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# TAMING THE NATIONAL DEBT

## INTRODUCTION

Congress hates raising the federal debt ceiling. Yet, in the next couple of years, it faces the prospect of voting for debt hikes averaging some $225 billion annually. Congress may have to agree, in fact, to more new debt in the next six years than the total authorized debt in the entire history of the United States. If the past is any guide, these debt ceiling bills will provoke extremely hard fought, controversial, close votes.

To assure approval of ever higher debt, liberals in Congress have employed a very effective tactic. They have made two-thirds of the national debt "temporary." This means that it has to be renewed at least annually. At that time, the new debt increase is often tacked on to the measure. This confronts conservatives and moderates with a painful dilemma. They must either vote for the "temporary" reauthorization with its added new debt, or vote down the entire package, thereby threatening the financial markets with catastrophe. If the temporary debt ceiling is not reauthorized, the Treasury is legally prohibited from issuing any new debt. As a result, the United States might not be able to pay off maturing debt and thus could be declared in default.

This threat of default bludgeons even the most tough-minded conservative into supporting reauthorizations which also raise the debt ceiling. By using the device of temporary debt, liberals hold the financial markets hostage to increases in the debt ceiling, which ultimately permit increases in federal spending.

This is likely to be the tactic this spring or early summer when Congress again considers the enormous increases in the public debt necessary to finance the growth in government spending scheduled for this and future years. Unless something is done to deny to liberals the temporary debt maneuver tactic, conservative opposition to these bills will melt, as usual, before the prospect of the collapse of the financial markets.

Some conservatives feel that the periodic renewal of the temporary debt ceiling is valuable because it at least keeps the issue in front of the public. History proves them wrong. The ritual of "temporarily" reauthorizing the debt has done nothing to keep the debt from soaring. Indeed, periodic renewal simply has assured the automatic accommodation of deficit spending.

Something can be done, however, to stop this and to allow fiscally responsible legislators to brake the seemingly inexorable ascent of the nation's debt. The first step is for Congress to end the fiction that most of the debt is "temporary." It is about as temporary as death and taxes. The entire current debt should be made permanent. Since permanent debt does not have to be reauthorized, liberals would lose the hostage they have used to force conservatives to vote for debt hikes. Votes on the debt ceiling would become clear-cut, visible votes for or against new debt, not a rollover of past debt. And the sums involved would not be so towering as to cripple the government and financial markets were they not approved. Americans thus would be able to see, clearly and unambiguously, which ones of their lawmakers supported ever greater federal spending and which did not. Only then could Americans expect their representatives to tame the national debt.

## BACKGROUND

### The Exploding National Debt

The federal debt is the total amount of money borrowed by the U.S. government to meet current outlays not covered by receipts and to refinance maturing debt. The federal government issues debt primarily to finance the federal deficit, although in recent years the deficits stemming from off-budget federal agencies have become a significant component of the debt.[1]

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1 See James T. Bennett and Thomas J. DiLorenzo, Underground Government: The Off-Budget Public Sector (Washington, D.C.: The Cato Institute, 1983). Over $17 billion in debt was issued in 1983 to finance off-budget federal entities including the Federal Financing Bank, Rural Electrification Administration, and the Post Office. Borrowing to finance the off-budget deficit is subject to the debt ceiling limit.

The national debt ceiling, however, does not limit total outstanding guaranteed borrowings by such agencies as the Federal Housing Administration ($171.4 billion in 1983), education activities, ($30.6 billion in 1983) and the Veterans Administration ($125.9 billion in 1983.) The national debt ceiling also does not limit outstanding borrowing by government-sponsored enterprises such as the Federal National Mortgage Association ($103.8 billion in 1983), the Farm Credit Administration ($84.6 billion in 1983), and the federal Home Loan Bank System ($117.3 billion in 1983).

The gross federal debt grew from $16.9 billion in 1929 to $1,147 billion at the end of 1982.[2] Between 1974 and 1982, the gross federal debt has increased annually by an average $68 billion. In 1983, the federal government is expected to add a staggering $242 billion to the total. And further, the gross national debt will probably increase almost 80 percent between the beginning of 1983 and the end of 1986, topping $2 trillion.[3]

Increases of this size are far from typical. The national debt actually decreased from 61.6 percent of GNP in 1954 to a postwar low of 25.1 percent of GNP in 1974. Since then, the federal debt has fluctuated between 25 and 31 percent of GNP. In 1982, the federal debt reached 30.6 percent of GNP, the highest level since 1969. With the enormous increases in the pipeline, the Treasury predicts that the debt will reach 41.2 percent of GNP by 1986.[4]

The Debt Ceiling

Congress places statutory limitations on the total amount of federal debt that can be financed by borrowing. The Treasury may legally issue no more debt than authorized by statute. This ceiling may be specified directly by legislation or indirectly through the congressional budget process. The first and second budget resolutions establish ceilings for budget outlays and receipts, and recommend an appropriate national debt ceiling. A favorable House vote on these budget resolutions amounts to a vote for the implicit debt limit. Senate rules, however, require that chamber to vote separately on debt ceiling measures. Either house, however, can change the debt ceiling by ordinary legislation. Both methods have been used since the new procedure went into effect in September 1979.

Congress passed its most recent debt limit bill on September 23, 1982, and the President signed it into law on September 30th. But thanks to congressional failure to curb spending, the new limit of $1,290.2 billion is well under the $1,389 billion of debt needed by the end of fiscal year 1983.

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2 The statutory limit on the national debt does not apply to most agency debt, although such debt is subject to special statutory limits. The Export-Import Bank, Postal Service, Tennessee Valley Authority, Department of Defense, Coast Guard, and participation certificates in loans issued by the Government National Mortgage Association are not subject to the statutory limit, but are included in gross federal debt.

3 Special Analyses Budget of the United States Government, Fiscal Year 1984, Executive Office of the President, Office of Management and Budget, see Special Analysis E, p. E-7.

4 Ibid.

According to Treasury estimates, the debt will exceed the current ceiling by May 31, 1983. The Administration thus is asking Congress to raise the debt ceiling immediately to $1,389 billion or face a major financial crisis.

## PERMANENT AND TEMPORARY DEBT

The permanent debt ceiling was set at $400 billion in 1971 and remains fixed at this amount. The permanent debt need not be reauthorized by Congress since it does not expire, but Congress must authorize new "temporary" debt ceilings to cover increments of the national debt above the permanent level. This temporary debt authorization normally expires within a year, requiring regular congressional reauthorization.

The distinction between the temporary and permanent national debt, therefore, is practically meaningless, except for its political implications. Congress continues to raise the temporary debt ceiling without indicating any real intention of paying it off. Congress raised or extended the temporary debt ceiling thirteen times during the 1960s and eighteen times in the 1970s.[5] The permanent debt ceiling, on the other hand, has not been increased since 1971. If Congress fails to reauthorize the temporary debt, however, the total public debt ceiling reverts to the permanent level when the temporary debt limit expires.

Three times in recent years the temporary limit has expired without having been extended; for a few days, the federal debt exceeded the statutory limit. The Treasury then had to suspend auctions of new securities and sales of savings bonds, since the United States is not authorized to incur debt above $400 billion. Debt issued prior to the expiration date, however, remained valid. The rights and liabilities of all debt outstanding was unaffected. In all three cases, Congress moved quickly to increase the debt ceiling to avert a budgetary crisis. Conservatives found themselves forced to put the integrity and stability of the financial markets ahead of their own determination to hold down the size of the debt.

### Priority Claims of Bondholders

Holders of Treasury debt have a legally enforceable claim against the Treasury to compel payment of interest and principal on the maturing debt. If a temporary debt ceiling is not reauthorized, however, the Treasury has no right to issue the additional securities whose sale yields the cash to repay holders of maturing bonds. Under those circumstances, even recourse to the courts would not be useful to compel the government to honor its debt

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5 Ibid., p. E-22.

obligations. In any case, the courts are reluctant to become involved in political confrontations between Congress and the President.

The Politics of Temporary Debt

With deficits now running at about $200 billion annually, the federal government would have to cut expenditures by nearly $4 billion each week if no new debt were authorized. This would mean that available tax revenues would have to be divided among government programs according to priority.

There are no established procedures, however, for allocating tax revenues in the event of an insufficient debt ceiling. There is no federal procedure analogous to corporate bankruptcy laws, in other words, to determine the disposition of government revenues. Certain "essential" services would no doubt continue to be supported, including national defense, the courts and legislatures, and such entitlement programs as social security and health care. Many "nonessential" government services and agencies, on the other hand, would have to be halted until the debt ceiling were lifted or reauthorized. And no politician would relish explaining to his or her constituents why he or she voted for such a sweeping and disorderly closedown of services.

## RELEASING THE HOSTAGE

By using the fiction of temporary debt, liberals can force conservatives to accept increases in the national debt ceiling by pointing to the cataclysmic consequences for the financial markets and basic government programs if the request is rejected. If the entire current national debt were made permanent, however, it would not have to be reauthorized each year. Increased federal outlays could not be slipped through Congress camouflaged as "temporary" debt.

All new debt would be seen for what it is. Congressmen could block increases in the debt ceiling and brake the growth in spending without causing a default on the existing, maturing national debt. The amount of the new debt would then be very small compared to the temporary debt now due each year. A vote against new debt, therefore, no longer would amount to a vote for chaos in the financial markets. The Treasury would be prohibited from issuing debt above the permanent debt level, but the existing permanent debt ceiling would ensure sufficient funds to service all maturing debt. If a debt ceiling increase were denied, however, government outlays exceeding available revenues would have to cease. A real constraint would at last be placed on the growth of government.

CONCLUSION

As a matter of honesty in government, temporary debt should be renamed permanent debt. Temporary debt is an illusion that undermines the credibility of Congress and makes it difficult for legislators to control the size of government. If the current debt were made permanent, the Treasury could divorce management of existing debt from the heated political issue of increasing the public debt ceiling.

Congress could then reject attempts to raise the national debt ceiling and yet not risk financial chaos. It is this threat which enables liberals to force debt ceiling hikes through the Congress. If the debt were made permanent, Congress then would be able to debate a proposed increase in the debt ceiling on the merits. Members of Congress could be held accountable for their votes. The public would know who was for--and who against--a bigger federal debt.

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