



The Daily Dish

The Debt Limit

DOUGLAS HOLTZ-EAKIN | NOVEMBER 28, 2022

Suddenly the debt limit is everywhere. There are hyperbolic warnings of an upcoming [debt limit crisis](#), assertions that debt limit negotiations are just a ruse to gut [Social Security](#), calls to use the debt limit to [control spending](#), and speculations about what can be done about it in the [lame duck session](#) of Congress.

It is time for everyone to take a deep breath.

For the moment let's put aside the politics and certainly the inane, ill-advised, and misleading messaging that seems to surround the debt limit and focus on the facts. The key fact is that the federal debt limit is ultimately a cap on the ability of the Treasury to borrow.

Fact 1: If the debt limit is never increased or suspended, the Treasury will default on previous borrowing because it will not have the dollars to make payments of interest and principal. A Treasury default would mean that nobody would want to get caught holding Treasury securities and thus be that guy who did not get repaid. Treasuries are the foundation of the global financial system. The massive dumping of Treasuries would destroy this foundation, and engender a global financial meltdown and a horrific economic Armageddon.

Nobody should ever contemplate willfully forcing the Treasury to default in this fashion. Anyone who does is unfit for any public office in the United States.

Fact 2: Threatening to force the Treasury to default is threatening to invoke Fact 1. As long as there is some non-zero probability that the threat will become a reality, the only logical conclusion is that there will be some negative economic fallout. The only question is how large it will be.

Nobody should threaten to use the debt limit to force a default. It is a strategy with clear costs and no benefits (more on that to follow). People who govern with strategies that are all

costs and no benefits are not fit for office.

Fact 3: Failing to raise or suspend the debt limit does not control spending. The Treasury is in the position of having to borrow because past decisions to spend have outstripped past decisions to tax. As near as I can tell, the only one who can change the past is Dr. Who. There is an argument that being inflexible with the debt limit will limit future spending but, of course, one could do that without involving the debt limit. If you want to control future spending, stop spending so much.

Fact 4: Some argue that threatening to not raise the debt limit will engender the growth of a fiscal backbone and control the growth of spending and taxes. Some also argue that I am 6'4" and have a full head of hair. The evidence says otherwise. Similarly, the evidence is that in the past the debt ceiling has gone up or has been suspended without accompanying fiscal legislation ("clean" debt limit increases) and has gone up along with fiscal restrictions (caps on discretionary spending, etc.). Regardless, in the 21st century, the debt has only gone up, even relative to the size of the economy. Any argument that there is a "right" way to raise the debt limit is at odds with the history.

So, that's it. The debt limit has to go up (or be suspended) and to pretend otherwise is dangerous to the economy and a futile *non sequitur* in any quest for fiscal sobriety.