



The Daily Dish

# Raising the Federal Debt Limit

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## *Eakinomics: Raising the Federal Debt Limit*

Seemingly nothing arouses Capitol Hill passion like the need to raise the [federal debt limit](#). Should the increase be “[clean](#)” — devoid of policy other than raising the limit — or [not](#)? (For better or worse, the historical [evidence](#) favors not.) About the only thing that nearly everyone agrees on is that Congress and the Administration must raise the limit, although in recent years even that notion has become controversial. What is going on?

It is a situation full of ironies. First, the debt limit was not supposed to be a constraint. Congress invented the debt limit during World War I so that the Treasury would have more flexibility in financing war costs. Prior to that time, Congress voted on every single debt issue. That is hard to imagine in this day and age.

Second, raising the debt limit has nothing to do with fiscal profligacy or large deficits. The fact that the debt has hit the limit means that Congress and the Administration have already demonstrated an inability to keep spending down and equal to receipts. Voting for the spending bills and against the debt limit increase is the ultimate in fiscal inconsistency. And whether the increase is clean or not doesn't seem to matter (other than to attract votes). Attaching spending controls to the debt limit increase is essentially a promise to commit no further fiscal sins, and not terribly convincing since the debt continues to rise.

Third, the Congress and Administration really do have to raise the debt limit. The notion that Treasury could not borrow to meet its obligations would shake the market for Treasury securities to its core. Since Treasuries are the foundation of the global financial system, any impairment of their liquidity would be tantamount to a global financial crisis. It is simply unthinkable. Nevertheless, there has been a line of reasoning — [championed](#) in Congress by now-Director of the Office of Management and Budget Mick Mulvaney — that Treasury could “prioritize payments.” The idea is that Treasury would use its scarce cash to pay interest and principal on securities (including those maturing) and simply not pay other obligations like entitlements or government contractors, or whatever. I find it amusing that the same conservatives that don't believe a government bureaucrat can organize a lawn-mowing crew simultaneously believe that the Treasury will be nimble enough to prioritize payments. I doubt it. I'm equally affronted by the notion that abridging contracts in this way is considered good conservative policy.

The bottom line is simple. Congress and the Administration need to own up to the fact that the federal budget is mess, and on an [unsustainable](#) trajectory. They need to get serious about the very entitlement programs that they consistently shirk their responsibility to fix—most recently, during the health care debate. Reducing the debt burden is a pro-growth strategy.

For better or worse, raising the debt limit in a timely fashion is an essential part of that process.