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Analysis

Ditching the debt limit is one of Trump's best ideas yet

By Heather Long September 7

America's debt limit is close to dying. No one should mourn its demise.

President Trump and Senate Democratic Leader Charles E. Schumer (D-N.Y.) have a "gentleman's agreement" to scrap America's debt ceiling, according to a report from The Washington Post. If the House and Senate actually do this — and that's a big "if" since House Speaker Paul D. Ryan (R-Wis.) doesn't love the idea — it would be a major win for Trump and the country.

The vast majority of economists across the political spectrum agree with Trump and Schumer on this one. There's a simple reason for that: The debt ceiling is not working. It was created to control the debt, but one look at America's $20 trillion debt shows how useless it has been at that goal. Even worse, the debt limit has become a political football that has repeatedly put the "full faith and credit" of the United States at risk, something that is costly and potentially catastrophic to the economy.

“The debt ceiling no longer makes any sense,” says Doug Holtz-Eakin, head of the right-leaning American Action Forum and a former economic adviser to Republican presidential candidates. “The empirical evidence is in, and it doesn't work.”

The debt limit was created in 1917, when World War I arrived and the U.S. government needed a faster way to borrow money than waiting for Congress to approve every single bond issue. Here's how it works: Congress sets a cap on how much money the U.S. Treasury can borrow, similar to the maximum limit on your credit card. The current debt ceiling is $20 trillion. Treasury can't surpass that without Congress voting to raise the amount (or to suspend the limit for a while). But there's a major problem with the credit card comparison: Congress has repeatedly approved budgets that spend way more money than the current debt limit allows.

Congress has blown by its credit card limit again and again. That doesn't happen in the real world, but it does in Washington, D.C., because the U.S. government has one process to debate the budget and an entirely separate one to decide on the debt ceiling. It's confusing and bizarre, which is why no other country does it this way.

“Congress should deliberate how government spending programs will be paid for *before* they pass them,” says **Bernard Baumohl**, one of many economists who agree with Trump and Schumer that it's time for the debt limit to go.

The Washington Post spoke with 18 economists for this story, 14 said to ditch it.

The others made similar points to Ryan's: While they don't think the debt ceiling is functioning very well, they wouldn't want to see it go away entirely, unless it was replaced with something else to prevent U.S. debt from exploding.

“We fear runaway government debt much more than a government shutdown,” argues Matthew Fienup, executive director of the Center for Economic Research and Forecasting at California Lutheran University.

The problem is hitting the debt ceiling can trigger something far worse than a shutdown, which is why the majority of economists told The Washington Post that the debt limit is broken beyond repair. Here's what happens right now: Congress continues to approve spending. Then the bills arrive at Treasury. There's not enough money to pay them, so Treasury has to borrow money, but it gets close to the limit and then there's a crisis. Treasury asks Congress to raise the debt ceiling, but some lawmakers threaten not to do that unless they get something in return (even though they were the ones who spent the money in the first place). This has happened repeatedly, especially in the past eight years. It nearly caused the United States to default in 2011, in 2013 and again this year, an event that would be disastrous for the economy and financial markets.

“The debt ceiling only serves to create high-stakes showdowns that must be resolved in favor of issuing more debt,” says John Ryding, chief economist at RDQ Economics, who supports ditching the limit.

Since 1960, Congress has raised or suspended the debt limit 78 times, according to the U.S. Treasury website (soon to be 79 times after the latest deal). Whenever the United States gets close to the debt limit, it costs America even more money, because people who buy U.S. bonds demand higher interest rates due to the uncertainty over whether the U.S. will actually pay its bills on time. Thus the debt limit has actually been costing America more money lately, the exact opposite of what it was intended to do.

In July, a well-respected bipartisan pair came together to publish a Wall Street Journal op-ed with the headline: “Don't Raise the Debt Limit — Repeal It.” Jason Furman, President Barack Obama's top economist, and Rohit Kumar, a former top staffer for Senate Republican leader Mitch McConnell (R-Ky.), argued that the “the right move is to eliminate the debt limit permanently.” They pointed out that no other country has anything like this.

Martin Barnes, an economist at BCA Research in Canada, was even more blunt: “The debt ceiling is a very strange piece of legislation.”

Furman and Kumar received some pushback for their op-ed, mainly because they spent a lot of time saying what was wrong with the debt limit and little time outlining an alternative. The ideal scenario would be to repeal the debt limit and replace it with something far better, something that actually helps control spending without getting perilously close to a default.

The Committee for Responsible Federal Budget (CRFB), one of the groups working the hardest to get America on better financial footing, has a proposal ready to go on how to fix the debt limit. Its top idea is simple: Force Congress to decide how much debt there will be at the same time that lawmakers set tax and spending rates. In other words, make it all one big budget process, not two like it is now.
This streamlined process is known as the “Gephardt Rule” after former congressman Richard A. Gephardt (D-Mo.), who proposed it in 1979.

The House has sometimes used the rule, but the Senate never adopted it, so it wasn't very effective.

To prevent Congress from simply using the budget as a blank check, CRFB says there should be automatic across-the-board spending cuts and tax increases once a certain debt level is reached that is considered unsustainable. It's harsh and would cut programs that people depend on, but it would force every Democrat and Republican to the negotiating table quickly.

"Punishment should be across the board, not just on discretionary spending," says Marc Goldwein, senior policy director at CRFB. Discretionary spending is budget-speak for items like transportation, housing and welfare. It does not include Social Security and Medicare, two of the largest budget items that are growing rapidly as a share of the budget as baby boomers age.

Some argue CRFB's proposal is too drastic. It could end up raising taxes and slashing spending rapidly, which would throw the economy into a tailspin. But there's broad agreement that Congress should be focused on getting *future* spending down (or revenue up). The current debt limit only applies to spending that has already taken place. That's not helpful. Any caps or cuts need to be on future obligations, which Congress still has time to change.

Sen. James Lankford (R-Okla.) has been shouting for years that the budget and debt limit process is broken. His solution is similar to CRFB's: fix the budget process. He would like to do the budget every two years to give more time to really walk through it and solve the problems.

Of course, there's also another way to get lawmakers to do the hard work.

“I would suspend all salary and benefits to Congress people, including health-care coverage and travel, for each day they cannot come to agreement on a budget,” says Brett Ryan, a senior economist at Deutsche Bank.

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