The Debt Ceiling: The Fail-Safe plan no one is talking about.

Though undesirable from a policy standpoint there exists a way to temporarily avoid the possible calamitous effect of failing to raise the debt ceiling in a timely fashion. This plan need not involve politicians, they would be free to continue to negotiate a permanent solution to budget deficits during the interim.

From time to time, the Federal Reserve threatens to end its program called QE (or is it QE2?) a program in which the FED purchases some US Treasury securities in an continuing effort to stimulate private spending--never mind the potential inflationary risk involved. Because the debt ceiling applies only to publically held debt that action has the effect of postponing the drop-dead date when the ceiling would be reached.

Until politicians agree on an acceptable plan to limit deficits and agree on an increase in the debt ceiling, the FED could purchase, on a month-by-month basis, an appropriate amount of US Treasuries in the open market to allow the Treasury to sell ‘new’ securities and pay all of the government’s current obligations. The publically held debt all the while would be held constant.

Like the QE program this action carries an inflationary risk and by no mean qualifies as a permanent (or even semi-permanent) solution. However, it does buy time and allows for a reasoned permanent approach to resolve what has become a permanent reliance on debt with little discipline to limit and prioritize government spending.

This option is not without its down side. By eliminating the hard and fast deadline the impetus to make a decision is lost not to mention that all too often temporary government programs have a nasty habit of becoming permanent.

On the other hand, the mere possibility of this option may prompt some politicians to come to terms before its adoption. Indeed, this may be the plan’s most valuable benefit.