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GUEST ESSAY

Guess How Much This Debt Ceiling Nonsense Is Costing Us

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Crisis averted; the debt ceiling has been raised. Before you turn your attention back to your summer travel plans and the challenges of inflation, let's take stock of what these political shenanigans cost us.

While it will be months before we know the official tally, the 2011 debt crisis provides some clues. The nonpartisan Government Accountability Office estimated that by the end of fiscal year 2011, the last debt standoff had cost $1.3 billion. But just because the debt crisis had ended near the end of the fiscal year didn't mean the costs stopped accumulating. The cost to service our debts made more expensive by the crisis lasted for years, and one estimate suggests that it may have come in close to $20 billion. When you head out for vacation, realize that Congress likely blew more taxpayer dollars on political fighting than they have appropriated to the National Park Service over the past five years.

These estimates reflect the higher borrowing costs that arise when borrowers perceive greater risks. In addition, the "extraordinary measures" that the Treasury Department took to prolong a potential default date imposed additional costs in terms of lost interest and the diversion of Treasury staff and resources. But the price we paid doesn't stop there. The higher borrowing costs that were endured and the kinds of indiscriminate cuts in government spending that occur through the spending caps required to reach a deal also will be likely to slow economic growth.

In 2011, the result was an economy that spent another four years with declining labor force participation and stagnating employment rates. A stronger economic recovery began to take hold in early 2015, but it most likely would have begun earlier without the 2011 debt standoff and resulting budget cuts.

To be sure, economic conditions are different this time. Government spending during the pandemic recession helped fuel a demand-led recovery, an important reason the economy is so strong today. The job market rallied to the strongest overall employment numbers in decades. Some groups have particularly benefited; Black women have the highest employment rate in over 20 years. Still, others — namely rural, white Americans — have struggled to return to work. Slower economic growth resulting from this year's standoff will disproportionately hurt these groups.

The biggest cost from the debt standoff, however, was the fact that it helped establish debt standoffs as the new normal. In 2011 Republicans realized just how much political leverage threatening a default could get them. Democrats failed to learn this lesson and solve the problem as Treasury Secretary Janet Yellen advised two years ago. The real losers from the 2023 debt deal are American taxpayers, who can expect a similar debt standoff, with all of its costs, in two years if we still have a divided government then.

It is never going to be possible for the United States to fully default on its debt. Ultimately, it will need to be paid. Taxpayers should want to pay as little as possible for that debt, and that requires keeping borrowing costs low. The way to keep borrowing costs low is to end the debt ceiling.

Some people will object to this because they fear that it will lead to an ever-exploding national debt burden. But the debt ceiling is currently only used to provide the minority political party the leverage necessary to get their priorities passed. The result this time was to curtail spending only slightly and to lower tax revenue by removing funding for the I.R.S. While tax cheats should be celebrating, the rest of us will find it harder to get our tax questions answered, and our nation's debt will grow by the underpayments of the cheats.

A better debt ceiling would be one that triggered automatic tax increases and spending cuts unless a better plan is made by Congress. Ultimately a more responsible fiscal plan for the United States will need specific changes to spending and revenue to ensure that fiscal policy is both responsible and reflects the spending priorities of the American people. But removing the threat of default and replacing it with a plan that balances across the board spending cuts and revenue increases puts both parties on more equal footing, regardless of who is sitting in the White House.

It’s long past time for policymakers to abandon debt ceiling shenanigans permanently and concentrate on responsible fiscal policymaking. Lawmakers across the aisle claim to want a stronger, more stable economy — but manufactured debt crises achieve the exact opposite.

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