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Should Congress Raise the Debt Ceiling?

Robert P. Murphy

Robert P. Murphy is the author of Lessons for the Young Economist (RPM@ConsultingbyRPM.com).

The debate over the federal-government debt ceiling dominated the Spring. Treasury Secretary Geithner sent a letter to Congress explaining that the statutory debt limit would be reached around May 16, and therefore Geithner would implement “extraordinary measures” to postpone the actual crisis point.

As in his previous letters, Geithner reiterated that failure to raise the debt ceiling would lead to catastrophe for the nation. In this article I’ll explain the main issues and why Geithner is wrong.

The History and Current Status of the Debt Ceiling

The Constitution of the United States gives Congress the power of the purse strings. Before the federal government can spend money, Congress must authorize the spending. If the government ever tries to spend more in a certain period than it collects in revenues from taxes or other sources, then it must borrow the difference by issuing bonds.

Prior to World War I, Congress explicitly authorized bond issues. But because of the huge expense and need for quick action during the war, in 1917 legislators ceded the day-to-day financing decisions to the executive branch, so that the Treasury could issue new bonds to cover cash-flow gaps for the spending programs that the Congress had already authorized. In order to retain the power of the purse, however, Congress placed a statutory limit on the outstanding debt of the Treasury. This is what we now know as the “debt ceiling.”

Over the decades, Congress has always raised the debt ceiling as Uncle Sam’s indebtedness grew. On a few occasions (such as the present one), political squabbling prevents the ceiling from being raised in a timely fashion.

The current statutory limit is \$14.29 trillion, which was reached on May 16. Through various tricks, Geithner estimates that he can actually limp along until ➔

early August before he will no longer have the cash flow to meet the spending obligations of the US government. This drop-dead date for extending the debt ceiling is a few weeks later than Geithner's previous estimate, because more tax revenue has come in than was expected.

The League of Extraordinary Measures

Geithner's letter spelled out exactly how he would continue to fund the government for another two-and-a-half months, once the statutory limit was hit in mid-May:

"Because it appears that Congress will not act by May 16, it will be necessary for the Treasury to begin implementing these extraordinary measures this week.

"On Friday, May 6, Treasury will suspend until further notice the issuance of State and Local Government Series (SLGS) Treasury securities. SLGS are special-purpose Treasury securities issued to states and municipalities to help them conform to tax rules that restrict the investment of proceeds from the issuance of tax-exempt bonds.

"If Congress does not increase the debt limit by May 16, the Treasury Department will be forced to employ further extraordinary measures on that date to provide headroom under the limit. Therefore, on May 16, I will (1) declare a 'debt issuance suspension period' under the statute governing the Civil Service Retirement and Disability Fund, permitting us to redeem

existing Treasury securities held by that fund as investments, and to suspend issuance of new Treasury securities to that fund as investments and (2) suspend the daily reinvestment of Treasury securities held as investments by the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan. (Under the law, Federal employees are protected by a requirement that both funds be made whole after a debt limit increase is enacted.)

"In addition, it may become necessary, at a time to be determined, to suspend the daily reinvestment of Treasury securities held as investments by the Exchange Stabilization Fund.

"Largely as a result of stronger than expected tax receipts, we now estimate that these extraordinary measures would allow the Treasury to extend borrowing authority until about August 2, 2011."

The latter three "extraordinary measures" are simply an accounting gimmick; the amount the federal government legally owes these funds will still grow, but technically the Treasury will not issue them an increased number of securities until after the debt ceiling is formally raised. As some of the Treasury holdings of these funds mature (between now and early August), the official Treasury debt held by these three funds will fall further and further below what the Treasury "really" owes them, giving Geithner some wiggle room by which he can transfer that portion of the outstanding debt to cover new borrowing.

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Ludwig von Mises Institute, 518 West Magnolia Avenue, Auburn, Alabama 36832-4501

Phone: 334.321.2100; Fax: 334.321.2119; Email: info@mises.org; Web: mises.org

For an analogy, imagine a man who runs up his credit card month after month, charging more in groceries than he can afford to buy with his paycheck. Eventually he reaches his credit limit on the card, and so he applies for an increase in the limit. In the meantime, he wants to continue spending more than his income permits. So he says to the grocer, “Let me run up a tab with you. You keep track of how much I owe you, and then when the credit card company bumps up my limit—as I’m sure they will—I’ll settle up with you.”

Is the Credit-Card Analogy Correct?

Many left-leaning economists are frustrated by the political battle over the debt ceiling. They think the Tea Party-esque analogies of household belt-tightening and credit card limits are wrong when it comes to Uncle Sam. For example, earlier this week on NPR’s *Marketplace*, Brookings Institution economist Bill Gale said Congress raising the debt ceiling is “not like the credit card raising your credit limit; it’s like you authorizing yourself to pay the credit card debt that you put on the bill.”

Gale also said, “Not raising the debt limit right now wouldn’t reduce the path of future spending. It wouldn’t increase future tax revenues. Those are separate decisions that still have to be made.”

Gale’s analysis is consistent with that contained in Geithner’s letter, which claimed,

“I want to emphasize that, contrary to a common misperception, the debt limit has never served as a constraint on future spending, nor would refusing to increase the debt limit reduce the obligations the country has already incurred. Increasing the debt limit merely permits payment of obligations

Congress has already approved to citizens, servicemen and women, businesses, and investors. In order to honor those obligations, increasing the debt limit is unavoidable.”

There is a kernel of truth in what Gale and Geithner are arguing: any spending that the executive branch undertakes must be approved by Congress, and all revenue ultimately comes from policies enacted by Congress. In that respect, *if we viewed the Congress as a single person*, then having a statutory debt limit seems superfluous.

However, the student of history can appreciate the wisdom of “superfluous” checks on government power. The legislators in 1917 understood the danger of giving the executive branch the ability to issue as much debt as creditors were willing to lend it. Seeing how much else the executive branch has done over the years to usurp power from Congress, it’s not too hard to imagine administrations borrowing money to pay for programs that the Congress had tried to defund.

More generally, not raising the debt limit is equivalent to a balanced-budget requirement. Politics being what it is, it can be very difficult for people in Congress to make budget cuts to particular programs; each cut alienates powerful interest groups while only conferring slight benefits on the average voter. In this context, if there is a hard cap on spending—because Congress *can* agree to hold firm on the debt ceiling—then the politicians have no alternative but to make painful choices.

Was 2003 Really a Year of Austerity?

Although there was a grain of truth in Bill Gale and Tim Geithner’s complaints about Congress not raising the debt ceiling, their remarks were nonetheless misleading. The government has not already spent the money

that would push the Treasury over the debt ceiling. Rather, Congress has merely set in motion that *trajectory*. But Congress certainly has the power to alter its spending provisions.

There is more than enough revenue flowing into federal coffers to maintain interest payments on the *existing debt*. Geithner and others continually conflate “failure to raise the debt ceiling” with “default on Treasury debt,” but those are distinct things.

It would take about \$750 billion in spending cuts for the remainder of this fiscal year (which ends September 30) for the government to live within its means—that is, to spend only incoming tax receipts without having to go deeper into debt. That’s a huge sum of money, but then again the government’s expenditures have grown tremendously in the past few years. If the government simply returned to 2003 spending levels, then Geithner wouldn’t need to issue more debt, and he wouldn’t have to default on existing obligations.

Why Not Auction Off Government Assets?

In all the hoopla over the debt ceiling, I haven’t heard many people raise the point that the government has a huge collection of assets that could be sold to the private sector. This would cushion the blow and make the transition easier. In other words, if people

say that \$750 billion in spending cuts (between now and September 30) is simply “impossible,” then we still don’t have to either borrow more or raise taxes. We have another option: namely, the federal government could auction off some of its holdings and fill the gap that way.

For example, the Strategic Petroleum Reserve (as of late November) had almost 727 million barrels of crude oil. At current market prices, this inventory is worth more than \$80 billion. The Outer Continental Shelf (OCS) contains an estimated 59 *billion* barrels of technically recoverable crude oil. Obviously, a barrel of oil in the hand is worth more than one under the sea floor, but clearly the federal government could raise huge sums of money by selling this property to the private sector.

In addition to mineral resources, the federal government has enormous holdings of real estate and office buildings. A Reason report quotes then-OMB Director Peter Orszag estimating in 2010 that the federal government owned 14,000 buildings and structures that were “excess” and 55,000 that were “under- or not-utilized.”

Beyond auctioning assets, the feds could get even more creative in dreaming up win-win scenarios that would ease the cash crunch without having to raise taxes or borrow more. For example, the government could tell current



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Social Security beneficiaries: “If you agree to renounce all of your future benefit checks, we will exempt you from income taxation should you go back to work.” Depending on how the deal were configured, this arrangement might not “sacrifice” too much future tax revenue from the government’s point of view, and it would reduce the upfront cash outflow needed to pay Social Security beneficiaries.

Conclusion

There is a strong libertarian argument to be made that all tax revenues are stolen, and in that respect the government has no business “honoring” its debt at all. However, even if we accept

the debate on its own terms, the pundits and politicians are talking nonsense. Despite the handwringing and lectures from Geithner and his accomplices, there is no need to raise the federal debt limit. The US government already spends an obscene amount of money every month, and this could easily be scaled back to the current inflow of tax receipts. Yes, such a move would involve painful budget cuts, but Americans need to stop looking to the federal government for all these services anyway. Other good ideas would be returning government assets to the private sector and getting people to opt out of the Social Security system. ■ FM

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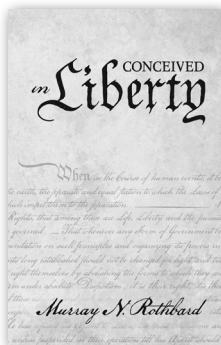
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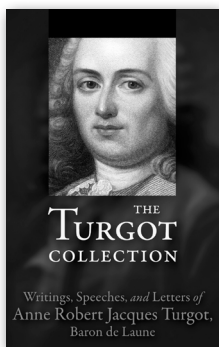
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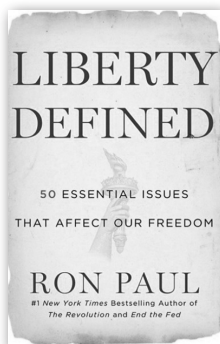
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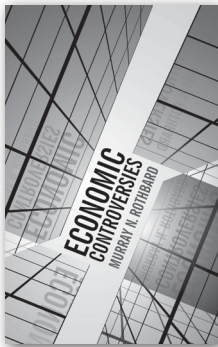
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