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Hitting the Debt Ceiling is Much Worse Than a "Government Shutdown"

By: Timothy B. Lee – January 9th, 2012

In recent days I've been tweeting critically about Republican leaders' use of the debt ceiling as a bargaining chip in budget negotiations. Someone asked me "In your world, how will spending ever get cut?"

It's a good question. I share Republicans' (and most Americans') concerns about our unsustainable long-term budget outlook, and so I can certainly see why people would see the GOP's tactics as a reasonable response to a serious problem. To understand why I think the Republicans' approach is illegitimate, it's important to distinguish the kind of garden-variety government shutdown that occurred during the Clinton administration (and almost happened in April 2011) from what would happen if the United States government reached the debt ceiling, as it almost did in August 2011 and might do in February or March of this year.

While an ordinary government shutdown can obviously create some problems, from a legal perspective it's a completely routine matter. The government can't spend money until Congress appropriates it. Hence, if Congress fails to pass a new appropriations bill before the previous one expires, then there's no authority for the government to spend money on the programs it covers and so those programs shut down. But "mandatory" programs like Medicare that spend money based on a legal formula rather than annual appropriations continue operating. Vendors who have already done work for the government get paid on time and in full. The government continues paying interest on its debt. And sooner or later Congress passes a new appropriations bill and the stalled programs start operating again.

In contrast, if Congress allowed the federal government to hit the debt ceiling, it would effectively be telling the government, by law, to do two contradictory things. On the one hand, it would be telling the government to continue spending money on various government programs. As Matt Yglesias points out, the Congressional Budget and Impoundment Act of 1974 doesn't allow the president to decide not to spend money Congress has appropriated.

On the other hand, Congress would be prohibiting the government from raising the cash it needs. So to comply with Congress's spending decisions, the president would need to to violate the law on the debt ceiling. Conversely, respecting the debt ceiling would require breaking the law with respect to government spending. Or, perhaps, the president could obey both provisions of he opted for wacky statutory loopholes like minting a trillion dollar platinum coin.

If you think the rule of law matters, then you should be opposed to putting the president in a situation where he's forced to pick and choose which laws to obey.

Even assuming, as some Republican members of Congress have suggested, that it would be legal for the president to unilaterally shut down some government programs, there are serious practical problems. The deficit is large enough, and federal revenues "lumpy" enough, that merely halting all "discretionary" spending—which Congress appropriates on an annual basis—wouldn't necessarily be sufficient to avoid hitting the debt ceiling. Yet "automatic" spending programs like Social Security and Medicare aren't designed to be stopped on a dime. These payment systems are computerized, and it's probably not practical to re-program the computers that handle these payments in a matter of weeks.

And there's also a moral issue to consider. Even assuming that President Obama were legally and logistically able to, say, halt Medicare reimbursements, doing so wouldn't be fair to those who are owed payments by the Medicare system. Maybe you think Medicare should be overhauled or even abolished. But a hospital that provides a medical service to a senior citizen is entitled to be reimbursed according to the laws in place at the time the service is provided. Halting payments would mean stiffing people—hospitals, defense contractors, suppliers, perhaps even bondholders—who have already performed services for the government and are legally entitled to compensation. That's not right.

Finally, a debt-ceiling-based shutdown would have serious macroeconomic consequences. Remember, a standard government shutdown is a highly orderly, lawful process. Everyone can predict whether or not they'll get paid during an ordinary shutdown, and no one will find themselves unexpectedly not getting paid for services rendered to the government. That wouldn't be true if we hit the debt ceiling. Even assuming the Treasury could successfully juggle the government's obligations to avoid a catastrophic default on the national debt, it would still be likely to trigger miniature financial crises throughout the economy as various entities are suddenly thrown into a state of financial uncertainty by an abrupt cessation of federal payments. This isn't just my opinion: fears of hitting the debt ceiling sparked a precipitous declinein stock prices in the days leading up to the debt ceiling deadline. We can assume it would be much worse if we actually reached it.

Every year (if not more often) House Republicans have an opportunity to trigger a government shutdown if they're not happy with the level of spending. And in my view doing so is completely legitimate. If Republicans are not happy with the current level of spending, the solution is to take a firmer stance in the next round of budget negotiations. If voters agree with their position, then in the long run they'll get their way. But the deficit is not such a severe problem that it's worth undermining the rule of law and damaging the economy.