

Maybe politicians don't understand the debt ceiling, or maybe it's worse than that

Opinion BY TODD KELLY MAY 23, 2023

“These people are crazy. This is the United States government. First of all, you never have to default because you print the money, I hate to tell you, OK?” — Donald J. Trump, 2016

Even a grifter like Donald Trump gets it. I'm sure that WVLK-AM follows the FFC rules on broadcast distortion which generally prohibits a broadcast news report that deliberately intends to mislead viewers or listeners. But a broadcast can still mislead though not deliberately so. You could call it innocent or passive distortion.

In a 2004 book titled “The Economics of Innocent Fraud” John Kenneth Galbraith coined the term “innocent fraud” to describe a variety of misunderstandings about the economy promoted by politicians and other public figures.

The book focuses on corporate dominance in government and analyzes the difference between widely accepted assumptions and reality.

Those repeating the frauds are presumed innocent because of their inability to discern conventional wisdom from fact. An admission of earlier understanding becomes a concession of outright fraud; a rare scene for even the least rabbit eared pol.

Inspired by Galbraith's phrasing, Warren Mosler wrote [The Seven Deadly Innocent Frauds of Economic Policy](#) which is a short correction of some common errors about government spending, deficits, debt, social security, trade, national investment, and taxes.

On May 4, US Rep. Andy Barr appeared on WVLK's Larry Glover Live to discuss the so called debt ceiling. And because we are presuming innocence, I'll extend the presumption to Representative Barr and say he's merely completely at a loss. Mr. Glover mostly head nodded his way through the interview; either due to his reluctance to challenge Rep. Barr, threatening a loss of access, or due to his lack of familiarity with the topic. (If you want an economically literate discussion of government spending, debt, and deficits see former US Rep John Yarmouth's June 17, 2021, interview on C-Span or read Stephanie Kelton's The Deficit Myth.)

Congress is creating the debt crisis. What Rep. Barr should have said, and what he fails to understand, is that the last budget, like any other budget passed by Congress, is law, and *is* the debt ceiling. He also seems unaware of Section 4 of the 14th Amendment which says, “The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned.” The section simply prevents a subsequent Congress from repudiating the obligations of a prior Congress.

Most salient in Rep. Barr's misconceptions is that the government needs to obtain dollars from taxpayers. It's the other way around. Congress is the source of US dollars. By legislation, it spends into the economy and regulates banks, who manage reserves and credit, to lend into the economy. There are no privately created US dollars.

There is only a default if Congress says so and willfully reneges on its own budget law. Representative Barr misses that the federal government issues the currency and that individuals, firms, state, and local governments use the currency. The latter must get the currency from the former either through direct spending or through the government's agents-banks.

Federal government deficit spending is a public surplus and creates private savings. Only existing US dollars can be used to buy United States Treasury securities. There is nothing to

pay back. When a Treasury matures, the Treasury owner's Fed savings account shifts to her checking account. Every discussion of US economic policy should start with plain facts. Representative Barr's does not. If he cares to dispute any of the above, then let him respond.