OPINION

Seven Myths About the Looming Debt-Ceiling 'Disaster'

By John Lott
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If Congress and the president don't raise the debt ceiling, the consequences will be disastrous, politicians and pundits tell us, -- the equivalent of an economic Armageddon. And President Obama warns that the consequences are so dire that he cannot possibly tolerate any delay in making an agreement. He announced yesterday that any debt deal must be completed by today, July 15th.

According to Treasury Secretary Timothy F. Geithner, failure to raise the debt ceiling limit will cause the United States to default and "cause a financial crisis potentially more severe than the crisis from which we are only now starting to recover."

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On Thursday, he renewed these warnings. And President Obama alarmed retired Americans this week: "I cannot guarantee that those [Social Security] checks go out on August 3rd if we haven't resolved this issue. Because there may simply not be the money in the coffers to do it."

But the list of terrible things to come, if the government is stopped from continued deficit spending, goes on. Failure to raise the ceiling, it is warned, will dramatically raise mortgage interest rates, cause housing sales to plunge, create panic on world financial markets, and destroy the value of the dollar.

Austan Goolsbee, Obama's head of his Counsel of Economic Advisers, went so far this week as to blame the continued slow economic recovery on those few politicians who are against raising the debt ceiling. "[I]t's important we remove this wet blanket of uncertainty that is permeating the private sector where they don't know that the government -- there are people actively advocating that the government declare it's not going to pay its bills," he told MSNBC. Yet, the slow recovery has been going on for over two years, well before Republicans obtained control of the House of Representatives.

A new CBS News/New York Times poll finds that Americans oppose increasing the debt ceiling, by a 69 to 24 percent margin.

Mr. Obama dismissed this finding recently and, as usual, he believes he knows better. According to him, Americans just don't understand the complexities of the arguments: "Let me distinguish between professional politicians and the public at large. The public is not paying close attention to the ins and outs of how a Treasury (bond) auction goes. They shouldn't. . . . They've got a lot of other things on their plate. We're paid to worry about it. . . . Now, I will say that some of the professional politicians know better. And for them to say that we shouldn't be raising the debt ceiling is irresponsible. They know better."

But the general public is right. There is an overload from all the doomsday predictions. Earlier this year, before the debt limit was hit on May 21, the Obama administration already used the same scare tactics.

Here's a look at seven myths that the Obama administration is pushing on the American people:

1) **Not increasing the debt ceiling means the U.S. government will default on its debt.** This is probably the biggest lie that almost all other claims arise from. Default occurs if the government stops paying interest on the money that it owes. Not increasing the debt ceiling only means that the government can't borrow more money and that spending is limited to the revenue the government brings in. And, with interest payments on the debt making up less than a ninth of revenue, there is no reason for any risk of insolvency.

Time after time, congress and the president have failed to agree on a debt ceiling increase and still there has been no default. Examples include: December 1973, March 1979, November 1983, December 1985, August 1987, November 1995, December 1995 to January 1996, and September 2007.

Indeed, this really shouldn't even be a point of debate. The 14th Amendment to the Constitution requires that the debt payments come first before any other spending.

2) **Until the debt ceiling is raised, uncertainty over the payment of U.S. debts will create chaos in financial markets.** Given that the Constitution mandates U.S. debts be paid before any other spending and that sufficient money will be available to cover our interest payments, the only uncertainty arises from Obama's actions. Will he try not to pay the interest? Even a delay of a day in paying this interest will create a default. Court action could eventually force Obama to follow the Constitution but a default would have already occurred. But there is a simple way to end this uncertainty: have the president declare now that he will indeed follow the Constitution and make those payments.

Failure to increase the debt ceiling clearly doesn't mean default. During one three week period at the end of 1996 and the beginning of 1996, some of the government shutdown when a similar battle over the debt ceiling occurred, but there was no default. President Clinton used the revenues that were coming in to pay the interest on the debt.

3) **Obama doesn't know if there is money to send off Social Security checks on August 3.** The president knows very well how much revenue will be available to send out checks on August 3. Indeed, enough money will be available to not only pay the interest, but to also cover all Social Security, Medicare, Medicaid and children's health insurance, defense, federal law enforcement and immigration, all veterans benefits, Response to natural disasters. Terrifying elderly people who are dependent on their Social Security checks may make good politics, but it is unconscionable. Yet, these scare tactics aren't really very surprising. The Democrats behaved no differently when they ran television ads bizarrely depicting Rep. Paul Ryan (R-Wis.) as pushing an old lady in a wheel chair off a cliff.

4) **Mortgage interest rates will rise dramatically if the debt ceiling isn't increased.** Not true. Indeed, the opposite is more likely, for not raising the debt ceiling stops the government borrowing more money. Less borrowing by the government could lower mortgage rates as there would be more lending available for potential homeowners. The interest rate paid by the government might go down for a second reason. Just as banks charge individuals a lower interest rate for those who have less debt compared to their incomes, the same is true for governments.

5) **Time is Running Out on Debt Deal, and it must be done immediately.** Despite Obama's insistence that a deal be completed by July 15 and Geithner's claim that a deal had to be reached by July 22, as already noted, there have been many times over the last few decades where negotiations have extended past when the debt limit has been reached. The longest delay lasted three weeks. Besides claiming that there will be a default, no explanation has been offered for why the debate is any different this time.

Possibly all these claims of urgency are part of some grand strategy to scare people, but that strategy depends on voters not knowing what is necessary for a default to occur.

6) **If government spending is cut, there will be a depression.** Obama promised that a "temporary" increase in government spending would "stimulate" the economy, but he is now telling us that we can't cut that "temporary" increase -- that we are stuck with it.

If Obama's program -- including a 28 percent spending hike since 2008 and more than $4 trillion in deficits -- worked so well, why has our unemployment rate risen more than elsewhere? The European Union, Canada, South America, Japan, and Australia have all had smaller increases in unemployment compared to the U.S. after Obama's "stimulus." We have also had these shutdowns before and the numbers don't show any negative impact on unemployment or GDP. Figures for the longest shutdowns during the fourth quarter of 1995 and the first quarter of 1996 are available here.

7) **The value of the dollar will plummet.** Again, the supposed collapse occurs when we default. But there won't be any default. In addition, less government borrowing means lower future taxes, thus making the U.S. a more attractive place to invest. More foreign investment will actually cause the dollar to rise.

It is time for President Obama and his administration to stop scaring people. Cutting government spending back to its 2007 level won't be the end of the world. After all, during the 2008 presidential campaign, Obama himself repeatedly promised "a net spending cut."

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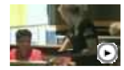

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