

<http://www.iwf.org>
<http://www.iwf.org/inkwell/show/25156.html>



Inkwell

More Debt vs. Allowing a Default: There is Another Option

by Anna Rittgers
July 8, 2011, 4:34pm

Obama is famous for presenting us with false choices: corporate jet owners or children; trillions of dollars in debt or economic apocalypse. The Chicken-Littles in the Obama administration are claiming that economy will come crashing down unless Congress authorizes a debt-ceiling increase before the March 31 May 16 July 22 August 2 doomsday.

In the event that the debt ceiling is reached before Congress authorizes additional borrowing, there are many steps that can be taken to avoid a flat-out default. First of all, the US Treasury receives about \$172 billion in revenues each month. Our debt service payments due in August will equal around \$29 billion. That leaves around \$143 billion dollars that can be spent on remaining government outlays.

We would still have a shortfall of about \$135 billion in August that we would need to make up in order to continue current federal operations. The actual choices will face would be whether: to immediately cut our spending to levels that match revenue; to find a way to raise the additional billions in revenue necessary to continue spending until the end of the fiscal year (September 30); or some combination of the two. It would not be simple or easy, but it would be better than actually defaulting on our debts.

Revenue increases are an option, but contrary to what Democrats believe, we don't have to increase taxes to raise more funds. Congress could authorize the sale of federal properties and increase fees for services. Veronique de Rugy, Senior Research Fellow at Mercatus, makes the point that if necessary in the immediate term, the Treasury could liquidate some of its assets, including those assets acquired under TARP. Even though the sales price of assets would likely be discounted, it would still raise money to allow the government to avoid a catastrophe.

The GAO believes that the Treasury secretary has the authority to choose the debts that are paid first. The Federal Reserve and intergovernmental agencies hold a combined 42% of Treasury debt, and payments to these agencies could be delayed in favor of payments to private investors.

I would hope that the Obama administration would refrain from stopping monthly payments to Social Security recipients (about \$49 billion) and military service members. Congress could prevent such tactics with legislation to direct Treasury Secretary Timothy Geitner to prioritize these payments.

I share Charlotte's concern that the GOP will simply acquiesce to Obama's demands to increase the debt ceiling increase without requiring any real spending reforms. I think it is important to stress that the dire consequences are not imminent, and therefore, Republicans should stand firm on their principles because it will make us better off in the long run. Cato Institute's Jagadeesh Gokhale thinks that "[a] temporarily frozen debt limit could instead signal U.S. lawmakers' resolve to get our fiscal house in order. It may even reassure investors about long-term U.S. economic prospects."