This fall, disputes over the debt ceiling, sequestration cuts, the budget, and Syria may lead to an imperfect political storm in Washington.

The US' recovery is fragile, and may well be undermined if the Fed begins to taper its program of quantitative. **Andy Langenkamp** *writes that with the end of the fiscal year 2013 close at hand, the President and Congress are about to face political battles over the budget, debt ceiling and budget sequestration. With so much at stake, any political blunder may have grave consequences for the economy. Now, with the President pushing for Congressional approval of strikes on Syria, we may well be in for a very turbulent political fall.*

The United States (still the No. 1 economy in the world by far) is in a bind. Although US growth has picked up, it is not impressive. Many financial analysts – us included – suspect that the Fed could soon start to taper its asset purchases albeit cautiously. Potentially, this could smother the recovery but nobody knows for sure. Meanwhile, the long-running debt battle is about to flare up again. Obama is trying to prevent a fiscal war with his Syria strategy.

The tentative recovery means that the US politicians need to keep their eyes on the fiscal ball in the coming months. Grave blunders could have a devastating effect on the economy. Unfortunately, there are plenty of areas where Democrats and Republicans can mess up. There are three "fiscal headaches"; together, they could cause an almighty migraine. From late September onwards, the fiscal year 2013 ends, the government will reach the debt ceiling, and a new round of sequestration cuts looms.

30 September is the last day of the fiscal year 2013. For years, Congress has had to pass continuing resolutions (CRs), i.e. emergency legislation to keep the federal government going. The reason is that the Washington politicians are too divided to agree on a normal budget. In all likelihood, this year will be no exception and Democrats and Republicans will be unable to see eye to eye. As a result, the government may have to close its doors some seven or eight weeks from now. That is, unless Congress and the White House manage to strike a deal about the allocation of government expenditure in fiscal 2014. So far, the House of Representatives has only approved a handful of the 12 appropriations bills (concerning defense and national security) which should land on Mr. Obama's desk before 30 September. Still, the House has done better than the Senate, which has passed exactly none. And when Congress returns from vacation in the next few days, it will need to make haste for it will have just nine working days to come to an agreement.

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Around the time the next fiscal showdown resumes, the debt ceiling will be hit (again). This celling is cap on lending by the federal government that dates back to 1917, and needs to be raised from time to time. In the past, this was mostly a matter of routine but this too is now a bipartisan minefield. The Treasury Department thinks the federal government can hold out until October or November.

Also on the menu in the coming months is a complicated operation that is bound to create political discord: the sequestration budget cuts for the fiscal year 2014. For the $109 billion in annual cuts that started on March 1, the Congressional Budget Office says that canceling the sequester would yield 300,000-1,600,000 jobs and 0.7 percent extra growth. The Democrats would love to kill the automatic spending cuts whereas Republicans are adamant they want to keep them in place (except – sometimes – in relation to defense and security). Many conservatives rejoice in the budget cuts.

In combination, these fiscal disputes could make for an interesting fall in Washington. The last time we saw such an imperfect political storm was in the summer of 2011. It sure spooked the markets. The US credit rating was downgraded, stock prices plunged, and the economy felt the pain.

Congress needs to get a grip. It only has a handful of working days in September to reach an agreement on budget allocation for 2014. At the same time, it has to ponder a possible attack on Syria. This may be the reason that Obama has decided to seek the approval of Congress for a military strike. A couple of days will probably not be enough to arrive at a decision about Syria as well as the spending caps. Tackling Assad brooks no delay but an extensive budget deal could be “kicked down the road” – a tried and tested tactic.

In all likelihood, Congress will settle for a short-term fiscal deal that keeps the government in business for another few months as it raises the debt ceiling and waters down the spending cuts. Obama may well be hoping that Congress will not have the time – or the energy – to link his big domestic achievement, the Affordable Care Act, to a budget deal, which could effectively kill it.

Such stopgap measures would mean that the next major fiscal debate takes place in the run-up to the mid-term elections in November 2014. By then, the politicians will be less tempted to play hard ball, for fear that voters will blame them if the government runs out of money and the markets panic. If this plan works, Obamacare will survive and the president will be able to postpone the ultimate showdown over the sustainability of the public finances until it becomes his successor’s problem.

On top of this, the risk – despite all the hassle now going on – seems low that Congress will refuse to approve military retaliation on Assad in some way or form. In all likelihood, many Senators and Representatives do not want to be held accountable for creating the image of a feeble, divided, and crumbling America that cannot – or does not want to – take a stand against a ruthless dictator who uses chemical weapons to gas civilians in their sleep. Obama will probably get the approval he seeks. If he does, it would mean that the White House and Congress, Democrats and Republicans will share the responsibility for such a mission and the GOP cannot put the blame squarely on Mr. Obama if something goes wrong. In addition, this tactic buys him time to consider a diplomatic solution.

The president is playing for high stakes and the risks are substantial. The markets do not like such uncertainty. Meanwhile, a new boss still has to be found for the Fed and we should not forget that all these (possibly) disruptive developments occur against a background of fragile growth, high unemployment, and disappointing construction data. To quote John H. Makin of the American Enterprise Institute: “Recent data has shown that investors — abandoning their bond holdings as rates rise (and prices of bonds fall) on QE tapering concerns during June — withdrew $43 billion from taxable-bond mutual funds alone. A large portion of the funds being withdrawn from bond investments is flowing into cash and money market funds rather than into stocks. That flow reflects investor concerns about slowing growth and possible deflation.”

While keeping an eye on the fragile economy, Obama’s team has still a lot of political hand wrestling to do on the Hill in order to get the required votes for bombing the Assad regime. If Obama’s gets his Authorization for Use of Military Force (AUMF), the main question will be how much political capital he has left to score other successes in the remainder of his time in office.

In the coming days and weeks we will find out if Obama’s move to ask for Congress’ approval for a Syria intervention was a political masterstroke that brilliantly tied together fiscal and foreign policy or that both will blow up in his face and ruin his second term.

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Note: This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

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