Economist: Congress should've killed the debt limit a long time ago. Here's what it should do now

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Congress just punted the decision on the nation's debt limit until the end of this year, and financial markets are relieved. But it will still remain an existential threat to the financial system and economy, given that lawmakers regularly tie themselves into knots to circumvent it.

Since political optics will prevent lawmakers from ever getting rid of the debt limit, which is what they should've done decades ago, they should instead neuter it by doing away with the Senate's filibuster rule for it. Congress would still have to vote on the debt limit, but its passage wouldn't be nearly such a heavy lift.

The debt limit is an anachronistic law that's been around for more than a century. It sets a legal maximum of the nation's debt, and once the limit is reached, the government can only spend what it receives in revenues. And if the government has a budget deficit, as it consistently does, then someone isn't going to get paid, at least not on time. That someone could be a soldier, a Social Security recipient, a global investor who has previously lent money to the government or a long list of others who get checks from the U.S. Treasury. Not being able to pay its bills on time means the government would default.

The debt limit was intended to force lawmakers to be fiscally responsible. The thought was that if they reached the limit and faced a default, this would pressure them to raise taxes or restrain government spending. That's not how it has worked. Instead, often after much drama, lawmakers raise the limit just in time to avoid a default but without making difficult choices on taxes or spending.

And the drama is intensifying with each debt limit battle. In the past, regardless of which party was in power, at least some Democrats and Republicans would ultimately come to terms on a way out of the impasse. After all, the debt was the result of tax and spending decisions made long ago by both parties. However, in this most recent battle, Senate Republicans made it clear they would not provide any votes to increase or suspend the debt limit and would in fact filibuster any attempt by Democrats to do so. Democrats would have to increase the limit on their own.

This sets an ugly precedent for future debt limit battles: The party in power will have to resolve the debt limit without help from the other. Given the greater political degree of difficulty this entails, it heightens the risk lawmakers won't get it done before the government defaults, or forces them to take bizarre steps with other serious consequences to avoid a default.

The most hairbrained of these is the $1 trillion platinum coin. The Treasury, which has the legal authority to issue platinum coins of any denomination, would issue such a coin, deposit it at the Federal Reserve, and use its value to pay bills. Voila! The debt limit doesn't matter.

Not so fast. Not only does the platinum coin blow up the constitutional separation of powers between the Congress, which has the power of the purse, and the executive branch, but global investors surely would be spooked by such a ploy. They will rightly figure that the US government is so dysfunctional that its action will lead to runaway inflation, undermining the value of their bonds. Financial markets would be thrown into turmoil.

Then there is the suggestion to have President Biden invoke the Fourteenth Amendment to the U.S. Constitution, which protects the "validity of the public debt of the United States." This amendment was put in place after the Civil War and was intended to ensure the debts of the unified nation that won the war would be honored and those of the Confederacy would not. The amendment sought to prevent any future Congress dominated by formerly Confederate states from refusing payment of the federal debt or guaranteeing Confederate debt. But why couldn't Biden use the amendment to require Treasury to continue borrowing beyond the debt limit? He certainly could try. Other presidents, including Bill Clinton and Barack Obama, publicly contemplated it during their own debt crises. But it would certainly be challenged in the courts, and it's likely a constitutional crisis would ensue. How do you think global investors would view this? I suspect not well.

Another potential path forward is through the budget reconciliation process, which is what Republicans have wanted Democrats to do. The process would allow Democrats to raise the debt ceiling without Republican votes, but it's time-consuming and the rules are complicated. Given the complex process and even more complex politics involved, lawmakers may simply not be able to get it done. And future members of Congress may have an even more difficult time using reconciliation.

This leaves us with the most logical and least painful way to address the debt limit: an exception to the Senate's filibuster rule for the debt limit. That is, when it comes to increasing the debt limit, the Senate can end a filibuster and pass legislation with a simple majority, rather than with the 60 votes required under current rules. Given that the debt limit is so counterproductive that even threatening to breach it does economic damage, lawmakers should significantly lower the political bar necessary to increase it.

That the US government pays what it owes in a timely way is a bedrock of the US economy and global financial system. It has paved the way for the US dollar ultimately to become the global economy's reserve currency. The economic benefits of this over the generations are incalculable. Lawmakers should put an end to the wrangling over the debt limit so future generations can enjoy the same benefits.

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