

Debt Ceiling Intransigence: Unintended Consequences...

By [Dr. Paul Craig Roberts](#)

Global Research, July 25, 2011

25 July 2011

Region: [USA](#)

Theme: [Global Economy](#)

Which party is responsible for intransigence on raising the debt ceiling? Republicans say the Democrats are, and Democrats say the Republicans are.

One could blame both parties equally, as both have their positions, but as I see it, it is the Republicans who are the most intransigent. The Democrats have shown more willingness to compromise, even offering cuts in Medicare and Social Security. Moreover, the Republicans started the fight, whereas the Democrats were willing to just raise the debt ceiling routinely, as in the past, and to get on with things.

The Republicans created the issue, so they are responsible. In fairness to the Republicans, it is a more important issue for them than for Democrats. The Democrats have always been more relaxed about debt than the Republicans. At the present time, the Democrats figure that if the financial crisis is reason enough for the Federal Reserve to lend \$16.1 trillion, that is, \$16,100 billion to private banks in the US and Europe—an amount \$1.6 trillion larger than the Gross Domestic Product of the US, the US Treasury can afford to borrow another couple of trillion dollars.

<http://sanders.senate.gov/newsroom/news/?id=9e2a4ea8-6e73-4be2-a753-62060dcbb3c3>

Citibank alone received \$2.5 trillion in government loans, an amount larger than the Gross Domestic Product of Great Britain and larger than the GDP of all but five countries in the world. If one bank can borrow this much from the Fed, the US Treasury should be able to continue borrowing as well.

Nevertheless, one has to respect the Republicans for their concern with debt levels.

Fiscal discipline should never be written off as too much trouble. It is easier to spend money irresponsibly if the money can be borrowed, as many American consumers have learned. One should not denigrate Republicans for wanting to control the growth of the public debt, especially when the debt is consistently growing faster than the GDP.

However, for many, and perhaps most, of the Republicans in Congress, the issue is not merely about debt. It is about using a hyped “debt crisis” to slash the social safety net.

The reason Republicans are intransigent is that they see in the “debt ceiling crisis” the opportunity to return the country to a moral basis by curtailing welfare, handouts, and “Ponzi schemes like Social Security.”

Republicans believe, appropriately in my opinion, that people should support themselves

and not be leeches on others or on society. Republicans believe that if given opportunities to become leeches, many will take them, and that the Democrats have created too many opportunities for Americans to abandon self-sufficiency and to become leeches.

Aside from the moral issue, too many leeches mean higher taxes on the productive and/or more debt burdens for our children and grandchildren. In other words, the moral decline from handouts and welfare leads to economic decline.

It would be a mistake to dismiss the Republicans concerns out of hand. It is a fact that Roman bread and circuses produced a large leech class at a time when desperately needed manpower and resources for the Legions was scarce. The issue that I have with Republicans is not their valid concerns, but what Republicans do not take into account.

One important fact that many Republicans overlook is that in a market economy large numbers of people can find themselves without resources through no fault of their own. Ordinary run-of-the-mill business cycles can leave millions jobless. Once jobless, people cannot make mortgage and car payments and become homeless. Unable to pay credit card bills, they have no recourse to credit. No country can simply say, "OK, hard luck, go die in the streets with your wives and children."

These problems are more acute today, because so many American jobs have been moved abroad to increase profits, thus making the income distribution extremely unequal. There are no longer family farms to which to return, as during the Great Depression of the 1930s.

In the 1930s Marxism was a force. The new Soviet Union and its promises had raised hopes for workers and the poor, hopes that proved to be unfounded, but the prospect of revolt in America softened hard hearts, and President Franklin D. Roosevelt and Congress were able to put in place a social safety net to provide for those who were cast aside by the crises of capitalism.

Many Republicans believe that the "New Deal" was the undoing of the Republic. I know this both because I have spent my life among Republicans and because I am a scholar. For Republicans, or many of them, everything started going wrong with the New Deal, which created "leechdom," expanded by President Johnson's "Great Society" three decades later.

Republicans have been trying to rescue the Republic ever since.

In the early 1980s when I, as Assistant Secretary of the US Treasury, was tasked with getting the Reagan tax rate reduction out of his administration and into law, I encountered more opposition from some Republicans than from Democrats. The Democrats could see that something had to be done about stagflation and that they had no solution, so they, or a number of influential ones, got on board. The Republicans, however, or too many of them, opposed the Reagan tax rate reduction on the grounds that it would enlarge the deficit and the national debt.

To bring a number of Republicans onboard, the Reagan administration resorted to a non-economic argument that the tax cuts would starve the government of revenues and force the desired Republican shrinkage of government. I opposed this tactic. I argued that it would confirm the claim that Republicans wanted to take the tax burden off the rich and place it on the poor by curtailing the services from government.

I pointed out that House Speaker Tip O’Neil and the Senate Democrats were prepared to pass the Reagan tax rate reduction and that there were enough House and Senate Republicans and Democrats to carry the vote. But the White House Chief-of-Staff would have none of it. He wanted a Republican “victory” over the Democrats. Thus, a necessary economic policy was misrepresented as a crusade against “big government.”

To summarize, the Reagan tax rate reductions were designed to cure stagflation, and they succeeded. However, in order to garner enough Republican support, Reaganomics was sold to congressional Republicans as a way to shrink the government by denying it revenue. This was not the purpose, and denying the government revenue has nothing whatsoever to do with supply-side economics. Our purpose was to enable the economy to grow without having to pay for the growth with a rising rate of inflation.

Having illustrated the folly to which Republicans can be driven by their obsession with debt and “leechdom,” let us now consider possible unintended consequences of the debt ceiling impasse. This brings us to the most important aspect of the debt ceiling “crisis” that the Republicans are ignoring.

If Republicans become obsessed with their agenda and refuse a reasonable deal, and the Democrats do not cave, the executive branch will be faced with an inability to continue its operations. This could mean, for example, that the troops in the various wars could not be supplied or paid, that air traffic controllers could not be paid, that the US government could not roll over the debt that comes due or issue the new debt that pays for 43% of federal budget expenditures. Unlike during the Newt Gingrich government shutdown in the 1990s, today “nonessential government” does not total 43% of federal expenditures unless we include the wars, which, of course, the Republicans don’t.

The US dollar could plummet in exchange value and lose its role as world reserve currency. The US would no longer be able to pay its oil bill in its own currency, and as its balance of payments is heavily in the red, the US has no foreign currencies with which to pay its oil import bill. Or its manufactured goods import bill, or any other bill.

We are talking about a crisis beyond anything the world has ever seen. Does anyone think that President Obama is going to just sit there while the power of the US collapses? He doesn’t have to do so. There are presidential directives and executive orders in place, put there by George W. Bush himself, that President Obama can invoke to declare a national emergency, suspend the debt ceiling limit, and continue to issue Treasury debt. This is exactly what would happen.

The consequences would be that the power of the purse would transfer from Congress to the President. It would be the end of the power of Congress. Congress, Republicans and Democrats alike, have already given away to the President Congress’ Constitutional right to decide whether the country goes to war. Now Congress would lose its power over debt, taxes, and the budget itself.

Republicans need to decide whether the advantage of delivering a blow against “leechdom” is worth such extreme risks.

Some readers will say “this could never happen.” But Congress is already emasculating itself as a result of the Republicans’ intransigence over the debt ceiling increase. Republican

Mitch McConnell and Democrat Harry Reid have come up with a proposal for a committee of Congress, called a Super Congress, that could fast-track legislation by prohibiting amendments.

http://www.huffingtonpost.com/2011/07/23/super-congress-debt-ceiling_n_907887.html?icid=maing-grid7%7Cmain5%7Cdl1%7Csec1_inlk2%7C80603

In other words, the few members of the Super Congress could bypass any citizen opposition that might still be represented in the ordinary old Congress. The more likely outcomes would be an end to the mortgage interest deduction and the deductions for retirement savings. Legislation to gut the social safety net could not be amended.

A Congress that is willing to destroy its remaining power over a debt ceiling increase that is less than a Federal Reserve loan to one US bank is a Congress moved to folly by Republican intransigence.

The Honorable Dr. Paul Craig Roberts was appointed by President Reagan Assistant Secretary of the U.S. Treasury and confirmed by the US Senate. He was Associate Editor and columnist with the Wall Street Journal, and he served on the personal staffs of Representative Jack Kemp and Senator Orrin Hatch. He was staff associate of the House Defense Appropriations Subcommittee, staff associate of the Joint Economic Committee of Congress, and Chief Economist, Republican Staff, House Budget Committee. He wrote the Kemp-Roth tax rate reduction bill, and was a leader in the supply-side revolution. He was professor of economics in six universities, and is the author of numerous books and scholarly contributions. He has testified before committees of Congress on 30 occasions.

The original source of this article is Global Research
Copyright © [Dr. Paul Craig Roberts](#), Global Research, 2011

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Dr. Paul Craig Roberts](#)

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at <http://paulcraigroberts.org>

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca