



Busch: The Debt Hike Game

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Due to the explosion in deficit spending, the federal debt ceiling needs to be raised to legally allow the US government to continue to borrow to fund itself. The current debt limit is at an astounding \$12.1 trillion and borrowing has been pushed to this limit by a \$1.4 trillion deficit in fiscal 2009. Regardless for who you blame for 2009's spending, 2010 will be a problem for Congress and the current administration to correct. As an example of the fiscal crisis, 40 percent of this year's budget will be funded by borrowing.

The debt ceiling hike is a game of fiscal chicken right now between the Democratic leadership on Capitol Hill and fiscal conservatives in both parties. The leadership has to deal with this before the end of the year as the Treasury has indicated they will be at the limit by December 31st. They also want to ensure that they don't have to deal with this problem later in the 2010 when the mid-term elections are in play. This translates into a plan to raise the US debt ceiling by a whopping \$1.8 trillion. This is twice what was anticipated in last spring's budget resolution for the 2010 fiscal year that started in October.

Where will this debt increase motion show up?

Why hidden deep in an appropriation bill that funds the US military. House Appropriations Committee Chairman David Obey (D, WI) told Politico, "It is December. We don't really have a choice. The bill's already been run up; the credit card has already been used. When you get the bill in the mail you need to pay it." Except in this case, the payment is going to be made by borrowing on another credit card.

Now, this is not going to go unnoticed and there is a group of senators banding together to call for changes to reduce the fiscal deficit. Led by Senate Budget Committee Chairman Kent Conrad and Senator (and almost Obama administration member) Judd Greg (R., NH), a bipartisan task force is being formed to design a large deficit-reduction package. The idea is to fast track their plan through the legislative process to get a quick yea or nay in Congress on the plan. The debt ceiling extension would be a perfect place to include language to create this task force.

Before we get excited about this prospect, we need to look at what Conrad has said recently during hearings. He said that "everything would be on the table" including "tax reform" to meet the "revenue challenge we face from an outdated and inefficient revenue system." Let's be clear on what this means: Everything on the table+tax reform+revenue challenge=tax increases.

Cato's Chris Edwards points out three fatal flaws with this task force. One, the resulting tax increase would be on top of all the other tax increases on the table, including the scheduled rise in income-tax rates in 2011 and possible increases to fund health-care and climate-change legislation. Two, CBO's long-term projections reveal a spending catastrophe, not a "revenue challenge."...If Congress tried to raise taxes to match this soaring spending, the economy would enter a death spiral of declining growth and a shrinking tax base. Tax increases would be economic suicide in a global economy where American workers and businesses are already struggling to compete. Three, the government's spending addiction cannot be cured in a one-shot treatment. If task-force proposals to cut spending were actually enacted, members of Congress would immediately go to work to reverse them."

With rating agencies warning countries over their spending and lack of fiscal discipline, the US debt hike situation will inform investors what the intentions are for reducing the calamitous fiscal red ink the US is creating. A special task force to reform what is wrong with the US fiscal position reminds me of the legislation being worked on to reform what is wrong with US health care.

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