to pay its debts on August 2, could cause a disaster as bad as the Great Depression.

The threat of a US default next month, even if it remains quite a low probability, is that alarming — but not because the world's largest economy is suddenly sliding into Greek-style bankruptcy, crushed by debts well beyond its capacity ever to repay.

Far from being bankrupt, America remains the world's richest, most productive and financially solvent country. It is recovering quite rapidly from a temporary slowdown caused by rising oil prices. The US recession was unpleasant, but the fall in output was less deep than in most other advanced economies, such as Germany, Japan or

the EU as a whole. America's public debts are smaller in relation to the size of the economy than in Germany, France, Britain and Japan, while all reasonable forecasts of fiscal capacity show that it can easily afford to carry its present debt burden and to continue to repay on time.

Greece, Ireland and Portugal are economically unable to pay their debts but are going through political hell to try to do so. But America can easily pay its debts; it simply doesn't feel like it. The Republican leadership in Congress has stated baldly that it would allow the Treasury to default, rather than agree any increase in taxes, even if they are raised entirely from such cash-rich and unpopular targets as oil companies and hedge

The greatest threat to the world is America in terminal decline

funds. Although the Democrats still hold the White House and command a majority in the Senate, they are unwilling to concede to what they see as Republican blackmail — so they are also contemplating default.

Thus if the US Treasury defaults on its obligations next month it will not be excusable, as it would be in Greece, as a response to temporary hardship. It will be deliberate political provocation — a flagrant repudiation of the "faith and credit of the US Government" by a majority of the legislators elected

to represent the American public.

Although it is still very likely that Republican leaders in Congress will strike a last-minute deal with the White House, the very fact that the two sides can contemplate a fight to the death over this issue is truly frightening, not only for America but for the world as a whole.

It reminds us that the greatest threat to global prosperity and peace in the coming decades is not global warming or public debt or the rise of China. It is the risk that America, the nation that has led, protected and inspired the world, both politically and economically, for the past century, may now be in terminal decline.

The danger is not that the US is failing economically, because it isn't, at least not yet. The real threat to America — and therefore to a world that remains desperately dependent on US leadership — is not economic but political. American voters, politicians and business leaders have long been philosophically divided about the legitimate role of government in a modern capitalist society. But until recently, these divisions were kept within bounds and produced a constructive political alternation between Democrat and Republican.

Since the global crisis of 2008, however, new relationships have had to be established between government and private enterprise, between public spending and taxation. Unfortunately, America seems totally unready to face these enormous questions.

Democratic administrations created

welfare safety nets that allowed American society to become ever more competitive and unequal, while remaining tolerable to poor and minority voters. Democrats also extended the functions of government into areas demanded by a modern technocratic society — education, financial regulation, transport infrastructure, energy and scientific research. Then Republican governments came along to cut back public spending, pare excessive

Partisan tribalism is at its most extreme since the 1861-65 Civil War

regulation, reduce taxes and reinvigorate private enterprise. Through decades of such alternation, the US economy made rapid, if unsteady, progress. And the genius of the US Constitution, with its automatic capacity to create democratic consent and a self-correcting consensus, became a model and a source of inspiration for the world.

In the past few years, however, this self-correcting capacity of American politics has broken down — and the US Constitution, instead of being seen as a model, has become a global laughing stock. The superficial explanation for this is that America has become more polarised than ever. Partisan tribalism has been intensifying since the 1980s and is

more extreme today in America than at any time since the Civil War of 1861-65.

It is only in the past few years, however, that this steady polarisation has become a serious threat to America's economic performance. This is because the most bitter partisan divisions are no longer over social issues such as school prayer and abortion, but over the role of government and the very legitimacy of the State's powers to levy taxes. While politicians in every other country have recognised that reducing public borrowing after the financial crisis will require judicious combinations of public spending cuts and higher tax revenues, American conservatives refuse to discuss tax increases, almost as a matter of moral principle.

Under these circumstances the political paralysis in Washington is likely to continue at least until the 2012 election, even if some temporary ruse is discovered to avert next month's debt default.

But what will happen after the election? What if voters maintain or even reinforce the present status quo — re-electing President Obama, but putting Congress under firmer Republican control? The US could then become truly ungovernable. When the Soviet Union began to collapse it was described as "Upper Volta with rockets". Is it possible that the US could become a Greece with Google? This is a question that does not bear asking — just like the question of whether the US Treasury will decide to pay its debts.