The Daily Dish

Lessons from the Budget Cap/Debt Limit Deal

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Eakinomics: Lessons from the Budget Cap/Debt Limit Deal

As this Eakinomics is being written, there are rumors of a deal between Congress and the White House to suspend the debt limit for two years and to set spending levels for defense and non-defense discretionary spending in fiscal 2020 and 2021. If there is a deal — and I will be convinced only when the president signs a law — it will be subject to lots of postmortems and criticism. But I think there are two lessons that are clear already.

The first is that the debt limit is a broken concept and should be eliminated entirely. At present, all it serves to do is present a threat to global financial markets and the economy. If, heaven forbid, the United States ever defaulted on a Treasury security because the limit was not raised in time, the result would be financial turmoil and a recession. So the best scenario with a debt limit is that it does not destroy economic growth. Also, it is hard to make the case that its presence has controlled the accumulation of debt. Similarly, to the extent that any of the budget processes that have been attached to past debt limit increases have reduced the accumulation of federal debt, the net impact is underwhelming. The federal debt continues to snowball because Congress and the administration refuse to stop it. Let the debt limit die a quiet death and turn to dealing with the problem.

The second lesson is that budget caps should also be relegated to the dust bin of history. Budget caps got a good name in the late 1990s because they were part of the formula that produced a balanced budget. But those days are over. Defense and non-defense discretionary spending are a minority of federal spending (30 percent) these days. Putting caps on this sliver of spending to make the deficit look palatable requires unreasonably low caps that are simply inconsistent with actual policy choices. As we have seen, when the moment arrives, Congress and the administration push the caps aside and spend enough to satisfy their policy objectives.

It is time to stop hiding behind illusory caps and limits and deal with the problem. We won't grow our way out of the debt problem (although robust growth is essential). We won't tax our way out of the debt problem (although continuing to reform the tax code is the route to more revenue). We will have to control spending comprehensively, especially the 70 percent that is currently off the table: Social Security, Medicare, Medicaid, the Affordable Care Act, and the remainder of mandatory spending.