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Article

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The Debt Ceiling, Once More, with Feeling...

It is in the nature of articles about the debt ceiling that no matter how often one tries to set the record straight, nothing ever gets through. Noting this after reading my most recent effort (Galbraith, 2023), a physicist friend chided me for using “facts and logic” against “what everyone knows.” This states the problem precisely. But, here I go again, once more, with feeling.

In *The New York Times* of January 17, 2023, Alan Rappeport (2023) offers an excellent account of what everyone knows. It is suitable for a technique I learned in high school in France, *explication de texte*. The method involves line-by-line quotation and analysis. Herewith.

“The United States borrows huge sums of money by selling Treasury bonds to investors across the globe and uses those funds to pay existing financial obligations, including military salaries, safety net benefits and interest on the national debt.”

No. The United States does not borrow in order to have funds to pay its obligations. It pays its obligations by check (or electronic transfer) as specified by law. It *then* issues bonds so that “investors across the globe” can save a safe US dollar-denominated asset, the Treasury bond, that pays interest, as cash and bank deposits do not. Cash and bank deposits are not “debt subject to limit” under the law.

“But eventually, the United States will need to either borrow more money to pay its bills or stop making good on its financial obligations, including possibly defaulting on its debt.”

No. The financial obligations of the United States government are, in fact, *obligations*. This is a legal term. The debt ceiling statute does not authorize the breach of *any* obligation.

“Because the United States runs budget deficits – meaning it spends more than it takes in through taxes and other revenue – it must borrow huge sums of money to pay its bills.”

No, on several counts. First, a detail, borrowing is revenue. It brings back money previously spent, which is the original (French) meaning of the word *revenu*. Since the US government normally matches debt issue to deficits, revenue and spending normally match closely. But second, and more important, the US government has no mechanical (or legal) need to “borrow... to pay its bills.” It may issue bonds, but it does not have to. Again, the United States pays its bills by issuing checks as specified by law. What happens or does not happen after that is a separate issue.

“...lifting the debt ceiling does not authorize any new spending...”

This is correct! All public spending, every dime, is authorized (and, if necessary, appropriated) independently of the debt ceiling. At that point, all such spending is an obligation. It is required *by law*. That includes military salaries, social security payments, interest on bonds: the works.

“Once the government exhausts its extraordinary measures and runs out of cash, it would be unable to issue new debt. This means it would not have enough money to pay its bills, including interest and other payments it owes to bondholders.”

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No. The Federal government can and does create money at will, according to law. It does not need the private investor to provide money. Nor can the private sector legally refuse legal tender payment. Legal tender means that, according to law, the money the government creates is good for all debts, public and private.

“No one knows exactly what would happen if the United States gets to this point but the government could wind up defaulting on its debt if it is unable to make required payments to its bondholders. Economists and Wall Street analysts warn that such a scenario would be economically devastating and could plunge the globe into a financial crisis.”

The key phrases in this passage are “no one knows” and “Wall Street analysts.” Indeed no one knows, because in 233 years the scenario has never occurred, not in civil war, not in depression, not in world war. Never. Moreover, default on United States government obligations is expressly prohibited by the Constitution of the United States, the 14th amendment, adherence to which is not optional by sworn officers of the United States. Which Janet Yellen is. As for “Wall Street analysts” – leaving aside “economists” because I am one – that is a joke, right?

“The Treasury could try to prioritize payments, such as paying bond holders first.”

No. The Treasury has no legal authority to prioritize payments; to do that would require an Act of Congress, passed by the House and Senate and signed by the President. The Treasury also to my knowledge has no *technical* ability to prioritize payments, of which it makes millions every day.

“If the United States does default on its debt, which would rattle the markets, the Federal Reserve could theoretically step in to buy some of those Treasury bonds.”

It is possible that some doomsday headline could briefly “rattle the markets.” So what? The Federal Reserve rattles the markets every time it meets. But the second clause is wrong: Treasury debt held by the Federal Reserve *is* subject to the limit.

“After leaving office, Mr. Obama acknowledged that he and Treasury officials considered several creative contingency plans, such as minting a \$1 trillion coin to pay off some of the national debt. In a 2017 interview, he described the idea as ‘wacky’.”

This is delightful news. I was among those urging the trillion-dollar platinum coin. I exchanged emails with Obama’s adviser Austan Goolsbee on the concept, but never knew that it reached the President. As for “wacky,” unlike (say) “obligation” that word is not a legal term-of-art. The coin is not a phantasm. It is fully authorized by law, and it could be minted overnight. It would solve the debt ceiling problem at a stroke. The idea is not wacky; it is ingenious.

“Wacky” would describe the impossible, illegal, and unconstitutional scenarios being offered by *The New York Times*, the Treasury Department, and by Members of Congress. These mask the real danger, which is that this hocus-pocus will be used to force cuts in Social Security, Medicare, Medicaid, and much more, using a fake crisis to create a real one. That is the Republican plan. The danger is that Democrats may be trapped, by their own scary rhetoric, into capitulating.

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