DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

"The politics of the debt ceiling debate in Congress"

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Episode Summary:

On January 19, U.S. Treasury Secretary Janet Yellen informed Congress that the department would implement "extraordinary measures" to allow the federal government to meet its obligations after reaching the debt ceiling. David Dollar speaks with Molly Reynolds, a senior fellow in Governance Studies, about the politics of the debt ceiling debate in Congress, including what leverage far-right Republicans may have gained during the Speaker of the House election process, and what a possible bi-partisan budget deal could look like.

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DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast Dollars and Sense. Today, we're going to delve into the debt ceiling and the risks it poses for our economy. We're recording this on Thursday, January 19th, and Treasury Secretary Yellen said that today is basically the day that we bump up against the debt ceiling and start taking extraordinary measures. To talk about this, I've got Molly Reynolds, a senior fellow in Governance Studies at Brookings and a leading expert on U.S. politics. So, welcome to the show, Molly.

REYNOLDS: Thanks, David. It's great to be here.

DOLLAR: So, let's start with the basics. What is the debt ceiling and why would breaching it lead to a shutdown of the federal government?

REYNOLDS: Sure. So, here I think it's important to start with the fact that in the United States federal debt has always been subject to limits. The sort of modern debt limit in the form that we have it now, which is a statutory, so in law, overall limit on federal debt that's been in place since 1939, and it's the legal maximum amount of debt that the federal government can accrue. As the level of debt approaches, the ceiling approaches, that limit, the Treasury Department prepares to use what you just referred to, what we call "extraordinary measures"—I'm using air quotes there—but that is the term that we use. And those include things like suspending and delaying some debt sales, and auctions, and certain certain other changes in how government funds are invested.

So, importantly, these extraordinary measures can sort of push back into the future the date by which an action by Congress to address the debt limit is needed. But they can't do that forever. The clock is ticking on how long we can rely on extraordinary measures.

And then there are major consequences of actually breaching the limit. These include that it makes it harder for the Treasury to borrow. There are bad consequences in global financial markets because actors of various kinds become worried that the U.S. government isn't going to pay its bills and probably a downgrade of the U.S. credit rating.

DOLLAR: So, let me just say as an economist, to me, it's quite extraordinary we have this system because all of the spending, the debt accumulation is the result of congressional action. Congress sets the taxes and it makes the spending decisions. And the end result has been a series of deficits leading to debt. So then to not raise the debt ceiling for an economist, this is just extraordinary that we have this system.

REYNOLDS: And I think from a sort of political standpoint, too, it's helpful to remember that there's oftentimes like a big gap in time between the choices that one Congress made about accruing debt. And, when we think about things like our major entitlement programs, so Medicare and Medicaid, the Congress of the 1960s that set those up is nothing in so many ways like the Congress of today. But those are choices that were made a very long time ago. And so they're not really the same set of choices that we're making today.

We could also talk maybe a little bit about the way in which a default on the debt is distinct from what we usually talk about when we talk about a federal government shutdown, because I think one of the things that there is overlap, but they're also distinct. And so when we usually talk about a government shutdown, we usually mean what happens when Congress has failed to pass appropriations bills, funding some or all of federal operations. So, the last time this happened in a real meaningful way was at the end of 2018 and the beginning of 2019 when there was a shutdown at a set of federal agencies that was provoked or sort of instigated because of a showdown between President Trump and Congress over funding for the border wall. And, you know, 35, 36 days, many operations at many federal agencies had to cease because there was no discretionary funding available to fund those agencies.

A default on the debt, which is what we're talking about when we talk about not addressing the debt limit, would potentially trigger much, much bigger consequences than a kind of "ordinary"—again, air quotes—government shutdown since many more payments beyond just those to federal employees or grantees would be in danger.

It's also the case that we have seen in the past, and I think as we talk in this podcast about where we might be going, we have seen fights over discretionary spending—so, over the kind of spending that we usually talk about when we talk about a shutdown—get linked to the debt limit and fights over the debt limit. So, this happened in 2011, which I know we're going to talk about, and the way out of that debt limit crisis involve some caps on discretionary spending. We've also seen examples like in 2013 where the timing of congressional action needed to keep the government open, to keep discretionary appropriations going, was sufficiently close to the timing of when action on the debt limit was needed, that those fights got linked politically. And I think there's a possibility that we see that happen again this year, though I think the timing may not line up in the same way.

But we're talking about two different things: funding the government and funding federal agencies and a default on the debt. The latter is much more consequential, but we may or may not see discussions about the two of them get linked over the coming year.

DOLLAR: So, Congress has raised the debt ceiling many, many times, and it's often been noncontroversial. But we've seen this debt ceiling fight a couple of times before. As you say, most recently, in 2011. And I think it's interesting that both Biden and Kevin McCarthy had front row seats to the 2011 crisis, which got resolved very much at the 11th hour. So, what do you think the lessons are that Biden and McCarthy each took away from that earlier episode?

REYNOLDS: Yeah. So, I think one thing that's helpful to start with here, before we talk about lessons, I think it's really valuable to reflect on how much Congress has changed. And here, I mean like literally in terms of the membership, even before we get to the politics, has changed since 2011. So, in the House, only 22% of the House Republican Conference was in the House in the summer of 2011. And for Democrats in the House it's about 30%.

So, that’s a lot of people in both parties in the House who were not here the last time we had what looks like the kind of fight that is brewing now, which is to say a fight where there’s a Democratic president in the White House, the Democrats control the Senate, and there’s a Republican majority in the House. And that Republican majority in the House seems pretty serious about taking the debt limit hostage to try and extract policy concessions. So, there are a lot of people who did not live through that last fight. So, even to the extent that there are lessons, the group of people who are here to have learned those lessons is kind of small.

One of the things that makes this question a little bit hard to answer is that I think if you ask Republicans and if you ask Democrats the lessons that they learned from that fight in 2011 are really different. And I would commend to listeners, there’s a great piece in The New York Times opinion section yesterday that involved Ross Douthat interviewing two folks that sort of covers this really well. But basically, I think Republicans see the 2011 episode as one of their most successful attempts at playing hardball with Democrats. Like they insisted on something—they insisted on big concessions in exchange for raising the debt limit. And they got something. We can sort of talk about the longer term consequences of the 2011 Budget Control Act. But there’s the sense that they went to the mats and they won.

For Democrats, I think the lesson is we let the Republicans win in a way in 2011. And so we should never let them negotiate under those circumstances again, we should not create a situation where Republicans have the opportunity to take the debt limit hostage in the same way they did in 2011. Those are those are really different lessons. So it’s hard to it’s hard to sort of know what the consequences of those will be.

I also say from a more kind of institutional perspective, which is how I tend to think about a lot of these questions, I think one of the biggest lessons from 2011 is that big budget agreements like the Budget Control Act of 2011 are only as good as the political will that exists to stick with them. So, one of the things that happened in the 2011 debt limit fight is that in exchange for raising the debt limit there was created something we started calling the “super committee,” which was basically a set of House Democrats and House Republicans, Senate Democrats and Senate Republicans, that were supposed to come up with a set of spending cuts that would that would be enacted, and they failed. So, the deal to raise the debt limit created the process.

But the supercommittee didn’t work. And then the discretionary spending caps that were part of the Budget Control Act, which were meant to limit discretionary federal spending on things like the defense budget, education, scientific research—those also didn’t work especially well to hold down spending, if that was your goal, because Congress kept looking at them in the ensuing decade and saying, you know what, these are too restrictive, we’re going to take action to raise them.

So, even in situations where you work out a deal to do something like raise the debt limit, whatever deal it is that you that Congress manages to come to, if there’s not political will to stick to that deal, it’s not going to happen.

DOLLAR: So, listening to you, Molly, it's easy to be pessimistic because I agree with you. The Republicans did get something last time. It didn't completely work out the way they wanted, but they got some concessions on spending. And Biden seems to have taken the lesson that, you know, this is just not good politically to be negotiating over this. So, his view is he says he's not going to negotiate over the debt ceiling. So, that really seems to set us up for probably a longer stalemate, perhaps actually defaulting for a while.

REYNOLDS: It's certainly a possibility. I think that on my more pessimistic days that's how I think about the world. On my more optimistic days I am reminded that there are in the Senate, particularly, a set of Republicans who are really not interested in default. During the Trump and early Biden administration we had several episodes where the debt limit also needed to be addressed and we managed to find a way out of those situations. And we can talk to the extent that we know what some of the asks have been so far from House Republicans on what would be necessary in exchange for their support for raising the debt limit.

I think the big question for me is most of what we've heard so far seem to be nonstarters. What could be a starter? What would a deal look like? We saw—again, we're recording this on Thursday the 19th—and in the past few days before today there's been some reporting around, you know, what might Joe Manchin be interested in in supporting as part of his participation in a deal? And there have been some reports that he'd like something like the supercommittee, supercommittee 2.0. And so, trying to figure out what outcome would give everyone the ability to save some face is, I don't know what that looks like, but that thinking about what it might look like is what keeps me from getting too pessimistic.

DOLLAR: One of the ideas I've seen in print coming from some of the hardcore right wing Republicans is to eliminate the federal fiscal deficit within ten years without raising taxes. Now, I know you've written about this to some extent, but can you just run through what would it actually take in terms of spending to eliminate the deficit without raising taxes within ten years?

REYNOLDS: Yes, I can talk about that and then I'll talk about a couple of other things that have been floated as well. So, on the specific question of balancing the budget in ten years, here I'm going to rely on some really good estimates from folks at the Committee for a Responsible Federal Budget that they have calculated using data from the Congressional Budget Office. And so, if the goal is to eliminate the federal budget deficit without more revenue—because again, we're talking about the House Republican Conference here and largely, if not exclusively, sort of tax increases are likely to be a if not a nonstarter just not especially popular with the with the House Republican Conference.

And so, if we're thinking about ways to eliminate the budget deficit without raising new revenue, if we were just to indiscriminately cut everything across the board that cut all spending, we need to cut all spending by 26% by 2032.

If we say, Okay, cutting everything across the board, it's too much, let's exempt spending on defense and on veterans programs, then we would have to cut everything else by 33%. If we say, Okay, defense spending, veterans, and also

Social Security we're protecting those programs, we'd have to cut everything else by 51%. And then if we say we're going to exempt defense, veterans, Social Security, and Medicare—so big, popular entitlement programs, we have to cut everything else by 85%. So, once you start to actually put numbers on it and think about what it would look like, this is, again, a nonstarter.

And so, there we do then have to start to think about what else is on the table. Other things, again, which are not terribly likely, but that to give listeners a sense of where the House Republican Conference is here, things like dollar for dollar spending cuts. So, for every dollar you raise the debt limit, you cut spending also by a dollar. This was a proposal that was also in the mix in the summer of 2011.

Cuts to mandatory spending. So, mandatory spending is the kind of spending that flows out of the federal Treasury without annual action by Congress. Big things like, again, Medicare, Social Security, Medicaid, farm price support, student loans. Could you could you make cuts there?

And then another one that was very actively in conversations as part of the deal that Kevin McCarthy cut to be elected speaker is this idea of returning discretionary federal spending—so, federal spending for things like the defense budget, education, scientific research—returning that funding to the levels it was at in fiscal year 2022. So, not the levels that agencies are operating at now, but rolling back a set of increases that were passed in December. And that, again, that would be a heavy lift, particularly because for defense hawks within the Republican Party, like they don't want to roll back the increase in defense spending. And Democrats who again control the Senate—Senate exists, Democrats have a majority—they aren't going to want to go along with something where there'd be big cuts in discretionary non-defense spending.

DOLLAR: Let me let me add a couple of things from the economist's point of view. It is worrisome that we've often been running fiscal deficits up above 6% of GDP. And some of that was extraordinary in response to the pandemic. But it's not particularly rational for the U.S. to eliminate its fiscal deficit. We have a growing economy. If we reduce the fiscal deficit to about 3% of GDP, we would stabilize the debt-to-GDP ratio at basically an acceptable level. So, you know, setting that target of eliminating the deficit is actually unnecessary.

And then, as you say, Molly, a lot of these programs are very popular with the American people. And it's hard for me to imagine we could get down to 3% of GDP fiscal deficit without raising some additional taxes, frankly. So, to me, the kind of rational compromise is fairly clear. But, whether or not the politicians get to it remains to be seen.

REYNOLDS: Yeah, I think that's right. And again, I think as we sort of start to speculate on where this all might be going in the next several months, thinking about what is the deal that gets people to everyone to save some face, that's the ball I'm keeping my eye on.

DOLLAR: So, Kevin McCarthy made a bunch of concessions—I think it took 16 votes to get him the speakership—do any of the concessions that he made to the Freedom Caucus really bear on this particular issue of raising the debt ceiling?

REYNOLDS: Yeah. So, we talked a little bit already about some of the asks that are explicitly in the budget and preparation space that the coalition of holdouts had of McCarthy. We don't exactly know the details of what was promised and how they are linked to one another because much of what was negotiated over is not something that then immediately came to a vote in the House. And so, we have only some sense of those details.

I do think actually that the biggest concession that McCarthy made to the holdouts that is likely to bear on the debt limit fight is a concession he made that involves the membership of the House Rules Committee. So, we still don't know exactly how this is going to change the membership of the House Rules Committee. But for listeners who do not spend all of their time thinking about congressional procedure, like a ninety-second crash course in the House of Representatives: for most substantive legislation, before a bill comes to the floor for debate and a vote, it goes through something called the House Rules Committee. And the House Rules Committee basically sets the terms for debate on that piece of legislation. So, how long is it going to be debated for? What amendments are in order? If there are things in the legislation that require waiving other rules of the House, usually the House Rules Committee will sort of take care of that. They're basically the traffic cop between the speaker and the full floor of the House. And historically, they are controlled very heavily by the Speaker of the House. There's a supermajority of the majority party who are members of this committee. So, for quite a while, the breakdown has been nine majority party members, four minority party members.

So, if you are the speaker and you send something to the House Rules Committee, and enough of your own members on that committee don't want to see that go to the floor, they can vote with the members of the minority party who are on that committee to stop it from doing so.

And so one of the asks from the holdouts was that their kind of faction, so the Freedom Caucus and sort of Freedom Caucus adjacent members, that that faction get three of the Republican seats on the Rules Committee. That three is a really important number because that means if those three Republicans don't want something and the four Democrats on the committee don't want something, that's seven no votes against the six other Republican votes. So, that would essentially, if, again, those Freedom Caucus types and the Democrats cooperate to not send something to the floor, that would give them some veto power over what goes to the floor.

So, in the context of the debt limit, I think something that folks are quite fairly concerned about is even if there is a deal that McCarthy agrees to, if it's not acceptable to that faction of his party and that faction is really willing to play hardball, could they keep it from coming to the floor? That's sort of the worst case scenario.

But, I don't think it's implausible. And so that's the thing that when I think about the consequences of McCarthy's dealmaking, that's a place where I think it could really matter for the debt limit and it could certainly matter for other things, too. Like, you know, we talked before about the appropriations process of keeping the government open. It could matter for that, too.

DOLLAR: But, you know, wouldn't it be likely that the Democrats on the Rules Committee would side with the McCarthy faction simply because simply because anything that gets that far, it also needs it needs Biden's approval, essentially. So, it has to be the result of a negotiated compromise.

REYNOLDS: I think that's also entirely possible. It really, again, just depends on the terms of the deal. And in the case of the House, if McCarthy tries to bring something to the floor, and if he tries to do it via the Rules Committee relying on some Democratic votes in the Rules Committee, it is also possible that then his conference would try to unseat him. There is another change that was negotiated over that we didn't talk about, was basically a change to the motion that one would use to try to oust the speaker, roughly equivalent to a no confidence vote. And the Republicans made a change that makes that easier to use. So, these things kind of in cooperation or conjunction with one another could throw up some big procedural obstacles for trying to get a debt limit increase to the floor, particularly if there's sufficient opposition within the Republican conference to doing it.

DOLLAR: I mean, there are moderate Republicans who must want to avoid a default and, you know, the economic chaos that's likely to result from that. So, is it plausible that some moderate Republicans will join with the Democratic members to pass a debt ceiling increase?

REYNOLDS: I think that's certainly a possibility. And when I talk about what kind of deal would let lots of people save face, I think that's sort of what I imagine. One scenario would be what I might call like a traditional deal, and that would be something that probably relies on what you just outlined, which is in the Rules Committee some cooperation between the Democrats on the Rules Committee and the pro-McCarthy faction on the Rules Committee. If McCarthy sort of went that route to bring that to the floor, that might be sort of the thing that ultimately marks the end of his speakership.

That's not exactly what happened to John Boehner in 2015, but we were sort of reaching a point in 2015 where John Boehner was going to need to cut some deals that parts of his conference really did not like, and that, I think, contributed to his desire to just quit being Speaker of the House. So, we can sort of imagine that scenario. And I'd say that's a traditional deal.

A second possibility that folks have started to talk about is something called the discharge petition, which does sort of allow a numerical majority of the House, so 218 members, so here probably a coalition of Democrats and some moderate Republicans, to bring something to the floor of the House without having to get it through the Rules Committee. That's a possibility. That's not an especially speedy or elegant process. And so, if folks think that the discharge petition is a way or a tool they might need to use, they're going to need to start those plans in motion actually pretty soon. So, I'll be on the lookout to see if that if that does, in fact, happen.

There are some other procedural moves that a coalition of Democrats and moderate Republicans could use that might actually be more likely than the discharge petition, because the rules of the discharge petition are slow and clunky.

At the end of the day, whether it's some other kind of procedural maneuver, the moderate Republicans that we're talking about here—I might actually prefer to call them like pragmatist Republicans, because in the grand scheme of things, they're not especially moderate, they just aren't interested in defaulting on the debt—they need to be willing to exercise some of their own muscle to make this happen.

And one of the things that we have seen repeatedly over the past more than a decade in some of these fiscal fights is the existence, particularly in the House Republican conference, of sort of a vote no/hope yes caucus, where it's this idea that we don't want a default on the debt, but we are also concerned about the politics of voting for a deal that some share of our constituents are not going to like. So, we're going to vote against it, but we're really going to cross our fingers that it ultimately passes. And I think given the size of the Republicans' majority in the House, that's not a terribly plausible outcome here. Some number of these Republicans are actually going to need to say I'm willing to vote for something that avoids default on the debt. And so, these pragmatists, some of them are going to have to be willing to use some of their legislative muscle.

DOLLAR: I'm David Dollar, and I've been talking to my colleague Molly Reynolds about the debt ceiling debate and the complicated politics around it. I probably should have said early on the link to international trade is indirect, but pretty obvious. If we default, it will almost certainly lead to a recession in the United States, and it will have a big effect on our trade and our trading partners. So, people all around the world are trying to understand this. And Molly, thanks so much for explaining a complicated political situation to us.

REYNOLDS: It's my pleasure. Thanks for having me.

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DOLLAR: Thank you all for listening. We release new episodes of Dollar and Sense every other week. So, if you haven't already, follow us wherever you get your podcasts and stay tuned.

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Until next time, I'm David Dollar and this has been Dollar and Sense.