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Top myths on the U.S. debt-ceiling crisis

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Not raising the limit does not mean default

By Michael D. Tanner

Now that Osama bin Laden has been dispatched, Washington is ready to deal with the more mundane question of whether the Obama administration will be allowed to spend the United States into oblivion.

The next big fiscal fight will be over when and how to increase the debt limit. The administration has been hard at work trying to shape the message and public opinion. Unsurprisingly, much of that message is less than 100% accurate. Here are some myths about the debt ceiling and the upcoming debate about raising it:

Failure to pass means defaulting on our debts. If there has been one consistent message from the White House, it that the United States can't afford to "default on our debts." That is almost certainly true. However, refusing to raise the debt limit does not mean defaulting on our debts. The U.S. Treasury currently takes in more than enough revenue to pay both the interest and the principal on the debts we currently owe. And if the Obama administration is truly worried about whether it will do so, then it should urge Congress to pass the legislation proposed by Senator Pat Toomey (R., Pa.) requiring the Treasury Department to pay those bills first. It is true that, once we had paid our debt-service bills, there wouldn't be enough money left over to pay for everything else the Obama administration wants to spend money on. The government would have to prioritize its expenditures — sending out cheques for the troops' pay and Social Security first. Other spending would have to wait. Treasury Secretary Tim Geithner says that not spending money Congress has appropriated is "the same as default." It is not. It is economizing, which is what you do when you are out of money.

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Failure to pass the debt-ceiling increase on time would be unprecedented. Both the administration and the media sound as if we are at the edge of zero hour, the time at which economic Armageddon will erupt if we have not raised the debt ceiling. That's not quite so. It is true that Congress has never refused to raise the debt ceiling. But it has, in fact, frequently taken its time doing so. In 1985, Congress waited nearly three months after the debt limit was reached before it authorized a permanent increase. In 1995, four and a half months passed between the time the government hit its statutory limit and the time Congress acted. And in 2002, Congress delayed raising the debt ceiling for three months. In none of those cases did the world end. It won't this time, either.

It's always a "clean bill." The administration is also insisting that it would be shocking for Congress to add any conditions to the debt-ceiling increase. But such conditions are far from unprecedented. There have been numerous amendments and conditions attached to debt-ceiling bills throughout the years. Remember Gramm-Rudman-Hollings? The classic spending-control plan was added to the debt-ceiling vote in 1985.

This is not about future spending. The administration insists that raising the debt ceiling is just about paying for spending that's already occurred. Not quite. Depending on how high it is raised, it may be about paying only for spending that is already authorized — or much more. Authorized and spent are not the same thing. There is nothing wrong with forcing government not to spend money that it had planned on spending. Moreover, Tim Geithner is reportedly calling for an increase in the debt ceiling big enough to last through the 2012 election, which would enable a lot of new spending.

Only Republicans oppose raising the debt ceiling. The media and the administration want to turn this into a partisan fight. The ongoing narrative is that radical Republicans in thrall to the Tea Party want to wreck our finances, while Democrats responsibly want to pay our bills. In truth, a number of prominent Democrats are on record opposing a debt-limit increase without substantial reductions in spending. They include Senator Kent Conrad (D., N.D.), Mark Pryor (D., Ark.), and Joe Manchin (D., W. Va.). Even Senator Amy Klobuchar (D., Minn.) normally a reliable liberal vote, has been expressing ambivalence. And the most prominent spending limit liable to be offered as a condition for raising the limit, the CAP Amendment proposed by Senator Bob Corker (R. Tenn.) is cosponsored by Senator Claire McCaskill (D., Mo.). The real story is that a small group of extreme liberals wants to keep spending more in the face of bipartisan opposition.

So far, Republicans have not been very good about presenting their message. If they want to win this fight, they are going to have to do a lot more to correct the record.

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