



Debt Ceiling Crisis: Putting Things Into Perspective

A careful analysis of the ultimate compromise bill yields some important conclusions. First of all, there is nothing in the law or statutes that states categorically that the nation will default if the August 2 deadline isn't met. This is merely a "best estimate" by Treasury Secretary Timothy Geithner as to when he will run out of options to continuing paying the government's bills by "borrowing" from various pots of money such as the federal government employees' retirement plan. If he is able to do that, it's unclear why he would run out of other options automatically on the 2nd.



Second, a default is different from a debt ceiling. A debt ceiling prohibits the government from continuing to borrow to pay its bills. It's similar to maxing out the family credit card. The family's "debt ceiling" has been reached. On the other hand, a default is making a late payment or not making one at all. With the government's income estimated to be about \$200 billion in August, any default on any of the national debt would be *a decision and not a necessity*, because the debt service in August is estimated to be only about \$30 billion. Any decision not to pay the interest on the national debt, or not to make Social Security payments, would come from the White House. And so, if there is a default, or a delay, that would come directly from President Obama and would not be as a result of the debt ceiling. *It would be a political decision made by the President himself.*

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Next, the more closely one looks at the compromise bill, the more one is persuaded that it will make scarcely a dent in the rapidly rising national debt. The measure appears to raise the debt limit immediately by an amount large enough to pay the government's bills until after the election, thus avoiding the necessity of reopening the debt ceiling discussion again with the attendant political damage Obama would otherwise suffer during the election. The legislation also makes the same ephemeral promises to cut government spending, all dressed up to look substantial, but taking place toward the end of the decade, and including such fiscal sleights-of-hand as counting the potential winding down of the wars in Iraq and Afghanistan as cuts. There is also included the inevitable bipartisan committee to determine what further cuts can be made to the budget, with their recommendations coming in November, and likely to have the same lasting impact of the previous committee recommendations that have so far been successfully ignored by both Republicans and Democrats. And in case any of those recommendations gain traction and actually make their way into a bill that reaches the President's desk, he will likely veto it.

Most important, however, is that if all of these magical "pixie dust" cuts actually took place, the national debt would still skyrocket, or, as Senator Rand Paul recently pointed out, there would be no change in the "[trajectory](#)" of government spending.



Written by [Bob Adelman](#) on August 1, 2011

A review of the Congressional Budget Office's "baseline" projections of the national debt, published in January, is sobering. The report states that "if current laws remain unchanged ... and tax and spending policies unfold as specified in current law, [then] by the end of 2021, [the national debt] is projected to climb to \$18 trillion." But

[t]he baseline projections *understate* the budget deficits that would arise if many policies currently in place were extended [such as the Bush tax cuts] rather than allowed to expire. [Emphasis added.]

[If those policies were not extended], the budget deficit would be *about double* the baseline projection. [Emphasis added.]

In other words, the CBO's projections of the country's national debt by the year 2021 are so gigantic, approaching possibly \$30 or \$40 trillion, that the entire present discussion about cutting government spending is fraudulent, deceitful, and a complete waste of time.

There are, however, voices of reason and good sense emanating from some members of Congress who haven't been hoodwinked into thinking they are doing something substantial, including longtime big-government foe, Rep. Ron Paul (R-Texas). In his address to the House last Friday, Ron Paul noted that the Boehner bill was a sham and a fraud from the beginning:

This evening Congress is [being] asked to vote for a bill that claims to reduce spending in the future, thereby accepting the fiction that legislation passed today somehow can control Congress in the future...

The claim that spending cuts in this bill equal the amount by which it increases the debt ceiling also is mistaken...[because] that cut is phased in over ten years. [This] ignores the time value of money, not to mention the inevitable erosion of the purchasing power of the U.S. dollar...

This bill merely reduces future spending increases...

It sends a terrible message to [the] bond markets. It signals those markets that Washington intends to continue borrowing and spending as usual, and it is precisely this lack of serious austerity planning that will drive interest rates higher. Unless we act now to control spending, potential purchasers of our bond debt will soon demand a much higher premium to offset the very obvious risk that they will be repaid in highly depreciated dollars.

The same concerns were iterated by his son, Senator Rand Paul (R-Ky.) [during an interview](#) with Greta Van Susteren on Fox News when she asked him how he would vote on the debt ceiling bill.:

Paul: I can't vote for any plan that doesn't balance [the budget].

Van Susteren: No balanced budget amendment?

Paul: No, that doesn't balance. His plan will never balance. In 10, 20 years, there isn't a significant change in policy that will ever balance the budget. So I can't vote for any plan that doesn't balance. [Furthermore] under the Boehner plan [in 10 years the national debt] will be \$21 trillion. It is too much. It doesn't change the trajectory we are on.

Van Susteren: I guess you don't like the Senator Reid plan coming out of the Senate?

Paul: My litmus test for raising the debt ceiling [is] we have to significantly change what we are doing. I don't think we are to be trusted with more money. Somebody who spends unwisely shouldn't be given more money...



Written by [Bob Adelman](#) on August 1, 2011

Van Susteren: Are you a spoiler..?

Paul: Actually we have been...

Van Susteren: If you don't have the numbers to win in the U.S. Senate, you are going to walk away with zilch, other than principle...

Paul: Right. I think that is important.

In an editorial in the *Washington Post*, Tea Party Nation founder Judson Phillips [asked](#),

Why is the Tea Party intransigent on the debt ceiling? Why is the Tea Party pushing congressional Republicans so hard that we have a crisis?

The Tea Party understands what so many in Washington seem to have forgotten: We do not have a debt crisis. We have a spending crisis. There is only one way you get to a debt crisis — you spend too much money...

The Tea Party movement understands that if we allow Congress to borrow more money or raise taxes, all we are doing is funding the endless expansion of government...

We in the Tea Party understand a basic concept: when you are in a hole, quit digging...

At some point, this will end. American cannot keep borrowing money it does not have. There is a common fate for those who spend too much money. If you doubt that, visit a bankruptcy court sometime.

The editorial in this weekend's *Investors Business Daily* makes a very important point:

[The Tea Party] is one of the most formidable grassroots movements in American history. What they stand for is right, and would make our Founding Fathers proud. And they've demonstrated that they're the real deal, not shills for those who are a little right of center within the Republican party.

They should take pride in realizing that because of their movement, real spending reform is indeed politically possible — just not this year...

As Sun Tzu advised: "He who knows when he can fight and when he cannot will be victorious." For the Tea Party, now is the time to lock and load and wait till next year.



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