

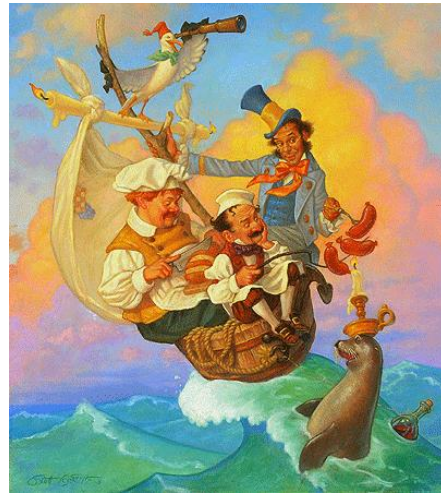
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The budget, the deficit, and debt ceiling: joined at the hip

Steve Bakke  January 17, 2023

*Rub-a-dub-dub,
Three men in a tub,
And who do you think they be?*

*(The budget, the deficit,
And the debt ceiling,
that's who...)*



In it together!

Speculation about the fate of the debt ceiling is accelerating. Treasury Secretary Yellen announced they will have to dip into their toolbox of “extraordinary measures” as early as late January to keep from going over the limit. Probably in the early summer of 2023, an intense emergency debt ceiling debate will begin. Battle stations are forming.

“Regular order” would have the 12 separate spending budgets separately debated and voted on. In recent decades both parties have found it easier to delay the process until urgency sets in. That’s when Congress creates a “quickie” budget with virtually no debate – an emergency omnibus spending bill. That’s the budget bill that passed in December.

We’ve had decades of omnibus spending bills strung together with emergency short-term continuing resolutions. Unfortunately, once we’re done with the omnibus bill, the debt ceiling approval is left hanging. We’re fast approaching an explosive conclusion for the current budget. This process is pure folly.

Carefully crafting our financial plans is important, but we don’t seem to have the time to do it. We devote little attention to budget details, and our spending ambitions typically sneak past our ability to create revenue. Ever-growing deficits and debt are inevitable.

The political parties engage in a simple but bitter argument about debt limits. Democrat legislators tend to give a wink and a nod to the debt ceiling topic and treat it as a separate, unnecessary, bothersome consideration. They don’t want it to be part of the budget debate, which diminishes the debt ceiling’s potential effectiveness as an important financial management tool. Republicans take the opposite position.

Constitutional Amendment 14 provides that “the validity of the debt of the United States.....shall not be questioned.” Using that as a basis, democrats argue that the very

existence of a debt ceiling is arguably unconstitutional and therefore void. They claim it interferes with the duty to pay debts.

However, Amendment 14 also states that Congress has “the power to enforce by appropriate legislation, the provisions” of the Amendment. The introduction of a debt ceiling by Congress was done precisely for the purpose of ensuring an orderly, thoughtful, and responsible budget and funding process. And if spending and borrowing decisions were made concurrently, while the process is more difficult, the end product is potentially far superior.

The introduction of a debt ceiling can also be defended as a matter of common sense. Financial decisions which impact each other and have similar considerations should be deliberated and approved concurrently. Successful economic entities follow that same comprehensive approach to financial planning. Smart individuals do it, and public corporations won't survive government regulations and economic realities unless they do likewise.

Ask any loan officer: “Would you authorize a credit line for an entity without understanding the implication of its spending budget on its maximum available credit?” The answer will be “never!” Only after borrowing requirements are approved, would the budget be valid. We would be wise to apply similar rules to our government.

Our founders set up a system of checks, balances, and deliberations to make sure the governance process would be thorough – even if excruciatingly so. The existence of a debt ceiling as a limiting consideration on borrowing and spending is a natural fit for our system.

Arguing that Congress should not be influenced by debt and borrowing issues when the budget is being debated and approved demonstrates poor financial discipline. Likewise, eliminating our debt ceiling would open the door to undisciplined spending. The presence of a debt limit can have an important influence on creating responsible spending habits.

The biggest cause of all this budget/debt angst is the fact that the two interrelated issues are being separately decided, often months apart. When a budget is passed, we should expect the necessary revenue and borrowing levels are also provided for and approved. If the system doesn't mandate that, we should change the system.