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Debt Ceiling Debate Now Set for February 2013

The debt ceiling is expected to be reached officially on Monday, December 31, when the national debt reaches $16.4 trillion. Unofficially, with various "extraordinary measures" employed, the Treasury won't bump into the real limit until some time in February. Those measures will give the Treasury a little over $200 billion in "headroom," and since the government is borrowing $100 billion every month, the math is easy. The question then becomes: What happens next?

President Obama has demanded that any discussion about the debt ceiling be deferred until after the fiscal cliff crisis has been resolved. He frankly would prefer that the issue go away entirely, and has offered to take on the responsibility of raising it unilaterally, effectively removing such responsibility from Congress altogether. Using a measure first proposed by Senate Minority Leader Mitch McConnell (R-Ky.), the White House would request a debt ceiling increase from the Congress and the Congress would then just approve it. If the Congress fails to approve it, the president could then veto the disapproval, unless Congress overrides his veto — a highly unlikely outcome. In simple terms, Obama would be given a credit card with limits that can be raised with a phone call.

This, the president asserts, would give great comfort and assurance to the bond market that the government would never default on its debt, thus keeping interest rates low. Such a measure would also remove the debt ceiling discussion as a hammer by members of Congress to force spending cuts from the White House.

All of this is just a charade, according to Peter Schiff, the CEO of Euro Pacific Capital and supporter of limited government. He wrote that "these debates have become nothing more than exercises in feigned outrage. If Congress wants to control the debt, let them do so. If they don't care, just continue on the current path."

Schiff has found agreement from unlikely places. Jay Carney, in a White House press conference earlier this month, said that all raising the debt ceiling does is assure debt holders that they will get paid, or at least have their maturing debt rolled over without incident. And Isabel Sawhill, an economist at the liberal think-tank Brookings Institution, said:

> Those who believe that a refusal to raise the debt ceiling will somehow put limits on spending and shrink the size of government are confusing the need to pay obligations already incurred by Congress with the need to rein in future expenses.

Simply put, using the debt ceiling as a hammer is ineffective at restraining the growth of government as it allows the government to pay only for bills the Congress has already run up. It is backward-looking rather than forward-looking. Sawhill added:

> Spending restraint is needed … and is the right way to fix rising levels of debt. The debt ceiling itself is an anachronism. As Alan Greenspan once put it, we don't need both suspenders and belts.

The debt ceiling law was passed in 1917 in response to fiscal conservatives' demands that the newly created Federal Reserve be limited in how much government debt it was allowed to purchase. By opening the door by just an inch, the Congress allowed the Fed, over time, through the charade of debates over the debt ceiling, to own vastly larger amounts of government debt. Over the past 40 years there have been 91 debt ceiling increases, and government spending has continued to increase apace.

Schiff has seen through the charade and thinks the only benefit to it would be to alert taxpayers that government spending continues out of control.

The last two debt ceiling debates illustrated their ineffectiveness as a tool to bring spending down. In January, 1996, the House refused to increase the debt ceiling and the government had to stop all spending, for just a few days. When Social Security checks were threatened, President Clinton's popularity rose while that of the House plummeted. The House capitulated and the Treasury got its new debt ceiling.

In the summer of 2011 a similar debt ceiling debate raged which ended with the Budget Control Act of 2011 that allowed the debt ceiling to be raised by the Treasury Department without further input from Congress in exchange for will-o'-the-wisp promises of spending cuts sometime in the future.

No matter how the current fiscal cliff negotiations turn out, there's another debate waiting to be joined, with a similar outcome likely. Instead of using the debt ceiling as a jousting lance, Congress should attack the spending issue frontally. If it doesn't, the bond market eventually will do it for them.

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