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For Many Hard-Liners, Debt Default Is the Goal

By: Bruce Bartlett – October 15, 2013

This week, according to the Treasury Department, it will exhaust its “extraordinary” measures to avoid hitting a hard debt ceiling. It is not known precisely the date at which it will lack the cash to pay interest on the national debt, but on the day that happens, the United States will be in default.

The Obama administration and those on Wall Street have long thought that such a prospect was so horrifying that it would necessarily lead to resolution of the current budget impasse. What I don’t think they understand is that there has been a movement under way for some years among right-wing economists and activists not merely to default on the debt, but even to repudiate it.

Those making this argument are largely unknown to professional economists and journalists, but their research permeates the obscure Web sites where Tea Party members get their ideas. And not all are obscure. The late Nobel Prize-winning economist James Buchanan supported debt default, as has the Harvard historian Niall Ferguson.

I have previously noted that defeated Southerners were very hostile to being taxed to repay the Union debt after the Civil War, while the Confederate debt was repudiated and not permitted to be repaid by the states. This is the reason that Section 4 of the 14th Amendment, guaranteeing the validity of the national debt, was included in that amendment.

The Columbia University historian Eric Foner, an expert on the Civil War, recently recounted the debate over the postwar debt and demands by Southerners for repudiating the Union debt, which are echoed by many default advocates today. In those days, it was Democrats who supported default while Republicans opposed it; today it is the reverse.

There are still many in the South, where the Republican Party is now based, whose hostility to the national debt traces back to those days.

In his 1987 essay, “The Ethics of Debt Default,” Buchanan made an argument often repeated by libertarians and Tea Party members: if the Treasury were to default, no one would ever lend it money again, thus imposing a balanced budget; the government could only spend as much as tax revenue permitted.

Buchanan also argued that much debt-financed federal spending is immoral and that it was immoral to tax people to pay for it. "On balance, the moral arguments against default on the debt do not seem so strong as seems to be assumed in the observed neglect of the question," he wrote.

(Buchanan's essay is not available online, but a recent article by the New Zealand economist James E. Alvey in *The Journal of Markets and Morality* discusses his thoughts on this topic.)

During the 1988 race for the Republican presidential nomination, the televangelist Pat Robertson, whose father was chairman of the Senate Banking Committee in the 1960s, advocated canceling the national debt based on the biblical idea of "jubilee."

In 1992, the libertarian economist Murray Rothbard wrote an essay supporting debt repudiation, saying, "Why should we, struggling American citizens of today, be bound by debts created by a past ruling elite who contracted these debts at our expense?"

Just last year, the Rothbard essay was reprinted on the Web site of the Ludwig von Mises Institute, where Tea Party ideas often originate. A companion Web site run by Llewellyn H. Rockwell Jr., the president of the Mises Institute, often publishes articles advocating debt default by the economist Gary North and others. Just last week, it reprinted a 2011 essay by the University of Missouri economist Peter G. Klein saying that a Treasury default is no big deal.

In 1995, the Foundation for Economic Education, the oldest free market organization in the country, published a study advocating cancellation of the debt on the grounds that the budget would forever be balanced afterwards.

That same year, the House Speaker, Newt Gingrich, then embroiled in an earlier government shutdown standoff with President Bill Clinton, gave a speech saying that debt default was a small price to pay to get government spending under control. "I don't care what the price is," he said.

The election of Barack Obama in 2008 caused a big jump in debt default advocacy among those on the right. In a 2009 interview with *Vanity Fair*, Mr. Ferguson advocated cancellation of the debt. "There are historical precedents for this," he said, suggesting that inflation was one possible means of doing so.

The following year, John Tamny of the libertarian Cato Institute said, "It's time we learn to love the idea of a U.S. debt default." He dismissed concerns about the consequences: "For Americans to worry about a debt default is like the parents of a heroin addict fearing that his dealers will cease feeding the addiction."

Those supporting debt default often say that it's inevitable because the debt is unsustainable — therefore, we might as well get it over with now. This argument was made by former Representative Ron Paul, for whom I once worked, in a Bloomberg article during the race for the Republican presidential nomination 2011, and more recently by the Wall Street commentator James Grant in *The Washington Post* last week.

Another argument one often hears among default advocates is that President Obama will get all the blame, so it's politically expedient. As Donald Trump put it in a 2011 interview on Fox News: "When it comes time to default, they're not going to remember any of the Republicans' names. They are going to remember in history books one name, and that's Obama."

Any number of Republicans in Congress have said they will never vote to increase the debt ceiling, no matter what. Others believe the threat of default is the only way to force President Obama to accept their demands, whether it's an immediate balanced budget or repeal of the Affordable Care Act.

Default advocates are a small minority — 10 to 20 percent of the population, according to a poll conducted in the first week of October by AP/GFK — although at present they appear to be the tail wagging the G.O.P. dog. But most Republicans probably share the view that the Senate minority leader, Mitch McConnell of Kentucky, expressed after the 2011 debt showdown.

"I think some of our members may have thought the default issue was a hostage you might take a chance at shooting," he told The Washington Post. "Most of us didn't think that. What we did learn is this — it's a hostage that's worth ransoming."

But hostages sometimes die in the crossfire.