



Written by [Veronique de Rugy](#) on April 27, 2023

What You Need to Know About the Debt-ceiling Debate

If you read news coverage about the brewing battle over raising the debt ceiling, you might think it's a fight between demons and angels. On one side, you have Republicans who are willing to risk a default on the government's debt unless they get spending cuts that will starve people. On the other side, you have Democrats who, guarding the interests of ordinary Americans, want a "clean" increase in the debt ceiling with no cuts in spending.

None of this is accurate. The concessions sought by Republicans are relatively small compared to what needs to be done. In fact, the truly problematic position is the one that blindly insists that we shouldn't cut spending or worry about government debt.



Veronique de Rugy

Does the debt ceiling supply the right moment to seek commitments to cut spending? I think so, if only because this year's negotiation might offer a rare window of opportunity that usually only happens during a financial crisis, something nobody wants. Republicans might do a bit more than merely pay lip service to fiscal responsibility and force Democrats to consider spending cuts. Yet, let's face it: These negotiations were never going to produce any kind of meaningful and broad fiscal reform.

That's in part because modern Republicans aren't paragons of fiscal responsibility. When one of them is in the Oval Office, they spend like drunken sailors, and most of their members cannot be called economic freedom fighters. This lack of unity, paired with the scale of the debt problem, was always going to result in insufficient demands, especially under a tight debt-limit deadline.

And as every serious budget observer knows, insisting on spending cuts that would make a real difference would require putting on the table real reform of entitlement programs. Today, many Republicans explicitly oppose such reforms.

So, let's see what is on the chopping block. First, there's cancellation of unused COVID-19 relief appropriations, which will probably save less than \$60 billion. Most of these would have expired anyway, but periodically purging the massive overhang of appropriations from earlier years is good budgetary hygiene.

Next, we get a rollback of discretionary spending back to fiscal year 2022 levels and something of a freeze thereafter. According to the Congressional Budget Office, that means that in FY2024, discretionary spending — which represents only 30% of the budget — would fall to about \$1.7 trillion from the currently projected \$1.9 trillion. Mandatory spending due to entitlements, however, would continue to balloon — from \$3.8 trillion this year to \$5.9 trillion in FY2033, for a total budget of about \$8 trillion.

This plan would block student debt forgiveness, reduce some special-interest tax credits (but save



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biofuel tax credits to please the Iowa caucus) and cut the \$80 billion increase to the IRS budget. While symbolic of a change, these cuts won't make much of a dent in the projected \$20.2 trillion deficit over 10 years.

Yet story after story in the media alerts readers of the horrible things that could happen if these paltry cuts are implemented. Flight delays would mount due to air traffic control budget reductions; hunger would afflict children; suicides would skyrocket. Woe would sweep over the republic.

Really? I don't recall chronic flight delays or a food crisis in, say, 2019. Yet at the time discretionary spending was \$1.338 trillion, or some \$320 billion *less* than what Republicans want that side of the budget to be after their cuts. I wish people would stop fearmongering for a second so we can have a real conversation about our fiscal future.

Such a conversation might acknowledge that in the next 10 years, the federal government will spend over \$80 trillion, most of it on three programs, while it will only collect \$60 trillion as revenue. We could also talk about the fact that over \$10 trillion will be used to pay interest on the debt. This figure will be even higher if inflation persists or if interest rates rise further. And since these payments require more borrowing, they could fuel inflation further. The debt held by the public will grow by some \$20 trillion by FY2033.

Instead of pretending Republicans are monsters for demanding small budget reductions, Democrats need to start putting facts ahead of politics. And even if Republicans succeed in getting small cuts, the GOP must acknowledge that much more needs to be done. Maybe then, after the current debt-ceiling crisis passes, we can start talking about truly meaningful changes.

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