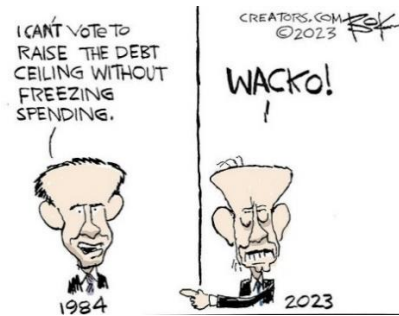


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Debt ceiling war: another solution

Steve Bakke  May 10, 2023



Once upon a time, America's politicians competed fiercely, but while following different paths the two parties usually sought similar goals. Today, their goals seem vastly different. Citizens are puzzled and discouraged.

Another tale from yesteryear is budgetary "regular order," replete with budget hearings and votes on each of 12 separate spending budgets. Unfortunately we've now had decades of omnibus spending bills strung together with emergency continuing resolutions.

Omnibus bills combine separate budgets, significantly reducing detailed analysis and thoughtful debate. Unfortunately, when budgets are eventually enacted, all-important borrowing plans and debt ceiling approval are consistently left hanging. Our national debt is seldom subject to thoughtful analysis before a credit crisis is imminent. Politicians rush around in chaos, too "proud" to seriously seek bipartisan solutions.

Sometimes the roles have switched. During "Bush the Younger's" presidency, Senator Obama opposed increasing the ceiling in a lengthy speech including these words: "The fact that we are here today to debate raising America's debt limit is a sign of leadership failure..." And Senator Biden opposed Republican supported increases in the debt ceiling in 2003, 2004, and 2006.

The FY 2023 budget "deliberations" followed suit. With our leaders at loggerheads, we're experiencing daily warnings about an imminent credit crisis. Democrats claim the debt ceiling functions merely as an obstacle to paying the bills. Truth be told, that's what it has become, only because the two decisions have been separated in time – and that must change.

Constitutional Amendment 14 provides that "the validity of the debt of the United States.....shall not be questioned." That's the basis for democrats arguing that the very existence of a debt ceiling is arguably unconstitutional and therefore void.

In response to the democrats' "constitutional argument" it's important to note that Amendment 14 also states that Congress has "the power to enforce by appropriate legislation, the provisions" of the Amendment." That's exactly what the debt ceiling does.

The debt ceiling, if used as intended, is an important control mechanism for ensuring spending discipline. The concept of "debt ceiling" was set up precisely to facilitate orderly, thoughtful, and responsible budget and funding decisions. Achieving the best possible financial management results requires that spending and borrowing decisions be made concurrently.



Fairness requires that both parties share the blame for the practices that led to the chaos we're now experiencing.

Republicans want to reconnect the budget and borrowing decisions. Democrats resist this because of their diminished concern about incurring deficits. But why doesn't the exploding growth of America's debt bother democrats as much as it does the republicans? The growing popularity of Modern Monetary Theory (MMT) may be part of the answer.

Many progressive politicians have been influenced by MMT because of its theory that the U.S. doesn't have to limit program spending because of concerns about the deficit and debt. Rather than relying on taxes to fund government, MMT advocates using the Federal Reserve to "create" money (liquidity) by using its monetary tools. Under that philosophy, the debt ceiling becomes a bothersome obstacle.

But what happens when inflation inevitably intrudes on the spending free-for-all? MMT proponents would solve it by increasing taxes, thereby reducing the money supply, and discouraging spending. This reckless policy would guarantee an unpredictable and "herky-jerky, wild-ride" economy

Finally, perhaps the desire to create wedge issues for the 2024 election is one of the motivations for prolonging this debt ceiling war. While neither party is immune to this motivation, given the current political climate I believe it's a democrat goal.



It's time to create a win/win solution. If republicans accomplish the spending reductions which are part of their conditions to increase the ceiling, the inherent flaw of separating budget and borrowing decisions would still remain.

Republicans could change their negotiating conditions and still manage to bring home an important victory. Republicans could save budget cuts for future negotiations. They've

made their point. If democrats agree to combine future budget and debt ceiling decisions, republicans could agree, with a clear conscience, to an increase in the current debt ceiling.

It would be great to know that any future budget agreement announcement would automatically provide assurance that the necessary borrowing has also passed. Higher quality budget and borrowing decisions would certainly follow.