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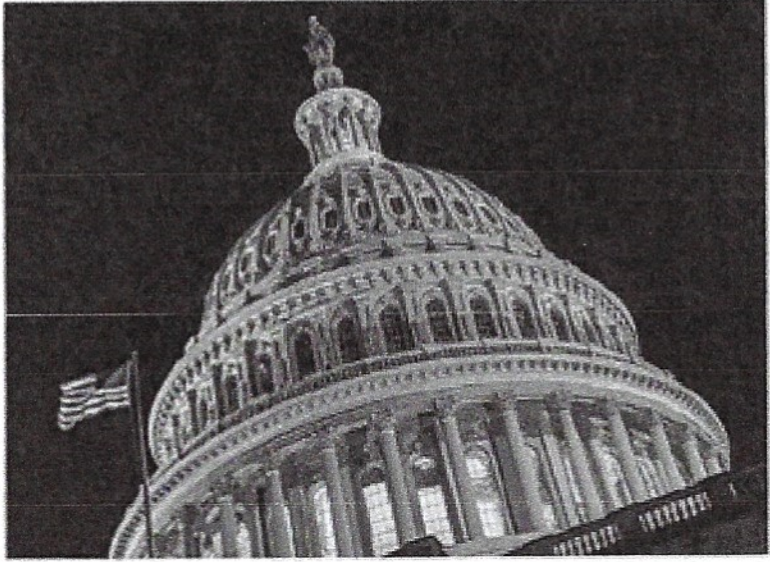
Rather than a restraint, it serves as an incentive for more spending. The time is ripe for lasting reforms.



The dome of the U.S. Capitol in Washington, Dec. 20. KENT NISHIMURA/ GETTY IMAGES

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Trump and the Fake Debt Limit

By David Malpass

President-elect Trump was right last week when he raised a red flag over the debt limit. The outgoing government is leaving a tailor-made debt crisis for Mr. Trump that complicates his work to implement his mandate, cut taxes quickly and rebuild U.S. strength.

Lawmakers during the Biden administration spent wildly, so they are responsible for inflation and should have to vote for the debt increase. That's the way it used to work. Before World War I, each deficit spending bill had to be accompanied by a vote on more debt. Voting for both at the same time provided a check to protect the public from government profligacy.

The current debt limit is fake. It was invented in 1917 for the explicit purpose of getting politicians to approve more wartime spending by separating the spending vote from the debt vote. It pretends to limit debt, but only after the money has already been approved by Congress and spent.

Last week's minicrisis provides an opportunity to enact a strong new debt-limit law that protects the public from big government and encourages private-sector growth. The new Republican administration and Congress will have roughly six months until funds run out under the existing debt limit.

They should use the time to negotiate, publicize and pass a debt-limit law that repeals the fake one and forces spending restraint without threatening default.

The current law doesn't work and is actively harmful in three ways. First, it promotes the fiction that there's a debt limit protecting the public. As history shows, there isn't. The current debt limit's only concrete enforcement mechanism is a dangerous game of chicken over whether to default on Treasury debt, a step that would be monumentally damaging.

Second, financial markets are harmed by the repeated risk of a missed debt payment. Credit markets charge more for U.S. government debt when the deadline gets close. The economic consequences worsen with each cycle.

Third, many of the congressional votes to increase the debt ceiling come only after lawmakers trade their votes for pork and favors such as invitations to state dinners and support for their reelection. This vote-buying was the bane of Ronald Reagan's presidency. Like Mr. Trump, Reagan was deeply opposed to wasteful spending but had to cajole both parties

to vote for debt to avoid default. The grand bargain was that Democrats would provide some of their votes for more debt in return for increases in domestic spending and a fixed quota of Republican votes that gave Democrats political cover for their profligacy. Little has changed.

One way out is to abolish the debt limit or suspend it indefinitely. But Mr. Trump is uniquely qualified to negotiate meaningful new checks and balances on the size of government that would spur economic growth. He won the election by opposing socialism and failed government. Unlimited growth in government blocks his goals of establishing peace through strength and making America great again.

Since Mr. Trump's victory, public support has grown for his platform of faster growth, deregulation, border security, tax cuts, dollar stability and more energy and manufacturing. Serious efforts toward a permanent system to limit the sprawl of federal government would win instant acclaim from the public and financial markets.

The new law should consider two procedural principles. First, rather than default, there should be incremental consequences painful to Washington when it violates the ceiling. Second, the limit on spending or debt should be a percentage of gross domestic product rather than a dollar amount. That way, future increases to the limit would be rare or nonexistent.

Washington's entrenched lobbyists wouldn't like this. They are specialists in extracting pork and campaign contributions from frequent debt limit increases. The windfall in their incomes helps explain the Washington area's astounding wealth.

These principles should guide many strong spending restraints. One could be a fast-track process to implement the Department of Government Efficiency's recommendations. Another part of the new law could be expanded rescission and impoundment authority allowing the president and Congress to reduce spending rationally.

To hold future presidents accountable, there could be limits on executive-branch spending and pay whenever the government is above the debt limit. To add accountability, the executive branch could be required to propose spending cuts when spending or debt is over the limit.

The only way to stop Washing--ton from spending excessively is to make it so painful for the participants that they help uproot the entrenched tax-and-spend culture. The more public the penalties on Washington, the better. One example: no new construction of monuments or government buildings in the Washington area until debt is brought below the limit.

Political leaders need the tools to shoulder the burden and sort the spending options, and they need penalties that hold them accountable to voters. The new debt limit could also include incentives for government officials, such as bonuses for spending cuts and belowtarget debt levels.

The new law should make clear that there will be no defaults ever. No one expects Washington to restrain itself, so the financial market reaction would be an instantaneous reduction in interest on the national debt, providing a down payment on the deficit.

Making such a big change in governance requires public support. Mr. Trump and Elon Musk started that process last week by bringing scrutiny to the massive waste in the spending bill. The new administration, lawmakers and the public should pay equal attention to the failure and harm of the current debt-limit law and the options for improvement. The earlier and more public the debate, the better.

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