Raising the US Debt Ceiling, by Richard N. Cooper 8/2/11

The ceiling on outstanding US Federal government debt was raised with much fanfare at the last possible moment, on August 2. Thus, in the words of President Obama repeated uncritically by thousands of journalists, the United States avoided default on US government debt, which would have been a first in its 222 year history.

In fact, default on the debt was never a serious prospect, and the economic content of the month-long acrimonious debate was minimal. It was Washington political theater at its worst, involving posturing by mainly Republican members of the US House of Representatives, one of the two parts of Congress, the US legislative body.

This debate should not have taken place at all. The debt ceiling is superfluous, since Congress has full control both of US government expenditures and of the coverage and rates of taxation. The difference between outlays and receipts determines the government's borrowing requirements. But the debt ceiling, while superfluous, has existed for nearly a century. Given that it exists, it should be raised routinely as required, as it was 18 times during the administrations of Ronald Reagan and 7 times during the administrations of George W. Bush – with the votes of many of the Republicans who recently objected to raising it this year.

If the ceiling had not been raised, President Obama had much discretion in how to address the situation. It is virtually certain that he would not have chosen to cease paying interest on the outstanding public debt, which would have constituted default.

But the ceiling was raised, in a compromise that also involved a commitment by all parties to cut government expenditures by over $2 trillion over the next ten years.

The real lesson from the compromise is that Congress under its current procedures is incapable of exercising fiscal discipline. It has not yet passed a budget for fiscal year 2012, which begins on October 1, less than two months away. Instead, it frittered away an entire month in unnecessary debate on the debt ceiling. The budget is the proper place to argue about and to reach compromises on future expenditures. But of course Congress would then have to decide, explicitly, which expenditures to cut and which to retain or even expand for the next year. Instead, the current compromise involves specifying a total cut, to be spread over ten years. That total is to be allocated before November 23 by a specially constituted committee of twelve Representatives and Senators, whose proposals are to be submitted to the two houses of Congress for an up-or-down vote, without amendment. In this way, legislators will be able to present themselves to the voting public as being serious about reducing the overall US deficit, without taking personal responsibility in an election year for painful cuts in particular expenditures, such as health care or farm subsidies. Indeed, there may be few cuts in 2012, since the agreed total cuts can be loaded onto the more distant years of the next decade.

This kind of devious evasion, and the impass that led up to the compromise, is less likely to occur in a parliamentary system, where the majority of parliamentarians choose the prime minister and the ministers, and where they present a budget which is either voted up or the cabinet is turned out for a new one. The American system of checks and balances, with its sharp separation of powers between the President and the Congress, has advantages; but smoothly passing budgets is not among them.

So while the world breathed a sigh of relief when the debt ceiling compromise was reached, the legislative politicians in effect evaded responsibility for doing their jobs properly.