



Written by [Bob Adelman](#) on February 2, 2011

Removing Geithners Temptation to Play Chicken with Debt Ceiling

When Austan Goolsbee, chief economic advisor to the Obama administration, was asked about the impact not raising the debt ceiling would have on the country, he said, "This is not a game. If we hit the debt ceiling, that's essentially defaulting on our obligations, which is totally unprecedented in American history." He continued:



The impact on the economy would be catastrophic. I mean, that would be a worse financial economic crisis than anything we saw in 2008. I don't see why anybody's talking about playing chicken with the debt ceiling. [If it isn't lifted], that would be the first default in history caused purely by insanity.

The second chorus to that same song was sung by Treasury Secretary Timothy Geithner (left) [just a week later](#) when he said failure to raise the ceiling could make it impossible for the U.S. to access global credit markets[there would be] [catastrophic economic consequences](#)

Many respected writers were quick to point out that this was simply excessive hyperbole and fear-mongering. They reminded their readers that 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.

It would be very far from the end of the world. As noted by the [Economist](#):

The Treasury can still draw down some \$200 billion in deposits at the Federal Reserve. [Geithner] can then get additional breathing space by means of various gimmicks, such as redeeming debt issued to civil-service pension plans these steps could tide the government over until the autumn.

At that point, however, the matter becomes murky. Faced with paying out under contractual agreements (like Treasury bonds) or statutory agreements (like Social Security) the Treasury itself will have to make a choice on priorities. Deciding between the two shouldn't be hard. Delaying payments to government vendors (military suppliers, government contractors and the like) isn't going to be the end of the world. It has worked well for the State of Illinois, which has remained current on its bonded indebtedness while [delaying payment](#) to its other creditors.

But, adds the *Economist*, a default on Treasury debt would unleash global financial chaos *this may be Mr. Geithner's most potent weapon*. [Emphasis added.]

Felix Salmon of [Reuters](#) expressed confidence that, given the choice, Geithner would do the right thing: There's no way that this administration would choose to cut debt service given that they have every choice in the matter. He added, "It stands to reason that just about any other form of government



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spending would get cut before Tim Geithner dreamed of defaulting on [his] risk-free bonds.”

However, knowing that Geithner and Goolsbee represent an administration for which a “crisis represents an opportunity” to promote their own agenda, two bills have been offered, S 163 in the Senate and HR 421 in the House, to remove any temptation from the Treasury to use failure to raise the debt ceiling to force the United States into default on its debt. Representative Jim Jordan (R-Ohio), chairman of the Republican Study Committee and a co-sponsor of the House bill, said icily, This bill will take Secretary Geithners disastrous scenario completely off the table. Jordans spokesman Brian Straessle explained further that the bill would actually give Treasury less discretionbecause they would be statutorily mandated to protect Uncle Sams access to the credit markets by first paying interest and debt service if the debt ceilingis reached.

All these bills would do, then, if passed, would be to eliminate any temptation by Geithner and the Treasury to precipitate a crisis for their own benefit by choosing not to pay debt service to the countrys creditors, and using that as a political and economic hammer to bludgeon Congress into raising the ceiling once more and allowing the government to continue to borrow and spend.

It is helpful to remember that the battle for freedom is war, and freedoms enemies will use any means, fair or foul, to achieve their objectives. Partisans for freedom should be grateful to Jordan and to Senator Patrick Toomey (R-Pa.), the architect of the Senate bill, for recognizing the potential threat, and for working to remove from the Treasury the temptation to precipitate such a crisis for its own purposes.



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