Unsustainable Federal Spending and the Debt Limit

Our government's good credit is vital to everything it does.

There are two ways to wreck that credit: by borrowing too much or by failing to pay it back on time and in full.

Congress alone has the constitutional power to tax, to borrow and to spend. We regulate our borrowing through the debt limit. When we need to increase it, we have a duty to review and revise the policies that are driving that debt.

The United States now staggers under $19 trillion of debt, nearly half of it run up in the last eight years. The interest on that debt is the fastest growing component of the federal budget – within five years it will consume more than what we now spend for defense. That's why we dare not increase the debt without also addressing what is driving it. But that can often lead to a temporary impasse.

When that happens, it is vital that credit markets maintain supreme confidence in the security of their loans. Otherwise, the interest rates that lenders charge us would quickly rise to account for the increased risk and our precarious budget situation could rapidly spin out of control.

The organic law that established the Treasury Department in 1789 specifically says, "It shall be the duty of the Secretary of the Treasury to digest and prepare plans for the improvement and management of the revenue, and for the support of public credit." " MANAGE the revenue and support the public credit." The GAO clearly spelled out what that means in answering the Senate Finance Committee in 1985: "Treasury is free to liquidate obligations in any order it finds will best serve the interests of the United States." The Constitution commands that "the public debt is not to be questioned," and this is the practical mechanism for it. Most state constitutions provide that first call on any revenues is to maintain and protect their sovereign credit.

That brings us to the fine point of the problem. In recent years, the Treasury Department has denied that it has either the ability or the authority to do so.

We now know from documents recently uncovered by this committee that this was a deliberate and calculated lie told to increase political pressure on Congress. These documents reveal that Federal Reserve officials were incredulous and appalled that the administration would make such statements, because they ran a severe risk of panicking credit markets.

We also now know the Treasury department actually was preparing contingency plans to prioritize debt at the same time the Treasury secretary was denying it was possible.

In 2011, I first introduced legislation to place an affirmative duty on the Treasury Department to provide first claim on any revenues for debt service. Ironically, the same Treasury Secretary who claimed he lacked legal authority opposed this bill that explicitly gave him that legal authority. In response to his untruthful claim it was not possible, we amended the bill in 2013 simply to allow the Treasury Secretary to borrow above the debt limit to guarantee that the debt would be paid in full and on time. It passed the House in 2013 and again last year.

Opponents argued that this put creditors like China ahead of paying troops in the field. Actually, most of our debt is to Americans, and without our credit we can't pay our troops or anybody else. By protecting our credit ***first***, we actually support and maintain our ability to pay for ***all*** of our other obligations.

The President said this is tantamount to a family saying it would make its house payment but not its car payment. Both are bad. But let's continue the analogy. If the family is living on its credit cards as we are, it had better make the minimum payment on its credit card first, or it won't be able to pay the rest of its bills.

And when that family has to increase its credit limit because it's spending above its means, it had better have a serious conversation about what's driving its debt and what to do about it.

Principled disputes over HOW the debt limit is addressed are going to happen from time to time. Just a few years ago, then-Senator Barack Obama vigorously opposed an increase in the debt limit sought by the Bush administration.

When these controversies erupt – as they inevitably do in a free society – it is imperative that credit markets are supremely confident that their loans to the United States are secure.