The Debt Ceiling Debacle
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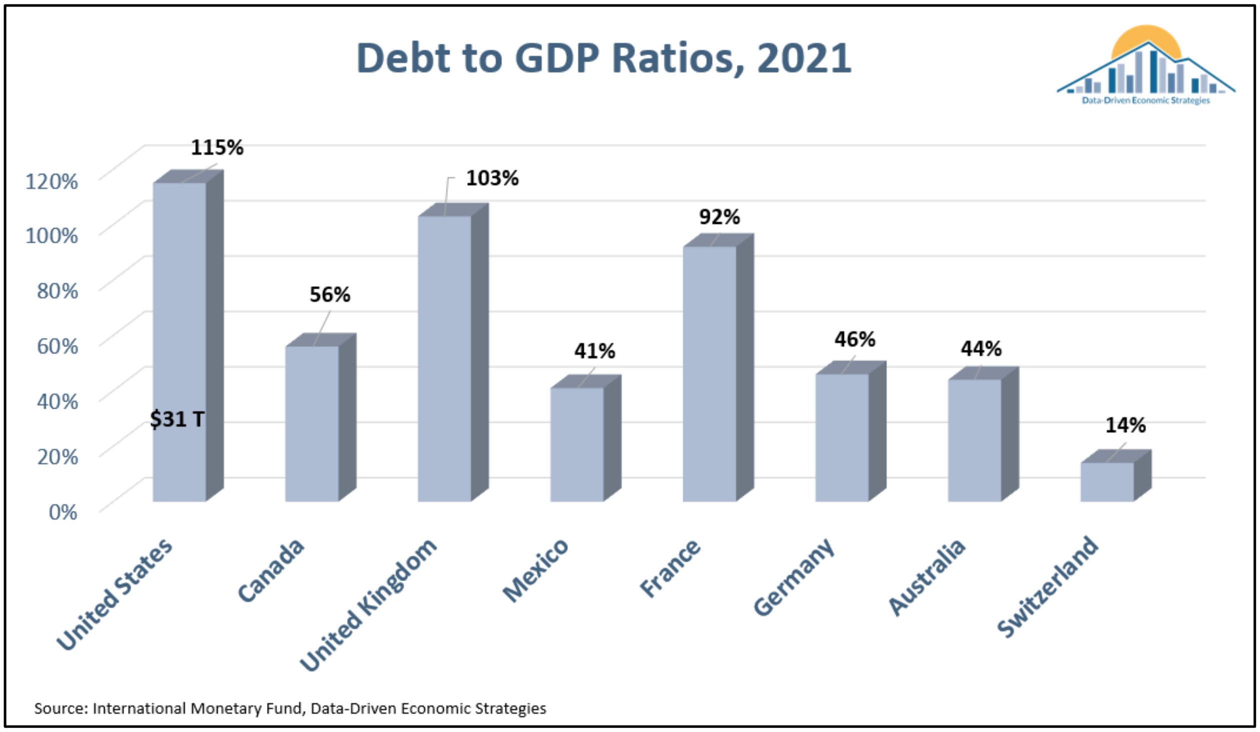
We've all been hearing a lot about the debt ceiling and how it may impact both the U.S. economy and global economies. The latter because the U.S. dollar is the world's reserve currency and many foreign countries and private, foreign investors buy our U.S. Treasurys as investments to safely hold their money. This constant demand for U.S. dollars enables us to issue a lot of U.S. bonds and therefore enables us to easily finance our (high) debt, currently at $31 trillion or roughly 120% of GDP.



It's tempting to dismiss this current debt ceiling showdown given that Congress has always come to some compromise by either increasing or suspending the debt ceiling, which it's done 102 times since WWII, enacting some cuts to the budget, or some combination of both. Most experts are still betting on an eleventh-hour compromise that averts default on the U.S. paying its bills, which Treasury Secretary Janet Yellen says will happen on June 5th if a deal is not reached. This time may be a little different than past showdowns, however, with a somewhat higher probability of no deal by June 5th.

First, Congress has a high number of legislators on both the extreme right and extreme left that are holding the more moderate members hostage. Biden and his administration risk angering far left Progressives who don't want any cuts to entitlement programs, work requirements for existing welfare recipients, or any reductions to climate legislation. Far right Conservatives are not wanting to compromise on raising the debt limit without significant cuts to existing programs, work requirements, and many want to increase spending on fossil fuels to raise revenue. 2024 is an election year raising the stakes for Biden and many legislators up for re-election. Another high stake is the possible removal of House Speaker Kevin McCarthy that some far right Conservatives are threatening because the proposed Biden-McCarthy bill has too many (Progressive) concessions. Not only does McCarthy have his job on the line, but any deal by June 5th becomes highly unlikely with little to no time left for crafting a new compromise bill. This greatly increases the probability of default.

Another consideration is that we are essentially locked into more, not less spending on various mandatory programs because of our aging population and our exorbitant public and private health care costs. Both crowd out other investments that could help grow our economy as do the interest payments we make, which were roughly half a trillion dollars in 2022 (and that's with a low interest rate of 2.1%). These embedded higher expenditures virtually guarantee that more debt ceiling showdowns are part of our future.

And then there is the zinger that we are not addressing the root cause of why these debt ceiling debacles happen in the first place. Both Democrats and Republicans introduce and pass bills in Congress throughout the year *without provisions on how to pay for the new expenditures*. This is like an average household buying a $2 million dollar home and a yacht and figuring out how to pay for it later. That makes the existing debt ceiling a moot point because the spending decisions have already been made. A commonsense solution would be to raise the debt ceiling one last time with a provision to honor programs already passed into law, but with a mandatory return-on-investment analysis for any new law being considered. The return-on-investment analysis could be conducted by the nonpartisan Congressional Budget Office or other nonpartisan entity. If a program doesn't grow the U.S. economy or pay for itself in another fashion, it cannot be passed.

The estimates are that this dangerous debt ceiling debacle could cause 4-6 million job losses, a roughly 4% decline in GDP meaning an immediate recession, and an increase in the interest we must pay to borrow money because our credit rating will go down. The extreme political polarization of both residents and their elected officials has resulted in a disregard for sound accounting principles to a point that we are now risking economic calamity by not coming to a compromise. The extreme polarization is also making compromise a dirty word that threatens to punish those who try to do the right thing even if imperfect. By definition, compromise means both sides agreeing to some things they don't like – otherwise, no compromise would be needed. It's ironic that we take pride in having a democratic system of checks and balances, but that there is no check on how to pay for programs and no balance in how to come together to fix a process that isn't sustainable in the long run.

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