

Debt Ceiling Hostage Update

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The Obama administration has been expressing supreme confidence that it will get an agreement to raise the debt ceiling. That confidence seems hard to square with what Republicans are saying. They're **expressing strong resistance** to cutting defense:



Although Republicans are demanding deep cuts in domestic programs, they are resisting sharp reductions at the Pentagon in the Biden talks, a key demand for many Democrats. Senior GOP aides said it would be hard to sell defense cuts to their skeptical troops.

"Guys like me, I'll just say no," said Rep. Duncan Hunter (R-Calif.), a veteran of Iraq and Afghanistan who argues that any reduction in military spending must be accompanied by a detailed analysis of the impact on national security. "Republicans, if they're not careful, are going to saw off the third leg of the Republican stool. The leg of national security is going to get chopped off."

Moreover, despite Senate Republicans having voted to repeal the ethanol subsidy, House Republicans **still apparently refuse to budge**:

Revenue is another major obstacle. Many Democrats say they could never vote to gut programs that help low- and middle-income families unless the wealthy are also forced to sacrifice. Democrats argue that Republicans should at least join them in eliminating corporate tax breaks that benefit major oil and gas companies and chief executives with private jets.

Senate Republicans have shown some openness to that approach, voting last week to eliminate tax breaks for ethanol blenders. But House leaders remain opposed to targeting credits and deductions without also overhauling the tax code and lowering rates. In the Biden talks, Republicans have so far declined to consider eliminating even certain temporary tax breaks, such as those for Puerto Rican rum and NASCAR tracks, that have been repeatedly lampooned by watchdog groups.

Meanwhile, **GOP Senate Whip Jon Kyl** is backing to citing the authority of voodoo economics:

Kyl used his time on the floor to argue that raising taxes is not necessarily the way to increase government revenues, and said a study by Alan Reynolds of the Cato Institute shows that historically, more revenue is generated by lower taxes. Kyl argued that this is because taxes are a tax on economic activity, which is stunted when taxes rise.

Well, that's great.

We'll see what these negotiations produce -- rhetoric is not necessarily a perfect indicator of the actual state of play. But I suspect the entire concept of harnessing deficit negotiations to a debt ceiling vote is utterly misguided in ways that neither party really grasps. Mitch McConnell has called the debt ceiling the "moment of maximum leverage," the best point to get a deal for his party. The **Washington Post editorial page** endorses the logic of brinkmanship:

We diverge from Mr. Bernanke on whether it is appropriate to use the debt ceiling as a forcing mechanism for fiscal action. Nothing else seems to have been able to persuade leaders to get serious about the long-term fiscal threat to the nation's health. The debt-ceiling deadline should serve to focus their attention and induce them to outline at least the beginning of a deal.

Here is what I'm afraid is the miscalculation here. The debt ceiling is inherently a difficult vote for members of Congress -- their constituents don't understand it, and nobody wants to do it. Republicans and deficit hawks seem to think that attaching it to deficit reduction makes the vote easier. But that's only true if the deficit vote gets to be entirely on their terms. And it can't be -- it also requires approval by the majority-Democratic Senate and the Obama administration.

So the end result is that the deficit reduction winds up as an unpopular compromise, and you're simply adding one unpopular vote to another. If the negotiations fail, the Republicans have talked themselves into a position where the leadership can't fall back on just raising the debt ceiling or else it risks a revolt. And the Obama administration enabled this, first by failing to include a debt ceiling hike in last year's tax deal, and second by opening themselves up to an unprecedented hostage negotiation. The markets currently seem assured on the understanding that people in power are responsible and know what they're doing. I'm far less assured.

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