PERSONALLY SPEAKING

Special Issue ***September 27, 2013***

THE DEBT CEILING CRISIS: ANOTHER OPPORTUNITY FOR THE USUAL WASHINGTON DEAL MAKING

Edward J. O'Boyle, Ph.D.
Mayo Research Institute

The ceiling on the public debt can be traced as far back as the Second Liberty Bond Act of 1917. The intent of Congress was to impose restrictions on specific debt issues. Over the next 20 years Congress lifted some of the specific restrictions on debt management and federal financing. In 1939 a general limit covering the entire public debt was initiated and remains in effect today.

The debt ceiling sets a limit on the amount of the public debt that can be issued by the U.S. Treasury. Since 2001, the limit has been raised ten times to accommodate the additional borrowing necessary to finance budget deficits. The Budget Control Act of 2011 increased the limit and authorized the establishment of a "super committee" that was to recommend to Congress and the president how best to reduce future budget deficits. Failing to get the required agreement on its draft report, the committee was unable to offer any legislation for Congress to act upon.

For a debt ceiling to work in an effective manner, Congress must approve budgets that reduce the size of the deficits such that the government operates below the ceiling. Congress, however, has been unwilling to adopt such budgets. Democrats refuse to cut spending. Republicans refuse to raise taxes.

Congress gets around the budget impasse by approving continuing resolutions that simply lock in place federal spending at the current level. Unless there are substantial increases in tax revenues due to improved business conditions, continuing resolutions lock in budget deficits and in time lead to the usual political posturing over the need to raise the ceiling so that the Treasury can be authorized to issue more government bonds. Both political parties derive comfort from the impasse by pointing the finger at the other party for its intransigence.

Under today's stalemated political conditions in Washington, the debt ceiling is like the posted speed limit on a road that never is patrolled. Like the diet that a person never quite gets around to follow. To rein in budget deficits and avoid the need to increase the debt ceiling, it is necessary for Congress and the president to embrace budget discipline. Sadly that discipline is missing. The last year-to-year reduction in the public debt occurred in 1956-1957.

Ugly as it sounds, the American people are not willing to deal with the budget deficit. Nearly one of every two federal income tax filers pays no tax. Why would they insist on higher taxes to reduce the deficit if they would end up having to pay those taxes? One hundred million Americans live in

households that currently receive means-tested public assistance in cash or in kind. Why would they petition Congress to rein in spending?

Not included in the 100 million are millions of other Americans getting Medicare and Social Security benefits that alone represent 38 percent of federal spending today. The trustees of those popular programs tell us that the Medicare trust fund will be depleted in 2026. The Social Security trust fund will be depleted in 2033. Depletion means that current benefits must be paid entirely from current worker contributions.

If as projected Social Security trust fund collections fall short of benefit obligations, the benefits promised to retirees cannot be paid in full without raising payroll taxes. Why would working-age adults pay higher taxes to support benefits for the elderly? Under those circumstances, the only way to maintain benefits is to dip into general tax revenues thereby adding to the budget deficit.

With Medicare, the solution is different: cut reimbursement to health-care providers and hope those cuts will not adversely affect access to care. Unless they are wealthy and willing to pay their health-care providers out of pocket or just plain lucky, the elderly will have to do without needed health-care services.

Defaulting on the public debt is not the answer. Persons and organizations holding U.S. Treasury bonds would suffer an enormous loss of wealth, triggering a global financial and economic crisis. As with private financial institutions that have become too big to fail, the U.S. government is too big to default.

Unless Washington acts with budget discipline, an ugly scenario awaits the children of America. Higher payroll and general revenue taxes, smaller retirement and public assistance benefits, restricted access to health care, not to mention erosion of national and homeland security. And working-age adults who resent their elderly mothers and fathers for forcing them to foot the bill for the public entitlements their parents were unwilling to pay for themselves.

Given America's long-standing addiction to deficit spending, the debt ceiling debate has become another opportunity for Washington Republicans and Democrats to engage in the usual *quid-pro-quo* deal making. In the end, both parties know that raising the ceiling is absolutely necessary. The ceiling has as much to do with addressing this addiction, as handing an alcoholic another drink has to do with ending his drunkenness. What's needed is a 12-step program to break this terrible deficit-spending addiction.

Edward J. O'Boyle is Senior Research Associate at Mayo Research Institute

Offices in New Orleans, Lake Charles, and West Monroe

www.mayoresearch.org   318-381-4002   edoboyle737@gmail.com
