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The U.S. Congress: From One Crisis to Another, The Politics of Debt Default

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> *"The full consequences of a default — or even the serious prospect of default — by the United States are impossible to predict and awesome to contemplate... Denigration of the full faith and credit of the United States would have substantial effects on the domestic financial markets and on the value of the dollar in exchange markets."*
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> -Ronald Reagan (1911-2004), 40th President of the United States (1981–89), (1983)
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> *"Decisions about the debt level* [should] *occur in conjunction with spending and revenue decisions as opposed to the after-the-fact approach now used...* [doing so] *would help avoid the uncertainty and disruptions that occur during debates on the debt limit today."*
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> –U.S. Government Accountability Office (G.A.O.)
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> *"I will not have another debate with this Congress over whether they should pay the bills for what they've racked up... We can't not pay bills that we've already incurred."*
>
> –President Barack Obama, Tuesday January 1, 2013
>
> *"That's why the American people hate Congress."*
>
> –Chris Christie, New Jersey Republican Governor, (January 2, 2013, after the Republican House majority refused to vote on a $60 billion aid package for victims of Superstorm Sandy)

One crisis averted, three to come! Indeed, that's what can be said after the U.S. House of Representatives passed legislation on January 23, 2013, to suspend the government's statutory borrowing limit for three months.

In fact, the cycle of artificially created crises will go on and on in Washington D.C. Now, the next crises are scheduled for March 1s, for March 27th and for May 19th. Stay tuned. On March 1st, automatic sequester cuts agreed by Congress in 2012 will take effect, causing an immediate cut of $69 billion in public discretionary spending. Then, on March 27, the U.S. government's ability to fund itself (the "continuing resolution") will run out. And, of course, come May 19, the melodrama of raising the debt ceiling will be back again in force.

Ever since Republicans took control of the 435-member U.S. House of Representatives in 2010, a fiscal drama with the White House and the U.S. Senate has been replayed time and again. One of the political gimmick is called the "raising of the country's debt limit."

Why so many artificial crises in the current American political system? Extreme political polarization seems to be the answer.

Indeed, since the 2010 mid-term election, when the Republican Party took control of the House of Representatives with some 242 seats, this party has behaved as if it were in fact two parties in one. There is the traditional conservative Republican Party on one side, and the radical Republican Tea Party on the other side. With some 67 anarchist anti-tax and anti-establishment Tea Party House members voting as a block, the latter has been in a position to hold the balance of power in the House and to prevent compromised solutions to the country's fiscal problems.

A good example was the 2011 showdown between the Democratic Obama administration and the Republican-controlled House of Representatives regarding raising the U.S. government's debt ceiling.

In the spring of 2011, House Republicans, spurred by Tea Party members who practice no party discipline toward the Republican Party except to themselves, and reneging on a decades-long bipartisan tradition, refused to raise the nation's debt ceiling, thus threatening to push the U.S. government toward debt default. They demanded that the Obama administration concede to freezing tax revenues and to enacting massive spending cuts. In the midst of a financial crisis and an economic slowdown, such huge public spending cuts could have pushed the U.S. economy toward an economic depression similar to the 1930's Great Depression.

For the first time, therefore, House Tea Party members decided to use the perfunctory requirement to raise the debt limit to gain partisan political advantage. That move has introduced into the functioning of the U.S. Congress an element of radicalism and brinkmanship that could prevent the U.S. government from operating properly for years to come.

Mind you, the obligation for Congress to vote on raising the U.S. government's debt ceiling has existed since a 1917 law to that effect was enacted. It allows the U.S. Treasury to proceed with borrowing to finance government operations as outlined in an already approved budget for a given fiscal year.

Economically speaking, indeed, there are three main ways to finance public expenditures: -through tax revenues; -through borrowing; -or, through the printing press, when a government borrows from its own central bank. The latter is in fact an inflation tax imposed on every user of the national currency.

Therefore, if the U.S. Congress has already approved a public budget of operations that does not raise taxes in a sufficient amount to cover outlays, and if an inflation tax is out of question, the only other avenue left is to borrow the required funds.

For years, the 1917 requirement to raise the debt limit was considered redundant since the budget had already been approved and it was seen as a simple bipartisan formality. Since 1940, for example, the U.S. debt ceiling has been raised 94 times, 54 times by a Republican administration and 40 times by a Democratic administration. Altogether the debt ceiling has been raised 102 times since 1917. It has been raised every year that the U.S. government has run a deficit.

If the Tea Party members of the House keep on routinely using the 1917 law to formally raise the debt limit as an obstructionist tool, Congress may be constantly gridlocked and the U.S. government will continue going from crisis to crisis. A small minority of House members could then hold the U.S. government hostage. As a consequence, it could become increasingly difficult for the U.S. Administration to implement sensible economic and fiscal policies along the principle of majority rule. The U.S. economy is bound to suffer severely from such a political paralysis.

In 2011, former president Bill Clinton expressed the view that the 1917 law is unconstitutional since it goes against Article I, sec. 8 of the U.S. Constitution that requires that Congress pay "the Debts and provide for the ... general Welfare of the United States." Besides, the Fourteenth Amendment (section 4) of the U.S. Constitution states that: "*the validity of the public debt of the United States... shall not be questioned.*"

Therefore, if Congress does not fulfill its duties for one reason or another, the President in whom executive power is vested may have the right to act for the "general Welfare of the United States".

In the coming weeks, if the House of Representatives refuses bipartisan cooperation and keeps stonewalling the Administration, President Obama may have no other choice but to call the Tea Party members' bluff by unilaterally declaring the 1917 law unconstitutional and letting the courts sort it out later.

A constitutional crisis may seem to many to be a better alternative than a repetitive and protracted economic and financial crisis and an economy constantly teetering on the brink of a permanent "fiscal cliff".

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