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## *Congress needs to stop debt ceiling debate*

By Jim Flinchum

Debating an increase in our debt ceiling or borrowing limit is one of the most dangerous things Congress does. It risks a default on our debt and hurting out credit rating – for no reason!



**Jim Flinchum**

The ceiling was established by Congress to create some budgetary discipline and is not required by the Constitution. History shows it has been an utter failure. Debate over the debt ceiling has created sequestration, which particularly hurt the military, and the loss of our AAA credit rating by S&P in 2011.

After signing his new tax cuts law last year, the president wisely suspended the debt ceiling. He reinstated it last month, and we are already over the limit. By “extraordinary measures,” the ceiling won’t be officially broken until sometime this summer.

I wish he would suspend it again. The ceiling merely allows the government to borrow the money it has already approved to spend. The time to control spending is when you approve it in the first place, not when our credit rating is at risk again.

Derived from German folklore, Walt Disney made the classic American movie “Chicken Little” in 1943. It seems an acorn fell on a chicken’s back, who then assumes “the sky is falling.” The chicken tries to spread alarm and become laughable.

During the debt ceiling debate, you can see Chicken Little, dressed as either a Republican or a Democrat, standing in front of the cameras being indignant.

I remember the teacher saying in my high school economics course budget deficits are bad and are caused by stupid politicians. In college, my professor said not all deficits are the same. Deficits during recessions are good, but deficits are bad when the economy is good (think Keynesian economics).

Later in life, some responsible adults, such as Vice President Dick Cheney, said “deficits don’t matter.” They’re neither good nor bad – they just don’t matter. So, why have a debt ceiling at all, when annual deficits are the problem? Other nations don’t have the charade of a debt ceiling.

Austrian economists (as opposed to Keynesian or supply-side economists) remind me of Chicken Little. For a long time, they have been the lonely voices in the

wilderness that deficits really do matter.

More recently, some mainstream strategists have begun sounding the alarm as well. Often called the “Bond King,” Jeffrey Gundlach says we are now on the “Highway to Hell,” using AC/DC’s 1979 song to illustrate the problem of living in the moment without regard to consequences. Chicken Little has gone mainstream. However, we should get off the Highway to Hell by debating our spending, not by debating the ceiling on borrowing.

Here’s the situation: Our national debt already exceeds \$22 trillion and is growing a trillion a year! During the 2016 campaign, then-candidate Trump said he would eliminate the national debt in eight years. So far, it has increased by \$2 trillion.

Republicans will say the Democrats simply refuse to cut spending. Democrats will say the Trump tax cut as unnecessary and was driving up the deficit. Supply-side economists will say the tax cuts have not had enough time to prove their worth. Keynesian economists will say “the pump is overprimed” with debt.

That’s the problem with any discussion on debt – it’s so easy to shift blame elsewhere.

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Then-Republican presidential candidate John Kasich, left, points to a clock displaying the national debt on Jan. 30, 2016. See the current number at [USDebtClock.org](http://USDebtClock.org)

Discussing debt takes on moralistic overtones. It may or may not be immoral, but it is definitely problematic. It limits flexibility when you need it most. Debt must be serviced in good times and bad. Because of that, debt is sometimes dangerous. Debating a ceiling on debt is always dangerous!

Hyman Minsky (1919-1996) was an American economist who argued debt is like a balloon. It expands until it eventually bursts.

“Stability produces instability.” When times are good, people pile on debt, which eventually destabilizes the economy. This explains so much about the 2008-’09 global financial crisis. Of course, the debt ceiling did nothing to prevent that crisis nor recover from it.

Now, along comes Modern Monetary Theory, which is essentially quantitative easing on steroids. You’ll recall the Fed

introduced several rounds of quantitative easing to help us recover from the financial crisis. When the Treasury spent money, it issued bonds that were bought by the Fed. The treasury got money to spend from the Fed, and the Fed got a bond/asset on its balance sheet.

Medicare for all, free college, and new infrastructure would all become affordable under Modern Monetary Theory, since the Fed will simply buy all the bonds needed. (There are some limitations, depending on interest rates and GDP growth rates, but those are easily ignored.)

The good news is this theory can be used in only a few nations, but the bad news is the U.S. is one of those nations. It would cause American debt to explode. Any debt ceiling would be merely a speed bump.

If you have not been to [USDebtClock.org](http://USDebtClock.org) recently, stop and go there right now! Every taxpayer is

already \$180,000 in debt. Some inheritance for your grandchildren, huh?

According to the Institute of International Finance, there is almost \$250 trillion of total worldwide debt. It boggles the mind! Of course, the relationship between debt and income tells us more about financial stability than the size of the debt alone, but there is no ceiling upon this.

Comparing public debt to GDP, the U.S. is at 69 percent. Some others are: Brazil at 105 percent, France at 105 percent, Italy, 140 percent, Greece 198 percent and Japan at 259 percent. Nations that are less profligate than us include: South Korea at 44 percent, Netherlands 52 percent and Norway at 40 percent.

It is important to note that none of those nations has a debt ceiling. So, what good is it?

Debt is like climate change. It is a huge, complex international problem, with enough deficit-deniers to prevent needed budgetary changes. Budgeting is just too important to trust to anybody looking for votes. The debt ceiling charade should end!

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