Mr. Boehner, Tear Down This Ceiling!

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EXECUTIVE SUMMARY

We begin a new year and a new Congress with a sense of déjà vu: once again, our outstanding national debt is up against its legally specified limit. We saw this show less than eighteen months ago, during the summer of 2011, when President Obama and Republican congressional leaders treated us to a rousing showdown. As they exchanged blows, the Treasury Department took “extraordinary measures”—the official euphemism for engaging in a set of tried and true accounting tricks—to avoid a disruption of federal government operations as total debt stood at $14.294 trillion, then the level of debt ceiling. Speaker John Boehner has promised an encore in 2013, with our debt now at $16.394 trillion, the ceiling level agreed to in the Budget Control Act of 2011.¹

Americans of all political persuasions should hope that this is a promise the Speaker decides to ignore, and quick: Treasury Secretary Timothy Geithner announced in late December that extraordinary measures would commence with the new calendar year, possibly buying us not even two months before things get really ugly.²

In this research note, I explain our debt ceiling’s origins and development. I consider the strongest arguments for keeping the ceiling in place and show why they fall short, even for those of us who support the goal of spending restraint. I show that, perversely, refusing to raise the debt ceiling would strengthen the President’s hand—and that awareness of this fact ultimately makes debt ceiling brinksmanship unlikely to succeed. Finally, I offer superior alternatives to the debt ceiling that advocates of spending restraint should propose as replacements.

The Debt Ceiling’s Origin and History

“The case against the debt ceiling is formidable. The record of recent years shows that it has:

- Jeopardized long-run defense policy;
- Interfered with compensatory measures during recession;
- Hampered proper debt management policy;
- Fostered budgetary subterfuge;
- Increased the cost of financing the government.

The debt ceiling is a disorderly defense against government spending.”

These words, which ring true today, were written by Marshall Robinson of the Brookings Institution in 1959. Even then, a historically-minded scholar could take stock of decades-long experience with the debt ceiling and judge it an anachronism and a failure. The view 54 years later has changed very little. So why do we have a debt ceiling?

Until World War I, Congress specifically authorized every issuance of debt by the Treasury. Our modern debt ceiling emerged from the Second Liberty Bond Act of 1917, which consolidated various leftover borrowing authorities. The Act was amended in 1929 to allow issuance of Treasury Bills and thereby increase the Treasury Department’s flexibility. Further amendments in 1935, 1938, and 1939 finally worked their way to the single general cap we have today. Since World War II, the ceiling has been raised fairly steadily by dozens of incremental increases. At no point along the way did legislators stop to debate whether the institution of the debt ceiling was the best way to honor a philosophical commitment against reckless government borrowing and spending. Rather, America’s debt ceiling is an organic inheritance. It is also a case of bona fide American exceptionalism: surveying other developed nations, only Denmark has a comparable total limit on debt.

Nevertheless, throughout its history the debt ceiling’s defenders (both opportunistic and principled) have insisted that it provides a useful tool to restrain debt and should be prized for that reason. Strident fiscal conservatives like Representative H.R. Gross (R-IA, 1949-1975) and Senator Harry F. Byrd (D-VA, 1933-1965) championed the debt ceiling as one of the only things forcing their colleagues to take stock of the nation’s burgeoning debt and used their “nay” votes on ceiling raises as opportunities for political point-scoring. Votes on the debt ceiling have always afforded the minority party the chance to denounce the...
“out-of-control spending” of the majority, but they also provide a means of institutional posturing, in which Congress assigns responsibility for the debt to the “wasteful” bureaucracy actually executing all the spending. (The junior Senator from Illinois famously grabbed this opportunity in March 2006, casting a nay vote against a debt ceiling increase and explaining that he would not be party to “Washington…shifting the burden of our bad choices today onto the backs of our children and grandchildren.”)  

Despite the rhetoric, when push comes to shove debt ceiling increases get the votes they need—though often not without considerable political strife. In 1953, 1957, and 1958 fiscal conservatives held up passage of increases, leading to various fiscal subterfuges undertaken by government agencies to keep their operations going. Frustrated with the large expansion of federal spending under Lyndon Johnson’s Great Society, fiscal conservatives in the House rejected a permanent increase of the ceiling in 1967 before Democrats were successfully whipped into line later in the year. A bipartisan coalition in the House voted down an increase in 1975 before Democrats mustered a bare majority. The House rejected three debt ceiling increases under President Carter and two under President Reagan, several times leading to disruptions of normal Treasury operations.

Determined to marginalize the significance of the debt ceiling and reduce the annoyance of frequent votes, House Democrats adopted the so-called “Gephardt Rule” in 1979. Under the rule, simply by passing its annual budget the House would be automatically deemed to have passed a debt ceiling increase. The innovation reduced the number of debt ceiling votes (even as the debt rose significantly) through the 1980s and early 1990s until House Republicans began waiving the rule after their 1994 takeover. They reverted to it once they found themselves working with a Republican president, however, and though the debt scraped up against the ceiling several times during President George W. Bush’s tenure, there were few political fireworks accompanying raises.

This capsule history omits three episodes in which the debt ceiling was at its most influential: the tying of a debt ceiling increase in 1985 to the passage of the Gramm-Rudman-Hollings Act, and the showdowns between Republicans in Congress and Democratic Presidents in 1995-96 and 2011. I discuss each below after first explaining why the threatening not to raise the debt ceiling is unlikely to be a successful tactic for achieving spending restraint.

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9 Senator Barack Obama, Congressional Record, March 16, 2006, S2237 (http://www.gpo.gov/fdsys/pkg/CREC-2006-03-16/pdf/CREC-2006-03-16-pt1-PgS2236.pdf#page=2). As President, Obama admitted that his vote against the debt ceiling was “just an example of a new Senator, you know, making what is a political vote as opposed to doing what was important for the country.” George Stephanopoulos, “Obama Exclusive: Concedes Senate Vote Against Raising Debt Limit was ‘Political’,” ABC News (April 14, 2011) (http://abcnews.go.com/blogs/politics/2011/04/president-barack-obama-exclusive-concedes-senate-vote-against-raising-debt-limit-political/).
10 Robinson, 46-51.
11 Kowalcky and LeLoup, 18.
12 Ibid., 22-23.
Why the Debt Ceiling is the Wrong Weapon to Fight Government Spending

When it comes to rhetoric, “holding the line against the rising tide of debt” has few equals in American politics. Condemning “out of control spending by Washington” is second nature to politicians of both parties, and the debt ceiling provides an institutional embodiment of this sentiment. Many who see themselves as guardians of fiscal rectitude are eager to endorse the connection and make the debt ceiling their Alamo. As a rhetorical maneuver, this is understandable: Americans eagerly take up this rhetoric, at least in the context of answering survey questions.15

Once one looks past rhetoric, though, the logic supporting this position falters. Many of those who insist we can cure our fiscal ills if we “just don’t raise the debt ceiling” make the following argument: a) it would be terrible if our debt burden grew so large that savers began to seriously worry that the U.S. was incapable of servicing its debt, as reduced demand for U.S. bonds would lead to higher interest rates, inflation, and other national misfortunes; b) we will allay their worries about the future by using the debt ceiling to drastically curtail spending right now, including refusing to pay current bond-holders. In other words, to avoid a default tomorrow, we will have one today.16 The idea that bond markets would view one default with equanimity if it seemed like steps were in place to prevent future defaults is, at best, blind faith. Far more likely that America’s ability to raise money (which our very low bond yields suggest is very healthy, at least for now) would be drastically impaired for decades to come17—which would be devastating to America both domestically and in terms of its national security interests.18

To be fair, other defenders of threatening not to raise the debt ceiling take a more defensible position: forcing the government to run at its current level of debt would not

15 Lydia Saad, “U.S. Debt Ceiling Increase Remains Unpopular with Americans,” Gallup Politics (July 12, 2011) (http://www.gallup.com/poll/148454/debt-ceiling-increase-remains-unpopular-americans.aspx), indicating that in July 2011 poll respondents said they were against raising the debt ceiling, 42-22. See also, Frank Newport, “In Their Own Words: Americans’ Views on Raising Debt Ceiling,” Gallup Politics (July 18, 2011) (http://www.gallup.com/poll/148547/own-words-americans-views-raising-debt-ceiling.aspx), for ample evidence that many Americans believe that not raising the debt ceiling is a good way to reduce spending.


18 For all the talk of how current debt build-up is immoral, few people are willing to argue that the debt build-up used to finance WWII was. Trying to sell war-bonds in the wake of a recent decision to voluntarily default is a harrowing prospect.
necessarily, or even probably, require a default on debt service. During the 2011 showdown, Treasury Secretary Timothy Geithner argued that bond markets would treat a failure to make good on any federal government commitments as equivalent to a failure to meet obligations to debt-holders, but it’s not at all clear why this would be true. A Treasury Secretary up against a hard cap on debt would almost certainly want to prioritize debt service, as failing to do so would rapidly exacerbate the crisis. Making this prioritization legally obligatory, as Senator Pat Toomey (R-PA) sought to do in early 2011, would therefore be unlikely to change much, but doing so would be a benign and sensible reform.

Even if failing to raise the debt ceiling would not necessarily result in defaulting on America’s sovereign debt, starving the Treasury by “holding the line” for any significant period of time would nevertheless be disastrous because it would:

1. Cause immense economic distress;
2. Unjustifiably renege on serious commitments;
3. Represent a complete abdication of Congress’s power of the purse to the executive branch, displacing problems rather than solving any;
4. Be such a terrible option that it does not represent a viable threat, and therefore fails to offer the leverage for spending cuts that its supporters hope for—as demonstrated by its long record of failure.

I expand on each of these defects in turn.

First, even without a default, such a rapid contraction in government spending would cause almost unfathomable economic problems. To give a stark demonstration of this, consider the comparison between “quitting debt cold turkey” and the recent discussions of the “fiscal cliff.” The cliff—or, as the Washington Post’s Wonkblog called it, the “austerity crisis”—was nearly universally denounced as a much-too-fast form of fiscal consolidation which would bring a needless recession if not avoided. “Going over the cliff” would have entailed cutting the deficit from 2012 levels of 7.3% of GDP to a 2013

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20 America’s third-largest credit rating agency, Fitch, supports the non-default interpretation, saying that a failure to pay suppliers of goods and services on time would result in a negative ratings outlook, but not an automatic downgrade. Ratings, “Thinking the Unthinkable—What if the Debt Ceiling Was Not Increased and the US Defaulted?” (June 8, 2011). (http://www.fitchratings.cl/Upload/thinking%20the%20unthinkable.pdf).
level of 4.0% of GDP. By contrast, failing to raise the debt ceiling would force a much more dramatic adjustment: instead of outlays decreasing by 3.3% of GDP, they would need to adjust something on the order of 12% of GDP. This would bring the “headline” budget into surplus, thereby stopping growth in debt subject to limit (which includes intergovernmental transfers—mostly with government trust funds). Put another way, while the dreaded cliff involved simply holding total outlays in check while increasing taxes, quitting our debt habit now, after having rejected most of those tax increases in the fiscal cliff deal, would require cutting outlays roughly in half. Even flirting with these levels of cuts has serious negative ramifications for the economy. As discussed below, the vehemence of the (bipartisan) reaction against the cliff suggests that taking a far harder line against new debt is not politically viable.

Second, beyond the economic damage from an abrupt and unplanned spending amputation, such a choice is not worthy of the United States. There is simply no reason why the United States should fail to honor its commitments to those who have loaned it money or to those who have been clearly promised payments. This is obviously true if you believe that democratic majorities aren’t likely to meaningfully shrink the government over the long-term, for better or worse. It should still be quite apparent for those advocates of smaller government who believe in orderly political change: we should respect people’s reliance on promises made rather than suddenly reneging on our commitments just because, as a sovereign government, we can. Only for those who go so far as to believe that the U.S. government is fundamentally illegitimate should choking off its revenues in so disorderly a manner seem appealing. Working from within the system requires doing what is necessary to govern well, even if it goes against one’s ideal vision of what our government and our

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24 This is a rough approximation based on a back-of-the-envelope calculation with figures from the President’s (now obsolete) FY2013 budget (http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/hist.pdf). Without immersing myself in the technical details, I looked at the ratio between estimated increases in the debt subject to limit and the on-budget deficit (around 1.38), assumed that revenues would be roughly as estimated for FY2013, and determined how far outlays would have to fall to hold growth in gross debt at zero. A more precise estimate would require a rather complex calculation, accounting for the inconsistency of the flow of revenues.

25 A few commentators have suggested that selling government assets could mitigate this problem, but the Treasury Department has rejected this option, which would require accepting “fire-sale” prices and which would not ultimately buy much time. Mary Miller, Assistant Secretary of the Treasury for Financial Markets, “Federal Asset Sales Cannot Avoid Need for Increase in Debt Limit,” Treasury Notes blog (May 6, 2011) (http://www.treasury.gov/connect/blog/Pages/Federal-Asset-Sales-Cannot-Avoid-Need-for-Increase-in-Debt-Limit.aspx).

26 When the debt ceiling is involved, the small probability of default also imposes small direct financing costs. According to the GAO, the 2011 episode led to increased spreads between longer-term Treasury securities and private securities, costing an estimated $1.3 billion. Government Accountability Office, “Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs,” GAO-12-701 (July 2012) (http://www.gao.gov/assets/600/592832.pdf), 22.

society should be like. Given that willingness, focusing on the debt ceiling is a complete non sequitur. \(^{27}\)

Third, already-passed spending decisions won’t change one bit just because there is no money to spend. Instead, officials in the executive branch will be faced with a choice of which laws they should break: they should either breach the debt ceiling or fail to honor spending commitments already made. Forsaking the debt ceiling would risk a constitutional crisis while simultaneously creating massive uncertainty in bond markets. On the other hand, given the large gap between revenues and outlays, choosing which commitments to honor could be literally a matter of life and death, for people and firms and industries alike. These decisions would be made with no legal guidance, turning the President into an autocrat, flouting the rule of law, and violating our Constitution’s commitment to having spending decisions originate in our representative legislature. It is hard to see how any congressional objectives could be advanced in this situation, and easy to imagine how the President might develop a steely determination to punish recalcitrant members’ constituents. The lesson is simple: if Congress wants to cut spending, it should cut spending, rather than engaging in debt ceiling brinksmanship.

Fourth and most important, the consequences of not raising the debt ceiling are so dire that threats of doing so ring hollow. In other words, those politicians who represent themselves as willing to take a stand against spending by means of freezing the debt ceiling are choosing the wrong battle, because it is one their opponents know they must walk away from. Their weapon of choice is defective, because everyone knows that if they pull its trigger (rather than simply brandishing it for a few months) it will kill everyone in the vicinity. The game of “debt ceiling chicken” can only end with the cutters swerving. \(^{28}\)

Strange, some of the debt ceiling’s more cool-headed defenders seem to accept this logic and realize that the debt ceiling will always be increased—and yet still believe that the exercise is a worthwhile means of drawing attention to the debt problem. \(^{29}\) As I

\(^{27}\) For example, the American Enterprise Institute’s President, Arthur Brooks, published a Wall Street Journal op-ed purportedly connecting the debt ceiling to his moral case for smaller government, but after mentioning the debt ceiling once in the first sentence, the article never discusses it again. Arthur Brooks, “The debt ceiling and the pursuit of happiness,” Wall Street Journal (July 25, 2011) (http://online.wsj.com/article/SB1000142405311903555490457646075316043800.html).

\(^{28}\) A group of economists, many of them quite distinguished, praised the Republican demands linked to a debt ceiling increase on the rationale that playing this game of “chicken” was worthwhile—see John Taylor, “In Praise of Debt Limit ‘Chicken’,” Wall Street Journal (June 2, 2011) (http://online.wsj.com/article/SB10001424052702303745304576359811624639374.html). The economists vastly overestimate Republican politicians’ ability to credibly threaten to hold fast, and oversell the accuracy of the “chicken” modeling. In a classic game of chicken, the ability for either player to swerve is strictly time-limited—after the cars come close enough to each other, it is simply too late for either one to swerve. As described above, though, it isn’t really the case that a U.S. debt default (the equivalent of a “crash”) would have a date certain. The President and Treasury Secretary could well keep up debt service without being able to issue new debt while they simultaneously withheld the appropriations most valued by the hold-outs’ constituents. Each day these constituents would suffer while the President demanded a clean debt limit increase. It is hard to see how the advocates of cuts would maintain their resolve as this impasse went on. Most likely, this would become apparent to them and they would capitulate within days.

discuss below, if the only thing desired is to draw attention to the debt problem, far less problematic methods could be substituted for the debt ceiling.

More often, debt ceiling defenders claim that the debt ceiling really does exert a downward pressure on spending through Congress’s periodic threats not to raise it. Considering that the debt ceiling’s presence has remained constant even as spending has ebbed and (mostly) flowed, we should be skeptical. If the debt ceiling restrains debt accumulation, why hasn’t debt accumulation been restrained? The natural answer is to say that in the counterfactual world in which there is no debt ceiling, America’s debt burden would be even higher. To make this argument credible, though, one needs to be able to see some evidence that the debt ceiling’s presence has itself contributed to spending restraint. Let us briefly examine the three negotiations in which the debt ceiling played a consequential role.

The first is the passage of the Gramm-Rudman-Hollings Act of 1985 (GRH), which was negotiated against the backdrop of hitting the debt ceiling and ultimately attached as an amendment to the increase.30 The Act set shrinking dollar targets for the annual deficit, culminating with a balanced budget requirement for FY1991. Sponsor Warren Rudman (R-NH) said the Act was “a bad idea whose time has come,” reflecting both the sense that something had to be done about the rising debt and a general anxiety about the untargeted nature of GRH’s blunt sequestration remedy. The Act’s legacy is rather ambiguous: its immediate effect was “fudging the numbers and moving the deficit goalposts.” Still, it may have had a modest deficit-reduction effect in the late 1980s.31 Limiting its overall importance, though, is the fact that when GRH’s requirements became too demanding in 1990, the law was scrapped. One can argue that GRH’s presence helped lay the groundwork for the bipartisan compromise in 199032, but it is hardly a clear example of durable restraint.

The second episode is the showdown between congressional Republicans and President Bill Clinton in late 1995 into early 1996. Although the famous government shutdowns resulted from two sides’ failure to agree on a budget, parallel negotiations prominently featured a threat not to raise the debt ceiling by Speaker Newt Gingrich. Unless Clinton acceded to their agenda, Republicans insisted that Clinton would not get a debt ceiling increase. Rejecting proposed cuts to Medicare, education, and environmental spending as unnecessary to achieve a balanced budget, Clinton issued a veto and appealed to Congress for a “clean” debt ceiling increase unattached to other priorities.33 Treasury Secretary Robert Rubin proceeded to “disinvest” $61 billion from government retirement funds to allow debt service payments in mid-November, pledging to avoid default by whatever means necessary.34 Republicans refused a debt ceiling increase even as a compromise was reached on the budget, ending the government shutdown in January 1996, but Rubin said

that a failure to act by March 1 would lead to serious consequences, including the failure to send out Social Security checks. The Republican caucus, divided as to how to proceed, stalled by passing two very short-term debt ceiling increases in February and then March. Finally, they agreed to raise the debt ceiling enough to sustain government operations through 1997 in exchange for two relatively minor policy concessions. Tellingly, Gingrich now advises Republicans that taking a stand on the debt ceiling is a “dead loser” for their party, which he confidently predicts will “cave” in the end.

Finally, there is the recent historical experience from the debt showdown of 2011. Those who hope to see another debt ceiling showdown in 2013 apparently look fondly at the halcyon days of the “Merlot and Nicorette Meetings” that Bob Woodward so painstakingly chronicled. They see the spending cuts agreed to at the eleventh hour, and conclude that the Republicans were right to use the leverage of the debt ceiling as they did. But one has to wonder whether this is self-deception. Yes, for a moment it looked as if the episode had pushed the trajectory of federal spending modestly downward. But in less than 18 months, those cuts have become politically toxic. The fiscal cliff deal postponed the cuts for two months, and the prospect of cuts becoming a drag on the economy almost certainly increased the pressure to limit the extent of tax increases. In other words, the deficit reduction trajectory “achieved” in 2011 has been rejected in 2013, and it is difficult to say whether the actual 2013 budget deficit will be smaller as a result of the Budget Control Act of 2011. It’s therefore possible to argue that Republicans “won” the 2011 showdown in terms of short-term negotiating, but it’s much harder to tell a convincing story about why such a victory matters over the longer term. The promises extracted were illusory—with those that are ultimately kept being attainable through less dramatic means, or likely to be offset by other new spending.

Interpreting these episodes is bound to be something of a Rorschach test—because of the complexity and interrelation of the negotiations, social science is unlikely to convincingly establish whether the counterfactual world without a debt ceiling would have been significantly different. But even if one favors the concessions advocates of spending restraint managed to have attached to debt ceiling raises, it’s hard to tell a larger story about spending restraint in which the debt ceiling played a pivotal role. At the very least, given the disruptions that debt ceiling showdowns cause, the onus should be on debt ceiling defenders to lay out a case for its efficacy far more persuasively than they have yet done.

35 Congressional Quarterly Almanac 52 (1996): 2-25-2-28. The policy changes were an increase in the Social Security earnings limit (paid for by tightening the Social Security disability criteria) and an amendment to the Regulatory Flexibility Act that allowed court challenges against regulations made without sufficient consideration of impact on small businesses. To give hard-liners political cover, the bill was enacted in conjunction with the line-item veto—but, since President Clinton was an ardent supporter of that policy, it is hard to frame this as a concession won through the debt ceiling negotiation.


39 It is even harder to tell a story in which the possibility of default, in itself, is the crucial ingredient, which suggests that other devices to force consideration of the long-term debt issue might have the same benefits without the cost.

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In doing so, debt ceiling defenders must address the sustained nature of the debt problem. “Winning”—that is, not running the country off the rails—requires our political leaders making a series of responsible political decisions over many years. Episodes of tactical success for opponents of spending don’t add up to anything, and in fact can be counter-productive, if they convince citizens that anything has been “solved” permanently. Fiscal responsibility for the long haul has to run through the voters: only when a critical mass of voters really want to see revenues and outlays roughly in alignment is that likely to happen in any vaguely sustainable way. Periodically “taking a stand” on the debt ceiling issue—which, far from repudiating DC budget gimmicks, is itself the epitome of them—is no way to achieve this deeper shift in voters’ sentiment, and in fact could well do the opposite.

In the context of this larger perspective, we should also consider what kinds of concessions Republicans realistically hope to win in a 2013 showdown. While the “Boehner rule” of requiring spending cuts equivalent to the debt ceiling raise has a nice ring to it, it is also poorly calibrated (since the debt limit includes not only on-budget deficits but also intragovernmental debt), arbitrary (since the ten-year budget window is hardly the only relevant time frame), and apparently too demanding to have a chance of being realistically met again (since Republican leaders are unwilling to specify cuts that would be sufficient to keep the government running for long under the rule). While Republicans, and probably Americans as a whole, strongly favor the idea of coupling a debt ceiling increase with “big spending cuts,” it won’t be sufficient to simply join this abstract notion up with Boehner’s debt ceiling rule and then leave Democrats to figure out how to shrink the federal government. Unless and until the Republican caucus unites behind clear demands about specific spending cuts, their ability to demand anything more than marginal changes will be limited.

The historical evidence is clear: although there is a correlation between debt-ceiling-soap-boxing and moments of spending restraint, the link is sporadic and not causal. Because of the risks of debt ceiling showdowns, fiscal conservatives would be much better off abandoning it and looking for alternatives to advance their cause more effectively.

So, without meaning to make any suggestion of an evil empire, fiscal conservatives should modify a conveniently fitting iconic call: Mr. Boehner, if you seek real fiscal responsibility, if you seek a smaller debt for the United States, if you seek real change: reexamine your reliance on the debt ceiling. Mr. Boehner, tear down this ceiling!

40 The GAO comes to a similar conclusion: “In general, budget experts and other observers have noted that the success of fiscal rules depends on effective enforcement along with a sustained commitment by policymakers and the public.” GAO-11-203, 31-32. Whether this is possible in an environment of low inflation and low interest rates is an open question.

41 Although the opinion polling mentioned above shows a public sympathetic to the idea of holding the line, there’s clearly a significant chance that the political optics of a debt-ceiling-showdown may turn out quite badly for Republicans. See Daniel Shaviro, “Debt ceiling fight?” Start Making Sense (blog) (December 5, 2012) (http://danshaviro.blogspot.com/2012/12/debt-ceiling-fight.html).

42 While the ideal step would simply be to abolish the debt ceiling, realistically it is far more likely that we would see a permanent adoption of the “McConnell Provision,” which is the solution now favored by the Treasury Department: Jenni LeCompte, “Taking the Threat of Default Out of the Debt Limit,” Treasury Notes blog (December 5, 2012) (http://www.treasury.gov/connect/blog/Pages/mcconnell-provision.aspx). The debt ceiling system...
Policy Alternatives

Even if one disagrees with the foregoing analysis, it would still be sensible to search for less explosive tools to achieve fiscal discipline. For advocates of spending restraint, the most attractive course is to offer a truce on the debt ceiling in exchange for some other, better alternatives.

First, we could easily address those who are seriously concerned that the debt is not yet sufficiently on the public radar and who value the attention-requireing characteristic of the debt ceiling. Instead of anything linked to a serious disruption of government operations, we could put into place requirements that legislative leaders and the President give the public formal explanations of distressing deficits. For instance, New Zealand’s Treasury Minister is required to provide such an explanation whenever debt deviates from “prudent” levels. We could require leaders from both parties to provide explanations—indeed, as long as we’re at it, why not make it a statutory requirement to offer the outlines of a plan that consists of something other than “wait for the voters to give my party complete control of government”? Such requirements are unlikely to have a huge impact, but they might improve deliberation about the debt.

Second, we could put automatic spending-control mechanisms into place that are directly sensitive to the business cycle. Automatic spending sequesters (ideally in combination with hard caps on tax expenditures) could kick in if unemployment is low and deficits are high—avoiding the pro-cyclical adjustments that Gramm-Rudman-Hollings caused. Since 2001, Switzerland has had such a “debt brake” that caps expenditures at revenues with business cycle adjustments. Such a rule might be passable, since it cannot be opposed on the grounds of being insensitive to our current jobs problem, and it would go a long way toward showing that America’s Keynesian budget instincts can be genuinely counter-cyclical instead of pushing us perpetually toward debt accumulation.

Far more fundamentally, we need to be thinking seriously about how to reform our dysfunctional budgeting process. Because debt ceiling fights happen after spending and revenue decisions have already been made, the leverage for deficit shrinking is at its nadir; far more control could be exercised if there were mechanisms forcing serious consideration of debt at the front end of the process. A radical shift, which would expose the costs of our entitlement programs to much greater scrutiny than they currently receive, would be to move all government spending on-budget, thereby bringing all of the government’s liabilities into the budgeting process. This would potentially force hard choices about the tradeoffs between low-efficiency marginal healthcare spending and potentially high-return spending on research, basic infrastructure, etc. Less radically, we should think carefully

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43 GAO (11-203), 31.
45 GAO (11-203), 32-33.
46 See Auerbach, 22.
about what should follow a failure to pass a new budget. Perhaps continuing resolutions should be forced to automatically push us toward balanced budgets, creating a default rule in which current unsustainable levels of spending are not retained simply through inertia and an inability of our two parties to compromise. Perhaps we need something as crass as the “No Budget, No Pay” law proposed by Representative Jim Cooper (D-TN), which would suspend congressional pay until a budget is passed.47

There may well be other, better alternatives. But simply holding on to our peculiarly evolved debt ceiling because it is there is unlikely to lead to better results in the future than it has in the past. To take a stand for effective spending restraint, rather than merely scoring some rhetorical points, fiscal conservatives should trade in the debt ceiling for something better.

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