

A Smarter Debt Limit Strategy

By David Malpass

Fiscal conservatives are in trouble if they keep fighting over the debt limit with the Obama administration by negotiating over the size of cuts. In this game of chicken, the executive branch drives a Mack truck: As the Treasury Department exhausts its emergency resources, the White House gets to choose the course of the government shutdown, appeal the cuts to the American people, and pressure members of Congress to go along.

This will lead to a spending impasse like the ones we saw earlier this year and, at best, a deal for large-sounding spending cuts, maybe \$1 trillion or even \$2 trillion over 10 years. But such "cuts" only mean agreements for smaller increases in spending, which are usually undone later anyway. Federal spending would still grow fast each year, and almost no programs would be eliminated. Debt would keep growing faster than gross domestic product (GDP).

The current, harmful \$14.3 trillion debt limit is a Washington creation, not a constitutional

bedrock. The Constitution surely would have limited debt forcefully if the Founding Fathers had imagined a government so powerful it could borrow trillions of dollars. That's why there's an opportunity for lawmakers to get

Republicans are headed for another deal over phony spending cuts, while debt rises faster than GDP.

public support for an effective new debt limit that will actually restrain Washington spending.

The way to do it is legislation linking debt or spending to GDP and forcing the government to cut spending when it exceeds a set ratio. For example, if the debt-to-GDP ratio is over 65% in fiscal years 2012-2014 (as it surely will be), or over 60% in 2015-2018, or over 50% thereafter, the president could be required to submit budgets that are no greater than the previous year's nominal spending.

In the 2008 debates, President Obama said he would "go line by line to make sure that we are not spending money unwisely." He should be held to that promise. Like a CEO, the president should be made responsible for overspending, and (though Congress won't like this) he should have more authority to stop it. Until President Ford, all presidents had the authority to impound, or not to spend, all the money that Congress appropriates. A 1974 budget law requires that every penny be spent, but it could be suspended or modified to allow the president to carry out cutbacks and rescissions. Governors in fiscally responsible states often have such authority.

The new debt limit should also guide government officials with incentives. When debt exceeds the new cap, senior officials and high-paid bureaucrats in Congress and the executive branch—of which there are thousands—should forego raises and new hiring.

The only way to stop Washington from spending more is to make it so painful as to uproot the entrenched tax-and-spend culture. Across-the-board cuts

sound good inside the Beltway, but to the public they are an unfair ducking of responsibility by the people paid to make spending choices. We need a new multiyear process in which Washington leaders shoulder the burden, sort the spending options, and are held accountable by voters.

But Washington is booming and doesn't want to stop, so for any serious reform to happen, the public will have to be brought on board early. Signals from the financial markets should help: A constructive reform to control spending and debt as debt rises would send equities soaring, stabilize the plunging dollar, attract capital back to the U.S., and get private-job growth going again.

But if we're heading for another late-inning showdown where divided fiscal conservatives force government closures, we can expect little real improvement to our fiscal dilemma—and a grim response from the economy.

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