



The Debt Ceiling 'Fiction'

By TOM GANTERT | July 3, 2011

U.S. Treasury Secretary Tim Geithner recently warned of “catastrophic” consequences if the federal government’s debt ceiling isn’t raised. Geithner has warned that default on the federal debt would cause harm to the global economy. The debt ceiling is currently set at \$14.294 trillion. That’s the legal amount the U.S. government may borrow.

Veronique de Rugy, a senior research fellow at the Mercatus Center at George Mason University, stated that the “imminent default” warned of if the debt ceiling isn’t raised has been pushed back four times, moving from March 31 to Aug. 2. She states that “default” could be avoided if the Treasury prioritized interest payments or if the Treasury tapped assets it could sell, such as TARP assets.

“The Treasury has ways to continue paying our bills without defaulting,” de Rugy said.

She stated that the debt ceiling will have to be raised under any of the official budgets proposed.

That’s why Professor Antony Davies of Duquesne University’s Donahue School of Business called the debt ceiling “fiction.” According to Davies, Congress has raised the ceiling more than 70 times since the 1970s.

Tad DeHaven, a federal budget analyst at the Cato Institute, said in an e-mail that he’d prefer substantive spending cuts accompany another increase in the debt limit.

“Unfortunately, the odds are slim to none that that will be the case. If I had to place a bet, I’d wager that the debt ceiling will be increased without any substantive spending cuts or budgetary reforms,” DeHaven said. “I’m more concerned with raising the debt ceiling without a plan to address the federal government’s long-term fiscal problems by reining in spending.”

Would you like to see more information like this? Learn how you can help the Mackinac Center provide incisive, accurate and timely analysis of critical policy issues.

www.mackinac.org/features/join

Copyright © 2011 Mackinac Center for Public Policy

www.mackinac.org