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The debt ceiling game

By Tad DeHaven - 02/22/11 09:10 AM ET

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The latest installment in a decades-long series of showdowns on Capitol Hill over raising the statutory debt ceiling is imminent. The ceiling has been raised ten times in just the last nine years to make room for almost \$8 trillion in additional debt. But the stakes are much higher this time around, as the electorate is showing increasing awareness of the danger of having allowed Uncle Sam to abuse his credit card.

The Republicans' reclamation of the House in November, due in part to a promise to address the government's runaway debt, immediately set up a confrontation with the Obama administration over the need to raise the ceiling above \$14.3 trillion at some point in the spring.

When Republicans balked at the prospect of raising the debt ceiling without also reining in spending, the White House wasted little time in warning that GOP intransigence could usher in the apocalypse.

Treasury Secretary Tim Geithner said that failing to increase the ceiling would result in "catastrophic economic consequences that would last for decades." The president's chief economic adviser, Austan Goolsbee, claimed that failure to do so would cause "a worse financial economic crisis than anything we saw in 2008."

Nice try.

Back in 2006, then-Senator Barack Obama apparently wasn't concerned about the "catastrophic economic consequences" when he voted against raising the debt ceiling. Obama told his Senate colleagues that "The fact that we are here today to debate raising America's debt limit is a sign of leadership failure.... Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren."

Obama was correct then that raising the debt ceiling represented a failure of leadership – particularly that of then-President George W. Bush. Unfortunately, his own failure of leadership now as president is exacerbating the burden that Washington is foisting "onto the backs" of future generations.

The White House's alarmist rhetoric is intended to spook the public into the administration's corner. The administration knows the debt ceiling will almost certainly once again be raised – it just wants to limit the amount of flesh the Republicans will be able to extract in return.

"This is not a game," Goolsbee says. Oh, but it is a game – a decidedly political

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one between two parties vying to control the levers of government power.

A failure to raise the debt ceiling would not immediately result in the government defaulting on its obligations. There's nothing stopping the Treasury from meeting its debt obligations with the tax revenues that would continue flowing into the government's coffers. It would mean that because the government wouldn't be able to issue new debt, it wouldn't be able to pay all of its expenses given that it spends well beyond what it collects in taxes.

That's the rub: the debt represents a conscious decision to consume today at the expense of tomorrow. Americans have too long grown accustomed to living at their neighbor's expense via the government, with politicians only too happy to assist.

However, Americans don't like it when their neighbor tries to live at their expense. Politicians in Washington have solved this dilemma by issuing gobs of debt, which means that Americans are now living at the expense of their neighbor's kids – as well as their own.

We cannot operate like this forever, and the breaking point is fast approaching.

Trying to tax our way out of the problem would undermine the economic growth needed to help ease our way out of this mess while perpetuating and deepening our pathological dependency on government. Only a drastic retrenchment in the size and scope of the federal government can both alleviate the debt burden and put the economy on sound footing for future generations.

The political stakes in the latest debt ceiling game are high. The consequences of failing to use it as an opportunity to start reining in the federal government are even higher.

Tad DeHaven is a budget analyst at the Cato Institute and co-editor of www.downsizinggovernment.org.

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