“No Cause for Concern”

According to a recent article in the Wall Street Journal, Sen. Ron Johnson believes that not raising the debt ceiling would’ve been “no cause for concern”. Really. He actually said that. So let’s explore what “no cause for concern” might actually mean.

As a worst case scenario, not raising the debt ceiling would have caused the government to default on its loans – to literally go bankrupt. The impact on the world’s financial system would have been catastrophic, probably worse than the financial collapse of 2008. After all, pretty much every significant financial institution on earth holds Treasury bills – your bank, your insurance company, your pension fund, your mutual funds, your favorite charity, the company you work for.

And suddenly, all of those T-bills would be of questionable value. Banks, unable to sell their T-bill reserves, would be forced to cut back their lending. So businesses would have difficulty getting credit. Homebuyers would again be unable to secure mortgages. Housing values would crash. "No cause for concern?" I don't think so.

However, Johnson apparently believes a rosier scenario would play out – that the government would be able to pay off its bonds by diverting money from other uses. That's his best case scenario. So how much of a "no cause for concern" would that scenario be?

The Federal deficit is currently around $740 billion a year. If the government were suddenly unable to borrow any more – that's what the debt ceiling means – it would have to immediately cut its spending by $740 billion. Wonderful, Ron Johnson says. It’s about time. And maybe you agree. You shouldn’t.

Eliminating $740 billion in spending would require eliminating the Departments of Education, Commerce, HUD, Energy, Agriculture, Labor, Transportation, Interior, NASA, the EPA, the Army Corps of Engineers, the NSF, the Small Business Administration, and all of Health and Human Services except Medicare and Medicaid. That would throw roughly 600,000 Federal employees out of work nationwide, immediately raising the unemployment rate.

That job loss would then quickly multiply throughout the economy, as all those newly unemployed workers cut their spending, and all the businesses that they supported lost sales and cut their workforces. So here, “no cause for concern” is not another Great Recession, but another recession nonetheless, with the unemployment rate moving back to the 8% to 9% level.

Alternatively, the $740 billion spending cut could be achieved by cancelling the health insurance of 87% of all the people on Medicare and Medicaid. Or it could be done by cancelling 85% of all Social Security payments. Or we could just eliminate the Departments of Defense and Homeland Security. Once again, a lot of people no longer earning income, no longer spending and supporting businesses, and so again, another recession.

But instead of not having clean air inspectors and cancer cure studies and food inspections and inflation measures and small business loans and levees and dams and bridges and highways, we’d just have seniors unable to get health care. Or seniors unable to afford much of anything. Or a disbandied military. I’m not sure which of these scenarios Ron Johnson would consider “no cause for concern.” Maybe he could enlighten us on which option he’s advocating.

Frankly, I consider all of these scenarios as a cause for concern. Yes, we need to move closer to a balanced budget. But there is no $740 billion spending cut that anyone in their right mind would actually see as a sane, rational, and acceptable idea.

And maybe our biggest cause for concern should be that we have a Senator who believes that engineering another recession is itself “no cause for concern”.