Debunking debt ceiling myths

By: Richard Lorenc - January 16, 2013

Earlier this week, David B. Rivkin Jr. and Lee A. Casey published an important column in the *Wall Street Journal* debunking many of the myths about government debt, entitlement spending, and the upcoming battle over whether to raise the debt ceiling.

First, a few definitions of terms and some history to help the discussion.

Debt ceiling: Per Rivkin and Casey, "the amount of money the federal government is authorized to borrow at any given time." The Congress has raised the debt ceiling 11 times already this century, from $6.4 trillion to $16.394 trillion. The U.S. Treasury estimates the federal government's debts will reach and then exceed the current limit of $16.394 trillion between mid-February and early March of this year. The Obama Administration wants to raise the debt ceiling to $18.5 trillion. Michael Tanner at the Cato Institute explains, "The debt is currently $16.4 trillion, technically in excess of the statutory limit, and the Treasury Department has been using 'extraordinary measures,' such as delaying payments to federal retirement programs, in order to push back the final day of reckoning."

Public debt: all debts outstanding and owed by the U.S. federal government, including both debt held by the public (e.g. Treasury bonds and other securities held by Americans and foreigners) and debt held in governmental accounts (e.g. money borrowed from the Social Security Trust Fund). Thanks to $330 billion in new spending initiated by the recent "fiscal cliff" aversion bill, the total public debt is now $16.432 trillion.

Default: when an entity, such as the federal government, can no longer fulfill its obligations (i.e. service its debt).

Debt service: paying interest on debt. Projections indicate between mid-February and mid-March, the federal government will owe $38.1 billion in interest on outstanding debts.

Entitlements: welfare programs such as Social Security and Medicare considered sacrosanct by many yet not guaranteed to anyone. Despite the fact anyone on a payroll contributes to these programs, no one has a claim of ownership on any funds or services.

Now, let's bust some myths.

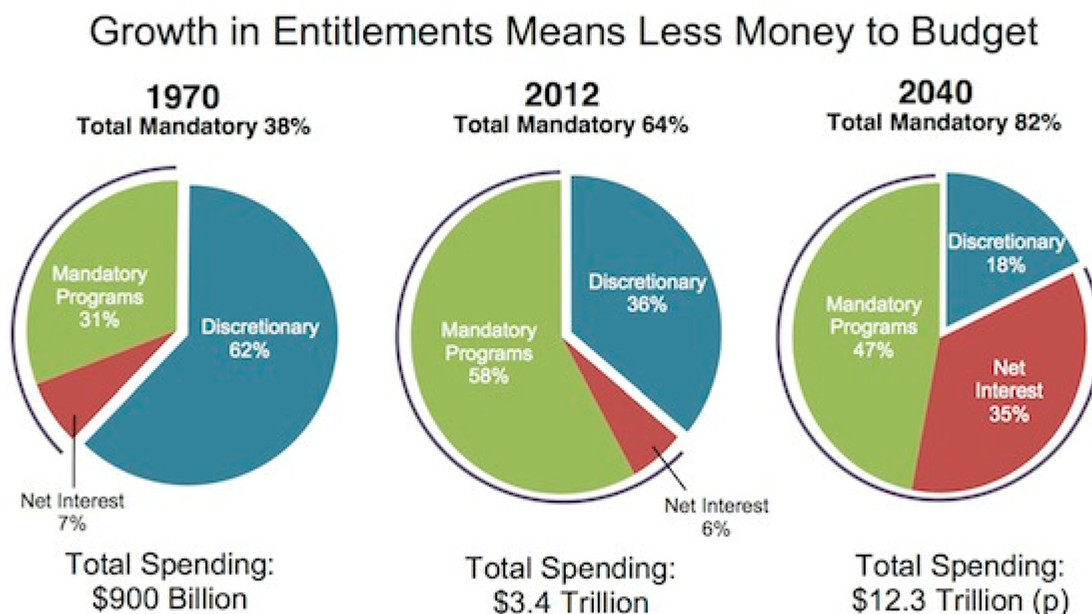
Doomsday scenarios from the president and his partisans inside and outside Congress notwithstanding, keeping the debt ceiling right where it is will not trigger a federal government default. Indeed, the federal government will have enough monthly tax revenue ($200 billion or so in new monthly tax revenues) to fulfill its interest payment obligations.

Utah Sen. Mike Lee commented recently, "If we fail to raise the debt limit, it would bring about some problems, and bring about significant shortfall in revenue for government, but that is different from a default. A default is what happens if we don't pay the interest as it accrues on our national debt. That's not going to happen. We have more than enough revenue coming in each month to cover that sum."

So would keeping the debt ceiling at $16.394 trillion trigger a default on debt automatically? No (unless the Treasury chooses not to pay interest payments). What it would trigger is a prioritization of spending– what a concept. Less important appropriations would need to be canceled or reduced to pay for more important ones.

As Rivkin and Casey write, "Entitlement programs are instead political measures that are fully subject to the general rule that one Congress cannot, by simple legislation, prevent a future Congress from making cuts."

Here's a graph from the Mercatus Center showing the growth of "mandatory programs," including Social Security and Medicare.



Any serious attempt to gain control over an ever-rising government debt burden must include changes to entitlement programs before they are just about the only thing on which the federal government spends. Just because everyone calls them "mandatory" doesn't make it so. (Interest payments, however, are mandatory.)

Those who seek to address government debt seriously for the sake of the health of the economy are proper to use the debt ceiling as a bargaining chip to force the federal government to reduce spending. Contrary to popular wisdom, this is not unprecedented. Per Tanner, "And all sorts of conditions have been attached to debt-limit legislation. For example, in 1985, Congress added the Gramm-Rudman-Hollings spending limits to debt-limit legislation. The current impasse is hardly unprecedented."

Tanner at Cato concludes his latest piece thusly:

Don’t get me wrong — failure to raise the debt limit would not be a good thing. Financial markets would likely react badly. We could even see another downgrade of the U.S.’s credit rating. Increased uncertainty would further slow economic growth. Unknown potential consequences abound.

But none of this would be worse than a failure to take meaningful action to reduce the debt, federal spending, and the growth of government. Indeed, if we want to see more credit downgrades, market turmoil, and slow growth, all we need do is continue on our present course.