

Lurching Towards a Deal

The United States is either lurching to default or to a deal on the debt ceiling. The term “debt ceiling” is becoming as ubiquitous as “AI” or any one of the common taglines that we so easily regurgitate but few of us really know what it is all about.

During World War I, in 1917 specifically, Congress passed a law creating the debt ceiling. This was part of the Second Liberty Bond Act of 1917 that permitted the Treasury to issue more bonds and incur other debt without specific item by item congressional approval. This works well so long as the total debt of the United States falls beneath the statutorily set debt ceiling. Interesting, there were many other events that changed our economy in the same timeframe. In 1913, a constitutional amendment was ratified to permit the income tax. On December 23, 1913, President Woodrow Wilson signed into law the Federal Reserve Act, creating a national banking system to prevent the boom-and-bust cycle common in the United States ever since President Jefferson’s poor judgment resulted in the elimination of the National Bank.

World War I left the United States as an international industrial and military powerhouse, which needed to be regulated, directed, and enabled as a strong and stable power. The debt ceiling was intended to help create an environment where the United States would not overspend or, at the very least, would be aware of what it was spending, how much income could be counted upon, and when the spicket had to be turned off.

In recent decades the debt ceiling has become yet another political football, informing the public on how much tax is being collected, whether that amount is sufficient, and how we are spending our money. In reality, the debt ceiling is an artificial number akin to the new automatic braking systems on modern vehicles. When the car sees a pedestrian or a vehicle too close in front of it, the brakes automatically get slammed on. It would be better if the driver was doing their job, but the automated systems are a reminder of just where the car is going and how fast.

The debt ceiling, likewise, is a reminder of how much money the United States is making versus what it is spending. The clear lesson to all of us is that the United States is spending too much money and taking in too little. We issue bonds and other forms of debt in the hopes that China, the rest of the world, and United States citizens will finance the intoxicated spending habits of our government. That has worked fairly well over the decades, so long as we remain a stable nation and other countries, and our own citizens, want to own a piece of the action. A problem arises when spending is so out of control and receipt of funds is sufficiently small, that the statutory debt ceiling imposed to prevent the poor drunk from running into the middle of a crowded highway, is reached or breached. We are at that stage now.

The feeding frenzy over the debt ceiling and negotiations to raise it is nothing more than a stand-in for the question as to how much money our federal government

should spend, what its appropriate priorities are, who should pay taxes and how much. The fact is that the wealthiest Americans pay the most towards the federal budget. That does not, however, fully answer the inquiry as to whether taxes are fair and appropriate. Those who make more money, based upon how we have run the tax system for over 100 years, pay the highest percentage of taxes. The tax system would be vastly improved by having three separate tax brackets, no deductions, or a system based upon taxing assets rather than income. These ideas have been bandied about for many years, but political considerations and social gridlock prevent more sensible solutions from being considered by our elected officials.

What we spend money on, particularly entitlement programs, is an even more difficult debate. Should we be spending money on guns or butter? During World War II it was decided that money would only be spent on guns. Lyndon Johnson famously, during the Vietnam War, thought that he could have both guns and butter. He failed miserably.

Today, we have an enormous and expensive military machine to guarantee our hegemony in the world, which indirectly benefits our financial portrait. However, many of our allies have failed to step up to the plate and assist the United States in its peacekeeping efforts. This was a big issue to the last president who made some progress in getting other countries to open their checkbooks when it came to the military security of the free world. He also managed to alienate those same allies with his offensive approach.

At stake over the current debt ceiling debate are two questions that have become key battleground issues in every election between the Democratic versus Republican Parties:

1. Are we going to spend more money for social programs or will we depend upon the private sector and individuals to create a social safety net?
2. Should we increase taxes on those already shouldering the major tax responsibility in this country or are there other means of financing our national overspending habits?

Aside from the military, the other dinosaur in the room are programs like Medicare, Veterans Administration expenditures, and Social Security which have predetermined spending requirements which will only increase as the number of eligible applicants enlarge. Left out of the discussion is how we are going to care for a significant new immigrant population which has arrived in America with little or no means to support themselves.

Tons of studies have been done on how to balance income with spending. They have routinely been rejected by our political leaders. Since most Americans are not interested in the delicacies or intricacies of debt ceiling negotiations and the very precise question as to why we are having this crisis to begin with, it is left to our political leaders

to create a balance between spending and taxation that Americans can, usually unhappily, deal with. That balance requires mature political instincts in a nation increasingly beset by sloganeering, insults, and a refusal to compromise. It is, at some level, heartening to see Leader McCarthy and President Biden actually talking and, on the face of it, demonstrating some degree of respect for one another, albeit as part of a staged political drama. Likely the nation will survive, and people will go back to complaining about gas prices, warmer winters, and the irritation of social media. In the long run more of us need to become involved in expressing a responsible attitude toward what our government can afford to spend, the legitimacy of our priorities, and the degree to which our budget should be financed by incomprehensible spending.

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