

Focus on the Debt

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America faces two very serious budget problems: Democrats, and Republicans. Partisan wrangling over the brief shutdown of about 17 percent of the federal government has been unnecessarily long and convoluted because both sides keep repeating their misleading talking points and diverting attention away from the central issue — deficits and debt — and toward extraneous or irrelevant topics.

The White House and Senate Democrats' insistence on a "clean" continuing resolution to keep spending as usual was only an ephemeral delaying tactic, because a "continuing" resolution could not continue for more than a couple of weeks without also hitting the debt ceiling. Since nobody expects the debt ceiling to be put off for very long (perhaps six weeks), ending the semi-shutdown requires an *unclean non*-continuing resolution. The deal must be unclean, but only in the sense of having reasonable and relevant conditions attached, and it must be non-continuing, because the larger battle over lifting of the debt ceiling will still be around the corner.

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White House efforts to conflate the looming debt-ceiling deadline with "default" have been rightly laughed off in the markets. After all, interest on Treasury debt accounts for only 6.5 percent of federal spending. But paying interest on bonds — *not* discretionary spending — is a binding legal obligation. Failure to extend the debt ceiling on some specific date would neither require nor permit the Treasury to "default" on obligations to creditors — including the Federal Reserve, which holds twice as much U.S. debt as China does. But getting past October 17 with a debt ceiling unraised would require cutting other spending by some \$12.3 billion per week while the impasse lasted. Neither party has the stomach for making sudden choices of that magnitude, so this is a game of bluff poker in which nobody is holding a winning hand.

In short, the urgent issue is the debt ceiling, period. Extending the debt ceiling requires negotiating about issues that affect debt — namely, taxes and spending — rather than changing the subject to some Republicans' mercurial wish list about Obamacare. Aside from the impracticable and now largely abandoned gesture of somehow "defunding" (without repealing) the 2010 Affordable Care Act, House Republican proposals to tinker with that law would not have reduced the budget deficit at all. Regardless of their merit per se, those proposals were always completely off topic.

The newest scheme, compelling certain federal workers (Congress and their staff) to forgo employer-subsidized (i.e., government-subsidized) group health benefits and instead pay the full price of individual policies on the new exchanges, was both irrelevant and peculiar. Most private

employees in the U.S. also have employer-subsidized health benefits, yet nobody suggests compelling them by the letter of the law to replace their group plans with individual policies.

Another House Republican idea, postponing the individual mandate for a year, would not have reduced the number of people being bribed to sign up for *subsidized* health insurance through expanded Medicaid eligibility or tax credits on the exchanges. All that would happen is that expected revenues from fines would vanish for a year, enlarging the deficit, while many healthy young people who would pay full price on the exchanges would forgo them. Stopping the excise tax on medical devices would add to the deficit, of course, unless replaced by another, less punitive tax. (Such temporary revenue losses are negligible with regard to the looming budget debate but are still steps in the wrong direction.) Besides, keeping Obamacare's subsidies in place in 2014 while hoping to postpone fines another year might as well be a strategy to protect the law's supporters from irate voters until after the election.

Unless and until Congress is prepared to stop spending borrowed money, enforcing a debt ceiling is mathematically impossible. It would just be political posturing or pandering for legislators to object to raising the debt ceiling while doing nothing to narrow the deficit. In the wake of 2011 debt-ceiling negotiations, however, something *was* done: Automatic cuts reduced spending by 3.6 percent in 2012 and 4.3 percent in 2013.

House Republicans are reportedly willing to ease the sequester cuts, allowing more discretionary spending in the short run, in exchange for credible future cuts in so-called mandatory spending (Medicare, Medicaid, and Social Security, including disability benefits). That could be a poker hand well worth playing, boldly but carefully.