

Konrad-Adenauer-Stiftung e.V.

USA

DR. LARS HÄNSEL  
JULIE EUBANK

4. August 2011

[www.kas.de/usa](http://www.kas.de/usa)  
[www.kas.de](http://www.kas.de)

## The Increase of the U.S. Debt Ceiling

TECHNICAL, BUT NO POLITICAL SOLUTION

**With less than 12 hours remaining before the United States reached a deadline for raising its debt ceiling to prevent a default on its financial obligations, the U.S. Senate approved a bipartisan compromise deal and cleared the legislation for the President's signature. The U.S. House of Representatives had already passed the bill with a strong majority, clearing the way for President Obama to sign the legislation and bring the dramatic process to an end.**

The deal has been hailed by Republican and Democratic negotiators as a smart compromise, but it has also met criticism by partisans on both sides. Conservative Republicans say the bill does not go far enough to rein in government spending, while liberal Democrats say the compromise's spending cuts will jeopardize critical domestic programs.

The compromise enables the United States to raise the debt ceiling, but it does not end the political debate about government spending and, ultimately, the role of the state.

### **The Result: Increasing the Debt Ceiling by About \$2.2 Trillion**

The compromise has allowed for an immediate increase of almost \$1 trillion in the debt ceiling to be matched by spending cuts over the next 10 years. In addition, a special congressional committee of six Democrats and six Republicans (three from each party from both the Senate and the House of Representatives) will be formed to make

recommendations of at least \$1.2 trillion in additional deficit reduction measures, which would be matched by a corresponding debt limit increase. If Congress fails to approve the commission's recommendations or if no agreement can be reached, an automatic cut will be made to domestic programs and defense spending budgets on January 1, 2012. This final increase in the debt ceiling will last until 2013, meaning Congress will not need to revisit the issue again until after the 2012 election.

### **The Debt Ceiling Increase as a Political Instrument**

Congress was forced into the position of raising the debt ceiling because the United States' expenditures exceed its revenue. Prior to World War I, when Congress needed to borrow funds, it approved the sale of a limited amount of Treasury bonds. That proved to be a time-consuming process as World War I began and Congress wanted to allocate funds for American involvement in the war. The urgency of war led Congress to allow the Treasury Department to sell the bonds itself. But Congress set a cap on the debt to ensure Treasury had a limit on the debt the country could incur.

What was initially a measure to allow for greater flexibility has become a possible obstacle for the president and a political instrument for Congress. This was not always the case. Every President since Dwight Eisenhower has asked Congress to raise the debt ceiling, and Congress has never failed to raise the debt ceiling when needed. The votes preceding prior increases sometimes

## Konrad-Adenauer-Stiftung e.V.

### USA

DR. LARS HÄNSEL  
JULIE EUBANK

4. August 2011

[www.kas.de/usa](http://www.kas.de/usa)  
[www.kas.de](http://www.kas.de)

have led to spirited debates about the need to curtail government spending or balance the nation's budget.

Because Republicans hold a majority in the House of Representatives, they are able to derail President Obama's agenda, but they lack the ability to force the Democratically-controlled Senate to act on House-led legislative initiatives. In the case of the debt limit vote, this majority in the House earned Republicans a seat at the table for negotiations on the plan to raise the debt ceiling. Republicans hold their majority in the House largely because of candidates who were able to harness support from the Tea Party in the 2010 mid-term elections. Many of these freshmen members and other veteran Republicans enjoying Tea Party support were able to frame the debate and characterize it as a sign that government spending is out of control. A principle of the Tea Party movement is a reduction of government spending – not just for fiscal and budgetary reasons, but also to limit the overall role of government. Speaker of the House John Boehner, known as a pragmatist, had to take into account the Tea Party views during his negotiations with the President.

Default was avoided through the compromise, but the debate over the past weeks has now laid the foundation for future debt limit increases to be used as political instruments to force action on legislative priorities.

### The Debt Crisis and the U.S. Economy

The danger of default was not because of a weakened U.S. economy, but because of a self-imposed debt ceiling. The United States has the ability to reduce its deficit through spending cuts or revenue increases, but its politicians have lacked the political will-power to make those tough decisions. This is a clear contrast to the problems of the Greek economic crisis because the U.S. economy remains competitive even while in a deep recession. During the debt ceiling debate, more bad economic data came with reports of unemployment at 9.2 percent. Although the debt ceiling is not directly linked to the economic situation, the fragile

state of the U.S. economy caused the stakes of the debate to rise.

### Tea Party-Supported Republicans Emerge As Winners

Tea Party-backed Republicans appear to be the winners of the debate. They proved to have much influence over the outcome of the negotiations. Given the anti-government sentiment that defined the 2010 mid-term elections and led to their majority in the House, Republicans did what was expected of them by fighting for deficit reduction measures and smaller government.

They favored reforms to Social Security and other entitlement programs, wanted a match of spending cuts for any increase in the debt ceiling, and argued for deficit reduction measures to come from spending cuts rather than increasing taxes or closing tax loopholes. The Republicans also wanted congressional consideration of a balanced budget amendment to the Constitution.

Although the Republicans did not get the entitlement reform they desired, in many ways they were successful in negotiations. The compromise requires a clean vote on a balanced budget amendment and a match of deficit reduction measures to equal any increase in the debt ceiling. Tax increases on the wealthy were not included in the compromise. While they could be proposed by the committee, this seems unlikely. Republicans did not get the larger immediate spending cuts they had hoped for, and they also have left themselves open to an unpalatable cut in defense spending. If the committee fails to reach agreement on additional deficit reduction measures, cuts in defense spending will account for half of the automatic cuts triggered by the committee's inaction. What this shows is that tax cuts are more sacrosanct to the current Republican House majority than military spending, which was once viewed as a sacred cow of sorts.

For the Tea Party faction of the Republican caucus, the compromise has been viewed as too weak in its deficit reduction measures for some to support it; however, it does

## Konrad-Adenauer-Stiftung e.V.

### USA

DR. LARS HÄNSEL  
JULIE EUBANK

4. August 2011

[www.kas.de/usa](http://www.kas.de/usa)  
[www.kas.de](http://www.kas.de)

show the grassroots believers in limited government that their candidates will work to prevent tax increases and are willing to cut spending from any programs, even those at the Pentagon.

### Progressive Democrats Disappointed

Just as those on the far right think the deal did not go far enough, progressives from the left wing of the Democratic Party also are unhappy with the compromise. This group feels that the President caved in to pressure from the right, just as he did during the health care reform debate by agreeing to a plan without a public option or single-payer system. What makes the debt limit debate so unsavory to this group is that they feel the President had an option to act without making concessions. Under the U.S. Constitution, Obama could have raised the debt ceiling without congressional approval by using authority given to him by the 14th Amendment. Some on the left believe the political costs from this option would have been less severe than the consequences of making cuts to domestic entitlement programs. As the President proceeded with negotiations, Democrats supported deficit reduction measures that included tax increases for the wealthy along with cuts in spending. They wanted favored programs such as Social Security, Medicare and Medicaid to be exempted from cuts, but they wanted military spending to be included if cuts were made to domestic programs. In a similar way to how the Republicans' priorities highlighted their belief in limited government, the Democrats' priorities of raising revenue rather than solely cutting government assistance are also clear. In the compromise, the Democrats lost the fight for tax increases on the wealthy but ensured that military spending would be cut at the same level as domestic programs if the committee fails to reach a plan for additional deficit reduction. They also ensured Social Security and Medicaid would be excluded from those automatic cuts.

### Obama's Leadership Qualities in Question

For President Obama, it is unclear what the ramifications will be. He was able to avoid a potential crisis by avoiding default, but he did not get the "balanced" approach he sought of a plan that included both spending cuts and tax provisions. The president made it clear from the beginning of negotiations that he wanted to avoid default and, by doing so, he weakened his bargaining position. Republicans demanded that an increase in the debt ceiling be met with matching measures to reduce the deficit, which can be done through increased tax revenue or cuts in spending. Because Republicans refused to consider tax increases on the wealthy, the only option for negotiation was spending cuts.

What this may provide Obama is an opportunity in the coming election to frame Tea Party Republicans as obstructionists who lack the desire to compromise.

During the debate, there were questions about President Obama's leadership, as it was sometimes unclear if he was leading the negotiations or watching them fall down around him. He offered no clear proposal of his own to solve the problem.

In the end, the President preferred the option of working with Congress to reach an agreement rather than using constitutional tactics to work around lawmakers. This may have inflamed the discussion in the short term, but the compromise has ensured that a debt crisis will not hang over the election. This does not mean the related questions of tax revenue vs. spending cuts will not be a part of the election debate.

### Political Implications

While the debt ceiling compromise ultimately passed with large bipartisan support, ideologues of both parties who represent safe districts opposed the plan. Democrats from the most liberal districts and Republicans from the most conservative districts had the luxury of voting no on principle, but they were able to do so with the knowledge that the bill would ultimately pass and the

**Konrad-Adenauer-Stiftung e.V.**

**USA**

DR. LARS HÄNSEL  
JULIE EUBANK

**4. August 2011**

[www.kas.de/usa](http://www.kas.de/usa)  
[www.kas.de](http://www.kas.de)

country would not default on its financial obligations. Now, lawmakers are trying to determine how to influence the new bipartisan committee tasked with making additional recommendations. The question of the role of the state will go in another venue.

Technically, the problem of the debt ceiling is resolved for now, but the underlying political questions – taxes, spending, and the more general role of the state – will go on. The next playing field outside of the new committee might be the debate over the budget for 2012, and these questions will likely influence the election campaign when it really gets off the ground.