National Debt: Hitting the Ceiling or Going Through the Roof?

"The fact that we are here today to debate raising America's debt limit," said the Senator, "is a sign of leadership failure. It is a sign that the U.S. government can't pay its own bills. It is a sign that we now depend on ongoing financial assistance from foreign countries to finance our government's reckless fiscal policies…. Increasing America's debt weakens us domestically and internationally. Leadership means that 'the buck stops here.' Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. Americans deserve better. I therefore intend to oppose the effort to increase America's debt limit."

Who is this mystery Senator railing against raising the federal debt ceiling? Kentucky's Rand Paul, perhaps? South Carolina's Jim DeMint? Oklahoma's Tom Coburn?

No, the mystery Senator is none other than Illinois' Barack Obama, who spoke those very words in March 2006 as Congress was considering — at the behest of the George W. Bush administration — increasing the amount of debt the U.S. Treasury could issue to almost $9 trillion.

Obama did indeed vote Nay on the resolution raising the debt ceiling, but it passed anyway. Every Democrat voted against it, and all but three Republicans (Coburn, Conrad Burns of Montana, and John Ensign of Nevada) voted for it.

Today, of course, President Obama is singing a different tune. "He realizes now that raising the debt ceiling is so important to the health of this economy and the global economy that … you need to take very seriously the need to raise the debt limit so that the full faith and credit of the United States government is maintained around the globe," White House Press Secretary Jay Carney said by way of explaining Obama's blatant flip-flop on the subject. Obama now "believes [his vote against raising the debt ceiling] was a mistake," Carney added.

In fact, Obama was dead right in 2006. The endless increases in the federal debt ceiling do indeed represent a "leadership failure." They also "[weaken] us domestically and internationally" and "[shift] the burden of bad choices today onto the backs of our children and grandchildren." Ultimately, unless halted, they are going to bankrupt us.

According to USDebtClock.org, as of this writing the U.S. government already owes over $14 trillion, fast approaching the current debt limit of $14.3 trillion. It has another $114 trillion in unfunded liabilities under Social Security and Medicare. The Congressional Budget Office projects that those two programs plus Medicaid and interest on the debt will begin consuming all federal revenue no later than

2035. State and local governments, meanwhile, owe a combined $3 trillion, with their own massive unfunded liabilities in the form of pensions. When the bills come due, they will undoubtedly lift up their eyes unto Capitol Hill, from whence they hope their help will come. Washington, in turn, will lean on the Federal Reserve to produce the necessary cash ex nihilo, and Americans who not long ago chuckled at the plight of Zimbabweans forced to pay $417 per sheet of toilet paper will find themselves, rather than their Charmin, squeezed.

Who in his right mind would even dream of borrowing more money under such circumstances?

Yet now, with the debt ceiling already $5.3 trillion higher than the level to which Obama objected to raising it five years ago, the President wants Congress to hike it again — for the 81st time since 1940. Not surprisingly, with a Democrat now occupying the Oval Office, the political parties have swapped positions on the subject. Republicans are now playing the role of fiscal watchdogs, while Democrats — led in the Senate by Harry Reid, who also spoke forcefully and voted against raising the debt ceiling in 2006 but now says he is “embarrassed” by that vote — are trotting out all manner of bogeymen to frighten recalcitrant legislators into plunging the country further into the red.

On the GOP side, Texas Rep. Ron Paul has stated flatly that he won’t vote to raise the debt ceiling. “I never vote for the spending, so I’d hardly want to accommodate the big spenders,” Paul explained. “We should … live within our means. And you’d be forced to do it that way.” His son, Sen. Rand Paul, has been slightly more flexible, allowing that he will vote for a debt ceiling increase only if it is accompanied by “a balanced budget rule, an ironclad rule that they can’t evade.” DeMint has indicated that he is in agreement with Rand Paul, while Coburn is in favor of obtaining commitments to spending cuts before voting to raise the ceiling.

Such resistance on the part of rank-and-file lawmakers has forced the Republican congressional leadership to take a harder line on the debt ceiling. House Speaker John Boehner, for example, told the *New Yorker* in December that the debt-ceiling fight would be “the first really big adult moment” for the new Congress. The incoming Tea Party-aligned freshmen would, he averred, have “one of those growing moments” in which the leadership would convince them to jettison their principles and vote to raise the ceiling because of “the serious problem that would exist if we didn’t do it.” Now, however, Boehner has modified his stance, telling the Economic Club of New York on May 9:

> So let me be as clear as I can be. Without significant spending cuts and reforms to reduce our debt, there will be no debt limit increase. And the cuts should be greater than the accompanying increase in debt authority the president is given.

We should be talking about cuts of trillions, not just billions.

They should be actual cuts and program reforms, not broad deficit or debt targets that punt the tough questions to the future.

And with the exception of tax hikes — which will destroy jobs — everything is on the table.

Whether Boehner's resolve will hold in the face of White House and media pressure remains to be seen. The *New York Times*, reporting on his speech, noted that Boehner was "noncommittal" when asked "whether he would entertain a short-term increase in the debt limit if no deal was reached."

That pressure has been growing for months now and will continue to intensify. Before Boehner's speech, wrote the *Times*, New York Sen. Charles Schumer "accused Mr. Boehner of 'playing with fire' by holding the debt limit increase hostage to a push for spending cuts and budget restrictions" and told reporters, "The idea of refusing to raise the debt ceiling should be taken off the table." Schumer, accompanied by investment banker and former Clinton administration Treasury official Roger Altman, argued that not raising the debt ceiling would cause the United States to default on its existing debt, which Altman said "would have an unprecedented and a catastrophic impact on global financial markets and on American markets."

The specter of default is the primary weapon in the Democrats' arsenal, and they are employing it to the full. Austan Goolsbee, Obama's chief economic advisor, warned in an interview with ABC's *This Week*:

> This is not a game. You know, the debt ceiling is not something to toy with. If we hit the debt ceiling, that's essentially defaulting on our obligations, which is totally unprecedented in American history. The impact on the economy would be catastrophic. That would be a worse financial economic crisis than anything we saw in 2008.

As I say, that's not a game. I don't see why anybody's talking about playing chicken with the debt ceiling. If we get to the point where you've damaged the full faith and credit of the United States, that would be the first default in history caused purely by insanity.

Likewise, Treasury Secretary Timothy Geithner, in a letter to Congress, maintained:

> Failure to raise the limit would precipitate a default by the United States. Default would effectively impose a significant and long-lasting tax on all Americans and all American businesses and could lead to the loss of millions of American jobs. Even a very short-term or limited default would have catastrophic economic consequences that would last for dec-ades. Failure to increase the limit would be deeply -irresponsible.

As numerous commentators have pointed out, this is pure baloney. Failure to raise the debt ceiling will not precipitate a default unless Geithner and his boss make it do so. As Bob Adelmann ably explicated in a February article for *The New American* online, "If the debt ceiling remained intact, it would only limit the government's ability to raise new capital in the bond markets, and not its ability to continue to pay interest on and otherwise continue to service its existing debt."

"The debt service, interest on our debt, is about six percent of everything the federal government has to pay," Sen. Pat Toomey (R-Pa.) told Fox News' Neil Cavuto. "So we would be taking in enough revenue to cover more than 10 times all the interest that we owe. There is no reason we would have to default on our interest obligations."

Assuming the Obama administration made the reasonable decision to service the debt first and then deal with other spending obligations — "it stands to reason that just about any other form of government spending would get cut before Tim Geithner dreamed of defaulting on risk-free bonds," wrote Reuters' Felix Salmon — failure to raise the debt ceiling would be nothing but a boon for both current and future taxpayers. It would force the government, as Ron Paul said, to live within its means. Wasteful, fraud-ridden programs would quickly be downsized or eliminated, and long-term nightmares like Medicare and Social Security would finally be addressed seriously. Debt would be paid down instead of piled on. The United States' AAA bond rating, which Standard & Poor's recently warned is in jeopardy, might be salvaged. America would slowly but surely become less beholden to China and other less-than-friendly powers. (To forestall any administration attempts to "play chicken" with the debt ceiling, Republicans have introduced legislation in both houses of Congress to force Treasury to service the debt first if the limit is reached; neither bill has received a floor vote as of this writing.)

The worst thing Republicans could do would be to cave on the debt limit. Preferable to that, of course, would be to hold fast to their stated commitment to keeping the debt ceiling at the current level unless they get — in writing — serious commitments from Democrats to slash spending in "trillions, not just billions" of dollars. But by defining the alternative that way, Republicans are really removing from the debate what they should be doing — and that is to refuse completely to raise the ceiling, spending cuts or no. Only good can come from holding the line on increased debt; only financial catastrophe can come from caving in to the administration's demands. Americans, as Sen. Obama said, do indeed deserve better.

Related article:

[Ron Paul's Straight Talk on the National Debt Ceiling](#)