Confronting the Federal Fiscal Cliff

A) Avoid Going Over

1) Cap Federal Discretionary Spending Growth Below GDP Growth.
2) Address the Heavy Political Lift Economic Growth Impediments.
3) Create Fiscal Space with well-planned/vetted spending cuts (restore federalism).
4) Tax Reforms, including growth-oriented cuts – revenue potential of tax hikes likely very limited.
5) Implement a revenue-maximizing approach to sale of federal mineral rights assets.

Key References: ***A Fiscal Cliff***; recent WSJ article and AEI article attesting to struggles financing federal debt at an affordable cost.

B) Managing the Plunge and Crash

1) Avoid imminent default without inflationary money creation.
   a. Large budget cuts – an immediate need to balance the budget would entail cutting nearly everything but entitlements, defense, and debt service. That would likely trigger entitlement reform.
   b. Some tax increases; some cuts.
   c. Mineral Rights Asset Sales
2) Cap Federal Spending Growth
3) Run the federal government on the difference between revenue and debt service costs. That means prioritizing of limited funds – actual budgeting.

Civil, Informed Disagreement on How to Avoid the Plunge/Crash

I. Modern Monetary Theory asserts that money creation and tax increases can avoid the need for large spending cuts.
II. Tax increases provide a basis for continued increases in discretionary federal spending.
III. Mineral Rights assets provide basis for solvency – ability to service debt.

Those are very controversial propositions.

Key References: William Gale's ***Fiscal Therapy***, and various think tank plans proposed pre-COVID.

Research Needs:

Dynamic Scoring of Tax Rate Changes

Optimal Privatization Plan – Revenue Maximization – for Federal Mineral Rights Assets.

Political Economics of Growth-Oriented Reforms