

THE DEBT LIMIT FIASCO

by Edwin D. Reilly, Jr.
for the Sunday Gazette

“As far as I am aware, no other country on Earth has the idiotic policy that the United States has of having a legal limit on the amount of bonds the central government can issue. They correctly recognize that the deficit and the debt are simply residuals resulting from the government’s tax and spending policies. It makes no sense to treat the debt as if it is an independent variable.”

-Bruce Bartlett, January 2, 2011

I love this mathematical language; Bartlett’s blog post tells it like it is. And lest you think that he is far left, be advised that his conservative credentials are impeccable. Bruce Bartlett is a columnist for “The Fiscal Times,” an online newspaper covering the economy, business, and personal finance. His work in government included service on the staffs of Congressmen Ron Paul and Jack Kemp and Senator Roger Jepsen, Republicans all. He was a senior policy analyst in the Reagan White House and deputy assistant secretary for economic policy at the Treasury Department for President George H.W. Bush.

Our country fared quite well for 128 years until there arose a felt need for a debit limit law. The first such law, part of the Second Liberty Bond Act of 1917, was passed by Congress and signed into law by President Woodrow Wilson in 1917 during World War I. It established a \$5 billion aggregate limit on the amount of government bonds issued for 30 years at 3.2% interest, but redeemable after 15 years. Four million people bought two billion dollars worth of bonds.

The debt limit has been raised many times since 1917, seven times during the administration of George W. Bush, doubling the limit (and thus the national debt) over his eight years in office. Never before, during any presidential administration, was the legislation to raise the debt ceiling held hostage to unrelated demands. Yes, sometimes a member of the opposition cast a negative vote, as Senator Barack Obama did for one of the Bush increases.

GOP PROPOSAL

In the case at hand, the “hostage” allusion is to the GOP proposal to add a so-called “balanced budget” amendment to the Constitution. The word “ridiculous” means, literally, “worthy of ridicule,” and dictionaries give as synonyms “preposterous” or “absurd.” To see that the GOP’s proposed balanced budget amendment is all of these, go to www.scribd.com/doc/52020805/GOP-Balanced-Budget-Amendment-Text and see for yourself. (I give homework. There’ll be a quiz.)

For one thing, the proposed amendment is far too long; it contains 11 sections that comprise about 670 words. The first 12 amendments to the Constitution consist of single sentences written by philosophers to embody general principles of enduring value. The longest, the 25th amendment on Presidential succession and disability, contains fewer than 400. The diabolic (Cantoric?) amendment, written by messianic legislators, would have only ephemeral value, if any at all.

Now, I have played this mind game too. My version of what I believe would be an effective balanced budget amendment is posted at www.edreilly.info; select the

link called "Balancing the Budget" under the list of my 2010 op ed pieces. And the proposed amendment is expressed in one sentence of 51 words.

The GOP version could not possibly pass the Senate, and even if 60 Senators were to lose their marbles and vote to join the House in adopting it, it would take a minimum of two years to reach a (highly improbable) ratification by enough state legislatures. (My version will be adopted early in the next millennium.) But debt ceiling action is allegedly needed now, within a few days, not within two years.

What's that "allegedly" doing lurking in my last sentence? One justification for it might be that the needed legislation was passed before you are reading this; my deadline is always the Monday before the following Sunday. If that happened, I still ask that you stay with me to read what I think should have been done, or will be done at some future date when the chimera of a budget limit as an "independent variable" is given a decent burial. Here's why it should be:

Let's start with the Moody's bond rating service. It may be self-serving to Moody to threaten to downgrade the current high rating of U.S. bonds if the debt limit is not raised, but it is not nice of them to scare our citizenry that we are anywhere near default. The 14th amendment to the Constitution, ratified on July 9, 1868, states that "The validity of the public debt of the United States, authorized by law,shall not be questioned."

In other words, supported by Supreme Court decisions, the timely payment of principal and interest on U.S. bonds must be made even if some of the money needed to do so must be liberated by withholding available funds originally authorized and appropriated for other purposes. And the nation has many times more funds (and fungible resources) than needed to make bond payments; we are nowhere near the kind of default confronting nations such as Greece.

CONGRESSIONAL AUTHORITY

It is instructive to study the Constitutional authority of Congress with regard to money. Section 8 of the Powers of Congress reads, in part:

The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States; To borrow money on the credit of the United States; To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures; To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;

And Section 9 regarding the Limits on Congress states:

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Those two occurrences of “appropriation” in the foregoing are the only two in the entire Constitution. “The verb “authorize” also appears only twice, but the noun “authorization” does not appear at all. The practice that federal expenditures must be both authorized at the time of budget adoption and then appropriated gradually throughout the fiscal year is in House and Senate rules, not in the Constitution. After a budgetary line item is authorized, appropriated, and funds have begun to flow to the entity that has begun to implement a project, I submit that the “full faith and credit” of the federal government must be extended to it. For example, if a state or city has begun to build a bridge and the Feds tell them to build a shorter bridge because the promised funds have been summarily cut, that would be an abridgment in two senses of the word

DEVILISH DIFFERENCES

The Obama administration's proposed FY 2012 budget contains \$2.627 trillion in revenues and \$3.729 trillion in outlays, implying a deficit of \$1.1 trillion. The Republican plan of Congressman Paul Ryan contains \$2.533 trillion in revenues and \$3.529 trillion in outlays, a deficit of a hair less than \$1.0 trillion. But the devilish differences in the details of each is far greater than the difference of \$106 billion, a mere bagatelle. To date, the U.S. Senate has resoundingly rejected both such budgets. Congress has a lot of work to do, and the September 30 deadline for adoption is only ten weeks away.

It won't happen this year, but the flawed concept of a “debt limit” as a controlling variable must be abolished. The time for Congress and the President to exercise deficit and debt control should be an integral part of budget adoption and subsequent care that proposed appropriations during the fiscal year do not adversely change the national debt, a dependent, not an independent variable whose value, in accord with Section 9 above, should be continually calculated by the Congressional Budget office and made known to our fearless (fearfull?) leaders every day. We still need the debt clock in Times Square, one capable of running backward as well as forwards.

Edwin D. Reilly, Jr. lives in Niskayuna and is a regular contributor to the Sunday Gazette opinion section.

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