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The Debt Ceiling Debate that Didn't Happen

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To begin with the most obvious question: If governments run up their debt in the process of carrying out programs that Congress already approved, why would Congress have yet another option to stop the government from following through on these authorized expenditures, by refusing to raise the debt ceiling?

The answer is obvious when one looks at why this fail-safe check was introduced in almost every country of the world. Throughout modern history, war has been the major cause of a rising national debt. Most governments operate in fiscal balance during peacetime, financing their spending and investment by levying taxes and charging user fees. War emergencies push this balance into deficit – sometimes for defensive wars, sometimes for aggression.

In Europe, parliamentary checks on government spending were designed to prevent ambitious rulers from waging war. This was Adam Smith's great argument against public debts, and his urging that wars be financed on a pay-as-you-go basis. He wrote that if people felt the economic impact of war immediately – rather than postponing it by borrowing – they would be less likely to support military adventurism.

This obviously was not the Tea Party position, or that of the Republicans. What is so remarkable about the August 2 debt ceiling crisis in the United States is its seeming dissociation with war spending. To be sure, over a third ($350 billion) of the $917 billion cutback in current spending is assigned to the Pentagon. But that simply slows the remarkable escalation rate that has taken place from Iraq to Afghanistan to Libya.

What is even more remarkable is that last month, Democrat Dennis Kucinich and Republican Ron Paul sought to make President Obama obey the conditions of the War Powers Act and get Congressional approval for his war in Libya, as required when warfare goes on for more than three months. This attempt to apply the rule of law to the Imperial Presidency was unsuccessful. Mr. Obama clamed that bombing a country was not war. It was only war if a country's soldiers were being killed. Bombing of Libya was done from the air, at long distance, and perhaps also by drones. So is a bloodless war really a war – bloodless on the aggressor's side, that is?

Here was precisely the situation for which the debt ceiling rule was introduced in 1917. President Wilson had taken the United States into the Great War, breaking his election campaign promise not to do so. Isolationists in the United States sought to limit America's commitment, by imposing Congressional oversight and approval of raising the debt ceiling. This safeguard obviously was intended to be used against unscheduled spending that occurred without Congressional approval.

The present rise in U.S. Treasury debt results from two forms of warfare. First is the overtly military Oil War in the Near East, from Iraq to Afghanistan (Pipelinistan) to oil-rich Libya. These adventures will end up costing between $3 and $5 trillion. Second and even more expensive is the more covert yet more costly economic war of Wall Street against the rest of the economy, demanding that losses by banks and financial institutions be passed onto the government balance sheet ("taxpayers"). The bailouts and "free lunch" for Wall Street – by no coincidence, Congress's number one political campaign contributor – cost $13 trillion.

It seems remarkable that Mr. Obama's major focus on the debt ceiling is to warn that Social Security funding must be cut back, along with that of Medicare and other social programs. He went to far as to say that despite the fact that FICA wage set-asides have been invested in Treasury securities for over half a century, the government might not send out checks this week.

A radical double standard is at work for democracies. Wall Street investors certainly had no such worry. In fact, interest rates on long-term Treasury bonds actually have gone down over the past month, and especially over the last week. So institutional debt holders obviously expected to get paid. Only the Social Security savers were to be stiffed – or was Mr. Obama simply trying to threaten them, so as to depict himself as a hero coming in to save their Social Security by negotiating a Grand Bargain?

Wall Street had it right. There was no real crisis. Authorization to raise the public debt ceiling is not a proper occasion to discuss long-term tax policy. Since 1962 – just as the Vietnam War was starting to escalate – it has been raised 74 times. This averages out to about once every eight months. It is like going to a Notary Public – just to make sure that the President is not doing something wrong. Mr. Obama could have asked for a limited vote just on this, without riders. Never before have riders such as this been attached. And even more remarkably, there was no attempt to impose a rider restricting the Obama Administration from spending any more funds on Libya, without getting an official Congressional declaration of war.

Mr. Obama could have invoked the 14th Amendment to pay. He could have taken the proposal made by Scott Fullwiler and other UMKC economists for the Treasury to issue a few $1 trillion coins and pay the Fed for Treasury securities, to retire. But Mr. Obama steered right into the debate, turning it into a discussion of how to cut back Social Security and Medicare in the emerging U.S. class war, rather than over extending the Oil War to North Africa.

The first great victory for the financial sector in America's domestic class war was the Bush "temporary" tax cuts on the wealthy. This aggression was not undone in order to restore budget balance. No temporary tax cuts were revoked, no loopholes closed. The burden of balancing the budget was pushed even further onto the Democratic Party's own base: urban labor, racial and ethnic minorities, the Eastern and Western seaboards. Yet the Democrats split 95/95 on the vote to raise the debt ceiling by slashing social spending on their major voting constituency.

Voting constituency, but not campaign contributors. That looks like the key to how the debt crisis has unfolded. Although leading Democrats such as Maxine Walters Waters, Dennis Kucinich, Henry Waxman, Barney Frank, Edolphus Towns, Charles Rangel and Jerrold Nadler opposed it (and on the Republican side, Ron Paul, Michele Bachmann and Ben Quayle), much of the principled opposition has come from traditional Republicans. Nixon Assistant

Treasury Secretary Paul Craig Roberts accused the deal as being too right-wing and favoring the wealthy to a degree threatening to bring on depression.

The essence of classical free market economics was to restrict Executive power – in an epoch when war-making power was the major abuse of national interests. Just as the lower house of bicameral legislatures had taken over the power to commit nations to permanent national debt – rather than royal debts that died with the kings, as were the norm before the 16th century – so parliaments asserted their rights to block warfare.

But now that finance is the new form of warfare – domestically, not externally – where is the power to constrain Treasury and Federal Reserve power to commit taxpayers to bail out financial interests at the top of the economic pyramid? The Fed and other central banks claim that their political "independence" is a "hallmark of democracy." It seems to be rather a transition to financial oligarchy. And now that finance has joined with the oil industry, major monopolies and privatizers of the public domain, the need for some kind of Congressional oversight is as necessary as was parliamentary power over military spending in times past.

No discussion of this basic principle was voiced in the debt-ceiling debate. Even critics who voted (ostensibly) reluctantly – so as to provide plausible deniability to what no doubt will be their later condemnations of the deal when election time comes around – acted as if they were saving the economy. The reality is that there is now little hope of rebuilding infrastructure as the president promised. Cutbacks in federal revenue sharing will hit cities and states hard, forcing them to sell off yet more land, roads and other assets in the public domain to cover their budget deficit as the U.S. economy sinks further into depression. Congress has just added fiscal deflation to debt deflation, slowing employment even further.

How indeed will they explain all this in the November 2012 elections?

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