ISSUE BRIEF

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A New, Extra-Extraordinary Debt-Ceiling Tool

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The federal government has once again hit its statutory debt limit. For the next few weeks, Washington will be funding its budget shortfalls through the Treasury Department's traditional "extraordinary" measures. This confirms the bad news that government continues to overspend to the tune of over a trillion dollars per year. The good news is that hitting the debt limit creates yet another opportunity for President Obama to lead and Congress to act to control federal spending.

The traditional extraordinary measures will not last long, so Treasury may need a new, unconventional, last-ditch budget tool—prioritizing spending so outflows match inflows—and Congress may need to act quickly to make it all legal. The Full Faith and Credit Act introduced by Senator Pat Toomey (R–PA) in the last Congress would be a good place to start.

Debt-Ceiling Redux. Treasury Secretary Tim Geithner's December 26 missive to Congress regarding the debt limit came just as the fiscal cliff debate reached a shaky crescendo.[1] The outcome—a substantial, economically damaging tax hike and yet another missed opportunity for presidential leadership toward cutting spending—leaves the federal budget deficit enormous by any but the most recent standards. The fiscal cliff debacle also means that excessive spending and the debt limit remain immediate and pressing issues.

The last debt-ceiling episode in 2011 provided much more heat than light, or progress on the deficit. After much wrangling, Congress passed the misnamed Budget Control Act (BCA). The act, of course, did no such thing but instead created a dubious process involving a "super committee" with directions to "control" the budget. The super committee's work was backed by the threat of dangerous cuts to national security in the event of failure through an automatic budget process known as "sequestration."

Despite the hype and the sequestration threat, the super committee produced nothing but super failure. At the same time, the BCA raised the debt ceiling by $2.1 trillion, conveniently just enough room to get safely past the November election.

Buying Time Through Traditional and New Extraordinary Measures. Geithner's missive lists and describes Treasury's "extraordinary measures" used in similar past episodes to preserve the current level of deficit spending after reaching the debt ceiling. These measures, essentially cash and debt management techniques, normally provide Treasury with about a $200 billion cushion. With trillion-dollar budget deficits, this cushion might be expected to last about two months before available resources would be insufficient to cover all government obligations.

Geithner's list of extraordinary measures is missing one item that has never before been employed: prioritizing federal spending. It is the item behind the sign "Break Glass Only in Case of Emergency."

According to Administration projections, the government is expected to take in an average of $230 billion per month in 2013 while spending an average of $300 billion. Suppose the government were to reach the debt limit and exhaust the tools that Treasury acknowledges. The last

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emergency financial management tool Geithner could use would be to prioritize federal spending so as to allocate incoming receipts to the government's highest priorities—what might be called real-time executive fiat budgeting or, perhaps more accurately, a forced balanced budget.

Interest on outstanding debt, amounting to roughly $19 billion per month, would have first claim on incoming receipts. As the Administration would surely make these interest payments a top priority regardless of its budgeting strategy, warnings about "default" on the nation's debt obligations do not hold water.

Next in order of immediate priority would be national security, followed by Social Security, Medicare, and Medicaid payments. Funding these in full with available resources would leave roughly $22 billion per month to apply to the other $92 billion a month in legislated spending across domestic discretionary and all other mandatory spending programs. In this eventuality, one way or another, $70 billion of obligated spending per month would go unspent.

It is unclear how long the government could operate using real-time prioritizing of spending. It would certainly not operate indefinitely. It is even less clear how the President and Secretary Geithner could operate such a scheme legally, as Congress would have passed laws obligating certain levels of programmatic spending and then denied the Administration the legal resources to meet these obligations.

To avoid putting the President in such a position, Congress should consider quick passage of legislation similar to S. 163, the Full Faith and Credit Act, introduced in 2011 by Senator Toomey. It establishes guidelines and authorities for the Administration to prioritize spending after-the-fact were it to prove necessary.

Buying Time for Real Budgeting. Budgeting—whether for families, businesses, or governments—is about establishing priorities so available resources are best applied to meet identified needs. The federal government has repeatedly shown itself unable to balance its budget. It has even shown itself incapable of establishing budget priorities through a normal budgeting process.

Real-time budgeting is no way to run a government, but it may be the last resort for a while until President Obama and Congress can cut spending sufficiently now and in the future through substantial entitlement reforms to justify raising the debt ceiling again.

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1. See Matt Anderson, "Secretary Geithner Sends Debt Limit Letter to Congress," U.S. Department of the Treasury, December 26, 2012, http://www.treasury.gov/connect/blog/Pages/Secretary-Geithner-Sends-Debt-Limit-Letter-to-Congress-12-26.aspx (accessed January 3, 2013).