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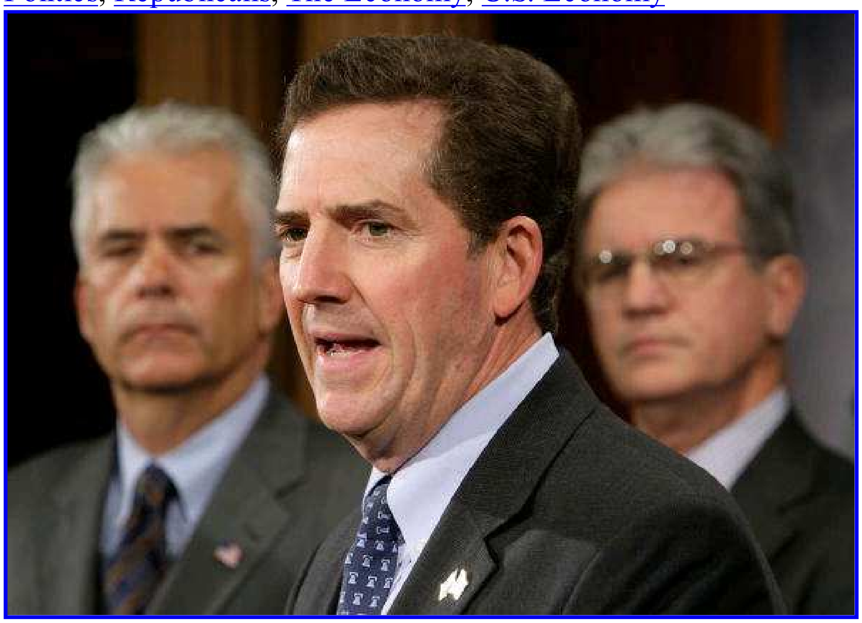
Previewing the GOP Hostage Crisis

November 9, 2010 · Posted in America Held Hostage, News and Current Affairs, People, Political News, Politics, Republicans, The Economy, U.S. Economy



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Sen. Jim DeMint (center) and other Republicans could hold the U.S. debt ceiling hostage to their political demands.

TPMDC has a forward look on "America Held Hostage: The Debt Ceiling," a series we'll begin here at TRR upon the swearing in of the 112th Congress in January, or even before, if Republicans follow through on their threats to kill all of the Bush tax cuts unless the rich get an extra bit. At issue come January, whether Republicans will attempt to hold the full faith and credit of the United State hostage to one or more demands: deep cuts in federal spending in the midst of a recession, or the "repeal" of healthcare reform. Tick tock!

From TPM:

> If the debt ceiling is not raised before the federal government uses up its current borrowing authority, then sometime in February the U.S. government will no longer be able to issue more

> debt — at which point all hell will break loose.
>
> If the government can't issue new debt, first it must stop paying for things, resulting in furloughs and a tightening or suspension of federal services. This happened in 1995 (before the *big* government shutdown at the end of the year) when Congress failed to increase the debt ceiling and the government underwent a smaller shutdown — to slow the drip drip of money out of the Treasury and avoid a default.

So what will the Republicans want in exchange for not defaulting on America's debts, and sending interest rates soaring, and both Wall Street and the international markets, into a freefall?

> "I think it will not be without some strings attached if it happens, because they're going to have to seriously address spending and debt," Senate Minority Leader Mitch McConnell told Fox News last week.
>
> Sen. Tom Coburn (R-OK) suggested he'd like to see over $300 billion in spending cuts before he'd end a filibuster on the debt ceiling.
>
> On NBC this weekend, Tea Party leader Jim DeMint (R-SC) joined in on the fun: "No, I won't. Not– not unless this debt ceiling is combined with some path to balancing our budget: Returning to 2008 spending levels. Repealing Obamacare," DeMint said. "We have got to demonstrate that we have the resolve to cut spending."
>
> The only ray of hope that a dangerous impasse could be avoided came from Speaker-to-be John Boehner, "We're not quite sure when we're going to face this increase in the debt limit, but when we do, we'll be ready to meet our obligations," Boehner told ABC — though he, too, added it would likely be paired with spending cuts.
>
> Alternatively, Democrats could cave and hand the Republicans big spending cuts during a recession. This vote could come as early as this winter, just after Republicans come to power in the House.

Keep in mind that Boehner's plan to make the debt ceiling vote a standalone measure is unusual. It's normally buried in a parliamentary measure. By separating it out, he's giving his tea party caucus the chance to be heard on the issue.

But it's in the Senate where the real trouble begins, because Jim DeMint, fresh from screwing with the NRSC and probably costing them the Senate with his and Sarah Palin's teabaggie antics, isn't finished making trouble yet. If he, or Rand Paul — who now has to get right with the teas after saying he'd start earmarking as soon as he's sworn in — were to filibuster a debt ceiling bill, we would literally have a hostage crisis on our hands. *[Paul actually said over the weekend that he wouldn't vote to raise the debt ceiling, but only because he knew his vote wouldn't be decisive. Are you getting the feeling his whole tea party thing is mostly an act, designed to get him a cush government job...? But his faithful followers are expecting more than just a vote -- they want, and will likely demand, that he take the next step and take hostages.]*

So why would the GOP risk destroying the U.S. economy utterly — and by that I mean even more than George W. Bush's regime destroyed it by 2008? One reason might be politics, as Open Congress explained back in June:

> If we surpass our statutory debt limit, the results could be catastrophic. The U.S. has never defaulted on a debt payments, and if we begin failing to make our debt payments now world markets would be thrown into chaos. Basically, if the Republicans want to make the economy even worse than it is now in order to pin it on Obama in 2012, refusing to increase the debt limit is

> a smart move. Center for American Progress has more on what could happen if the debt limit increase is not passed.

Republicans have historically had a problem voting for the debt ceiling increase. And none of them voted for the October debt ceiling hike in the Senate. Not a single one. And voting against raising the limit is often a way that members of Congress signal their own fiscal conservatism. Back when he was a Senator, even Barack Obama voted no on such an increase, as Bruce Bartlett points out here. But as Bartlett also points out, there are people in the conservative movement who actually would like to see the U.S. go into default. Seriously:

> Furthermore, a growing number of conservatives have suggested that default on the debt wouldn't be such a bad thing. It is often said that default would lead to an instantaneous balanced budget because no one would lend to the U.S. government ever again. Therefore, spending would have to be cut to the level of current revenues.
>
> Writing in Forbes last month, the Cato Institute's John Tamny was enthusiastic about the prospects of default. Said Tamny, "It's time we learn to love the idea of a U.S. default . . . For Americans to worry about a debt default is like the parent of a heroin addict fearing that his dealers will cease feeding the addiction."
>
> While acknowledging there might be some pain from default, he dismissed it as trivial compared to the enormous blessing of a massive reduction in federal spending.
>
> Tamny is not an isolated crackpot; reputable conservative economists have been writing sympathetically about the idea of default for decades. These include Nobel Prize-winning economist James M. Buchanan, whose 1987 essay, "The Ethics of Debt Default," defended the morality of default on the grounds that deficits weren't financing public capital but current consumption, with the bills being passed on to future generations.
>
> Other prominent conservatives who have been favorable, even enthusiastic, about debt default include Murray Rothbard, Dan Pilla, Jeffrey Rogers Hummel, and Christopher Whalen. In 1995, then House speaker Newt Gingrich publicly warned the Public Securities Association that he was prepared to default on the debt unless Bill Clinton acceded to Republican demands for budget cuts. "I don't care what the price is," Gingrich said.
>
> Consequently, it is becoming increasingly common for the idea of default to be discussed as a realistic possibility even by responsible analysts. Last year, The Economist's Greg Ip wrote an article in The Washington Post saying that financial markets were placing the risk of default at 6 percent over the next 10 years. "Default is unlikely," he said. "But it is no longer unthinkable."
>
> My purpose today is not to make the case against default or explain all of its ramifications — that would require a separate column. Rather, my purpose is simply to alert readers to the consequences of increased Republican membership in the next Congress, a Democratic administration, the need for 60 votes in the Senate on major bills, and a debt limit that will run out early next year. I believe we could be in for the biggest debt crisis we have seen since Alexander Hamilton was Treasury secretary.

Scary enough for you? Bartlett offers a solution:

> One way of forestalling such a crisis would be for Congress to require that bills breaching the budget resolution's revenue floor or spending caps — those designated as "emergency" legislation — would have to include an increase in the debt limit equal to the increase in the deficit. This won't eliminate the need to raise the debt limit eventually, but it would at least put members of Congress on record as accepting the consequences of deficit spending, rather than

> trying to have it both ways — voting for deficits but then scoring political points by voting against an increase in the debt limit.

But it's unlikely that even that could pass in the Senate, the way it will be configured come January. In fact, I doubt there will be 60 votes for ANYTHING in the upcoming Senate, which is going to make the 111th Congress look like day care.

Back to the Center for American Progress, which offers this dire warning:

> The consequences of refusing to raise the debt ceiling would be even more costly today, given the precarious state of the U.S. economy and global financial markets, and potentially could be disastrous. Unlike in 1995, when our economic outlook was good, we are currently fighting our way out of the Great Recession and coming off of the worst financial crisis since the 1930s.
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> Nonetheless, led by the advice of Newt Gingrich, the former House Speaker who was the architect of the 1995-96 debt ceiling crisis, many conservatives are clamoring for a repeat of this past episode in recklessness.
>
> The budgetary consequences of this conservative pledge would be catastrophic and far-reaching, forcing the immediate cessation of more than 40 percent of all federal government activities (excluding only interest payments on the national debt), including Social Security, military operations in Iraq and Afghanistan, homeland security, Medicare, and unemployment insurance. This would not only threaten the safety and economic security of all Americans, but also have dire impacts for the economy and job growth.
>
> In short, the economic consequences of such a large and precipitous drop in spending would be crushing, and almost certainly result in a severe drop in economic growth and employment at a time when we can least afford it.
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> Moreover, such a move could lead to a panic in the international financial markets. Following the 2008 financial crisis, we have seen debt crises hit Ireland, Greece, and Italy, with fears that this could spread further and cause a global economic downturn. The financial markets are on edge today, with U.S. Treasury bonds being the safe haven for most investment capital. Refusing to raise the debt ceiling would recklessly disrupt the sale and purchase of new Treasury bonds, and could potentially cause a run on outstanding Treasurys as well, as investors sought other investments. This could have catastrophic consequences for our economy as well as the economic stability of the rest of the world.
>
> Refusing to raise the debt ceiling would also exacerbate the problems with our long-term budget outlook. The budget deficit right now is the result of two distinct sets of changes since 2001, when we last had a budget surplus. First, a series of long-term policies enacted by the Bush administration—most notably the Bush tax cuts of 2001 and 2003, the decision to fight two major wars without raising taxes, and the passage of an unfunded Medicare Part D prescription drug program—created permanent structural budget deficits that will remain with us over the long term unless they are addressed. Second, the poor economy caused a drop in tax receipts alongside higher "countercyclical" spending, such as for unemployment insurance and food stamps.
>
> Implementing a debt ceiling freeze ignores the first set of issues and makes the second set of issues worse by forcing a massive multitrillion dollar hit to an already struggling economy and threatening to take us into a second Great Depression. This is hardly responsible policymaking. So let's delve a little deeper into the consequences of such conservative folly. As we will demonstrate, the results of a replay of 1995 in 2011 would be the height of recklessness for our

economy and global financial markets.

Buckle up, America.

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