

Not Raising the Debt Ceiling Would Worsen the Fiscal Situation

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Abstract

In a contribution to U.S. News and World Report, Bill Gale discusses the urgent need to raise the U.S. debt ceiling.

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U.S. News and World Report Not Raising the Debt Ceiling Would Worsen the Fiscal Situation

The debt limit is the maximum amount of debt the federal government can legally issue at a point in time. The current limit will be reached in the next few months, prompting discussion over whether Congress should raise the limit. As with so many deliberations in Washington, though, the popular discussion on this topic is shrouded in confusion and ignorance, and masks the real issues.

The underlying issue is simple: If you spend your income on things you want, and the charges then show up the following month on your credit card bill, would you pay those charges? Yes, of course you would. You've made purchases and the bill has come due.

That's the whole question about raising the debt limit — whether Congress should allow the government to pay for spending that has already been approved by Congress. (Remember, it is Congress that authorizes all federal spending.) The answer, of course, is yes.

Now, as you're paying your credit card bill, you may well conclude that you are spending too much or that you need to earn more income to pay for your current standard of living. But that would be a separate issue, and stiffing the people who supplied the goods you just bought not only wouldn't resolve that problem, it would in fact make solving it harder, because your credit rating might fall if you don't pay what you already owe.

Likewise, the separate problem for the U.S. government is how to deal with our dismal fiscal future. The nation needs to resolve the looming fiscal imbalance through spending cuts and tax increases. Not paying the bills we already owe — that is, not raising the debt limit — not only won't solve the real problem, it would actually make a solution more difficult by undercutting the government's creditworthiness.

In short, raising the debt limit has nothing to do with controlling future spending or with raising the taxes necessary to pay for future spending. It is just a matter of paying bills that we've already incurred.

Raising the debt limit is a completely ordinary event. The limit has been raised 74 times in the last 50 years and 10 times in the last 10. Debt limit increases are associated with both Republicans and Democrats. When federal debt approaches the limit, the president typically favors raising the limit and the other political party demagogues the move. That is exactly what is happening right now.

Talk of refusing to raise the debt limit is just that — talk. Not raising the limit would require Congress to annually find about \$1.3 trillion in federal tax increases or spending cuts — a set of policy changes larger than the revenues currently raised by the individual income tax. So far, the legislators who say they oppose a debt limit increase have not come forth with anything near such a plan. Nor should you expect them to. They are just blowing smoke. Eventually, they will agree to raise the limit.

While voters and members of Congress may find it cathartic to channel their outrage and frustration at the underlying budget situation onto the current debt limit discussion, the real question is how to adjust future spending and taxes to bring about future fiscal stability and sanity. The sooner we get to that discussion, the better.

Refusing to raise the debt limit not only would not help solve that problem, it would actually make a solution much harder to achieve.

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