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Preparing For The Next Debt Fight

Feckless Republicans need a Niskanen Amendment to slow federal spending and stop debt.

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While the Obama administration lectures Europe about the latter's fiscal policies, Washington continues to run deficits. The problem is bipartisan. When George W. Bush took office the national debt was \$5.8 trillion. When Barack Obama took over it was \$11.9 trillion. Now it is \$18.2 trillion.

And these numbers will look like the "good ol' days" when the entitlement tsunami hits in coming years. Interest alone ran \$431 billion last year. As interest rates rise to more normal levels, debt payments will be one of the big spending boulders, alongside Social Security, Medicare, Medicaid, and military. Worse, economist Laurence Kotlikoff figures total unfunded liabilities today run about \$200 trillion. But who's counting? Certainly not the president!

It long has been obvious that the American political system is biased toward spending. (Actually, looting would be the more accurate term, but such honesty is frowned upon in Washington.) Public choice economics explains how government agencies have interests and why spending lobbies so often prevail over the public. Congress demonstrates a "culture of spending" in which members tend to back higher expenditures the longer they serve. Washington culture richly rewards legislators for "growing" in office and joining the bipartisan Big Government coalition. In particular, the famed "revolving door" provides lavish financial rewards for those who ally with well-heeled special interest groups.

Some analysts still hope that electing the "right people" will fix the system. But that is unlikely. Spending has continued ever upward under Republicans and Democrats, conservatives and liberals, saints and scoundrels. Without creating some institutional barriers to political plunder the system will continue to produce the same overall results, despite slight differences in exactly how much is spent on whom and when.

Over the years advocates of fiscal responsibility have offered various proposals to contain Uncle Sam's voracious fiscal appetite. Many systems were complicated and subject to manipulation, being based on estimates of GDP, for instance. In contrast, the late William Niskanen proposed a measure that was simple and impossible to game. Niskanen, a UCLA economist, served as Ford Motor Company's chief economist until the firm decided to lobby for protectionism. He was

acting Chairman of the Council of Economic Advisers under President Ronald Reagan and left that position to become Chairman of the Cato Institute. He was principled, blunt-spoken, dedicated to liberty, and a friend.

Two decades ago Niskanen proposed a simple 125-word amendment requiring a three-fifths vote to increase the debt limit or raise taxes and federal compensation to states and localities for any mandates. These provisions would be suspended in the event of a declaration of war. “Nothing has changed in the interim to render Niskanen’s proposal obsolete or impractical,” noted Lawrence Hunter of the Social Security Institute in a [new study for the Carleson Center for Welfare Reform](#).

The measure would put taxing and borrowing on a level playing field, eliminating the current bias for piling up debt and more debt. Moreover, the three-fifths requirement would make it easier for legislators to reconsider outlays than to collect more money to waste. This would create a useful corrective for the pervasive pro-spending bias built into the system today. As Hunter explained, “Niskanen has constructed two jaws of a fiscal vice on spending (one on debt, one on taxes), with the default position set at ‘closed’—i.e., no room for deficits.”

However, Niskanen was writing in far more innocent times. When he left the Reagan administration three decades ago the national debt was \$2.7 trillion. One then might imagine electing a few more Republicans could solve the fiscal problem. After all, under President Bill Clinton the GOP Congress slowed growth in the national debt to a relative crawl. Alas, the six years of President George W. Bush and a GOP Congress demonstrated that Republicans could be even more fiscally irresponsible than Democrats. The Senate filibuster, with a three-fifths rule, was only a limited impediment to the growth of government, and it could be ended by a simple rules change, as has been done for many judicial nominations.

Thus, the required super-majority should be two-thirds. Wrote Hunter, experience makes clear that the three-fifths requirement is “not sufficiently stringent to overcome the enormous bias in the legislative process compelling Members of Congress to spend more money, borrow more money and raise more tax revenues to pay for it.” Consequently the ramparts of fiscal responsibility should be raised even higher and made even stronger.

Moreover, Hunter noted that Congress has subverted the debt limit by effectively setting a floating number “suspended” to accommodate whatever amount Congress ends up spending. As a result, “in order to enforce the hard statutory debt limit that was in place before the suspension period took effect, Congress would actually have to extinguish almost a trillion dollars of outstanding debt to be in compliance with its own law—unimaginable.”

Thus, he proposed that the Niskanen Amendment be updated to explicitly restrict any suspension to no more than 30 days per Congress, and require the same super-majority vote to suspend the limit. If the constitutional change was enacted Congress could set a realistic but hard debt ceiling for use about a year after the provision took effect. Then the “fiscal vice” would be in place and could work its magic.

Hunter proposes one final legislative piece to complete the fiscal puzzle. Congress should prioritize spending in the event that borrowing hits the debt ceiling. Hunter proposed setting repayment of the national debt, both principal and interest, as the top priority. That would eliminate any possibility of default. Then Washington should repay Social Security recipients. The reason is politics rather than principle, since doing so would eliminate the transfer payment version of the “Washington Monument Syndrome,” by which any push for serious budget cuts is met with proposed reductions in the most sensitive and popular government programs. Today big spending politicians respond to opposition to higher borrowing, despite the availability of abundant tax revenues, by threatening retirees’ livelihoods. Instead, Uncle Sam should first cut off clamorous interest groups which fill the nation’s capital.

Congress must again address the debt limit by the Ides of March. Despite the fact that Republicans have taken control, the congressional leaders can be expected to play the same tricks as in the past. They will allow outlays to move ever upward without hindrance while giving “the impression they are not ‘caving’ on raising the debt ceiling,” warned Hunter.

Advocates of fiscal responsibility should use the debt battle to push the Niskanen Amendment. Everyone but the most committed redistributionist admits Uncle Sam has a spending problem. Niskanen’s proposal is easy to understand and enforce. It complements other budget amendments, whether balanced budget or spending limitation. Simply proposing the measure would enable the Republican majority to highlight Washington’s pervasive bias toward special interests and against common taxpayers.

Equally important, any increase should include language prioritizing payments with existing funds. The Republican House previously approved a similar measure, the Full Faith and Credit Act of 2011, which was rejected by the Democratic Senate. There’s no excuse for Congress not to decide what bills to pay first in the event of a shortfall. Congressional spendthrifts should not be able to hold everyone hostage for political purposes. Indeed, any definition of good government requires setting priorities. Let President Barack Obama threaten to veto a debt measure because it includes language requiring him to pay the most important claims first.

As the American people previously discovered, electing a GOP Congress is no panacea for Washington’s fiscal woes. However, Republican legislators typically behave far better when in opposition—compare the dramatically different experiences of the Republican Congresses under Bill Clinton and George W. Bush. Thankfully, Republicans have a similar partisan incentive to oppose President Obama’s more grandiose fiscal dreams.

While it would be hard to reject a debt limit increase for spending already approved, congressional Republicans should begin preparing for the next debt fight. That means introducing the Niskanen Amendment and approving legislation setting payment priorities. The only hope for reducing the growth in federal debt is to create institutional barriers to its growth. Otherwise the red ink likely will rise until Uncle Sam is both insolvent and bankrupt.

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