

Another Economist Jumps On The Remarkable Pro-Default Bandwagon

Joe Weisenthal | Apr. 19, 2011, 1:22 PM | 354 | 7

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Another day, another economist advocating that the US default on its debt.

The latest is [Jagadeesh Gokhale of the Cato Institute](#), who has a big piece advocating an immediate freeze of the debt ceiling.

It's so convoluted, we hardly know where to begin, but let's just address a few sloppy parts.

Many knowledgeable federal officials, like Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke, as well as left-leaning lawmakers, insist that the answer lies in lifting the debt limit. They warn Congress about the dire consequences if it fails to do so. President Barack Obama has chimed in — though he voted against raising it when he was a senator.



Image: CATO Institute

They all assert that failing to increase the debt limit could sharply undermine the economic recovery.

But that view could be wrong. A temporarily frozen debt limit could instead signal U.S. lawmakers' resolve to get our fiscal house in order. It may even reassure investors about long-term U.S. economic prospects.

This line about "reassuring investors" is nonsense. Investors are already reassured, which is why interest rates have only fallen amidst all the squawking from the political class about this "crisis."

He then gets to the discussion of a default.

...the current prospect of a technical default, from failing to increase the debt limit, would not be due to any real national insolvency. Given today's low interest rates, the federal government could easily raise the resources needed to meet today's contractual government obligations.

This doesn't make any sense. How do "low interest rates" matter to the government in a situation where it's legally unable to borrow?

Anyway, here's the biggest whopper of them all:

How might investors really view this ersatz U.S. debt crisis? If some lawmakers' refusal to vote for increasing the debt limit without also passing prudential fiscal policies resulted in a technical U.S. default, it would demonstrate their significant political strength.

Might that not actually induce investors to buy long-term U.S. debt — reducing long-term interest rates and improving the U.S. investment climate?

Oy, where to begin? First of all, the notion that a "technical default" would induce investors to buy long-term US debt is prima facie absurd.

Second, as we stated above, longterm US interest rates are at historical lows, so the idea of needing to reduce them further to improve the US investment climate is rubbish. And finally, why do we want people to buy more long-term US debt? Ideally we want people going out and actually investing in things with their money: companies, employees, lending to corporations, etc. Aren't debt hawks supposed to hate the idea of government borrowing crowding out private spending.

Basically, Gokhale is just throwing a bunch of stuff at the wall, failing to produce an argument, and hoping you don't really get it. Sorry.

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Joe Weisenthal

Contact:
 e-mail: jweisenthal@businessinsider.com
 AIM: [openfilerook](#)
 Work Phone: 917-621-7438
 SMS: 917-621-7438
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7 Comments [Receive email updates on new comments!](#)**rsm** on Apr 19, 1:29 PM said:

Joe, do you really think we're going to fall for your extremely forshortened and out-of-context views on someone's perspective when we already know you disagree? Really? This is your level of intellectual honesty - lol, who am I kidding - of course it is , , ,

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[Flag as Offensive](#)[Reply](#)**imdwightgooden** on Apr 19, 1:32 PM said:

doesn't it just seem a whole lot easier not to even worry about the 'to default or not to default' scenario and just buy gold instead?

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gold doesn't default.... gold doesn't have debt ceiling.... gold doesn't get put on credit watch... gold doesn't need to be scored by the CBO

gold just is

[Reply](#)**Mike O** on Apr 19, 1:32 PM said:

You're right again, Joe. Another uneducated economist telling us we have a debt problem, but we all know that's not really the case. We're fiiiiiiiiine! Move along; nothing to see here.

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[Flag as Offensive](#)[Reply](#)**Steve** on Apr 19, 1:35 PM said:

Wow. this guy holds a PhD in Economics. He must have gotten his mates to do his thesis for him.

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[Flag as Offensive](#)[Reply](#)**Lisa** on Apr 19, 1:38 PM said:

I am done borrowing money. Never will I buy a home ever again...ever. I am a FREE person. I owe no one. I know this does not work for our government..but this "American Dream" BS...is over for me!

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[Flag as Offensive](#)[Reply](#)**imdwightgooden** on Apr 19, 1:42 PM said:

@Lisa: you need to take it a step further... a) no holdings of treasury or muni bonds- if you're against the horseshit games that our government is playing then refuse to lend them any money... if so, all you're doing is perpetuating the ponzi... b) take some cash out of the bank and hold it at home... doesn't need to be a huge amount... heck, they're not paying you any interest anyways so may as well.... and c) buy gold and silver and make sure it's the fizz... it's the best way to hold wealth and have it be completely outside this corrupt scumbag laden system

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starve this f'n beast

[Reply](#)**What??** on Apr 19, 1:42 PM said:

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Joe,

Freezing the debt ceiling is not defaulting on the debt.

Freezing the debt ceiling means that we need to have a balanced budget.

Defaulting on the debt means that the US does not make an interest payment.

You really should know what you're talking about before writing these articles.

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