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Here's Why the Debt Ceiling is a Total Fiction

By [Damien Hoffman](#)

April 14 2011

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Professor [Antony Davies](#) at [Duquesne University's Donahue School of Business](#) says we shouldn't waste our time listening to lies about the so-called "Debt Ceiling" because ... it doesn't really exist!

Antony Davies: First, the "ceiling" part is a fiction. **Congress** has raised the ceiling *more than 70 times* since the 1970s. In other words, every time the **Federal debt** approaches the ceiling, Congress just bumps the ceiling up a few notches.

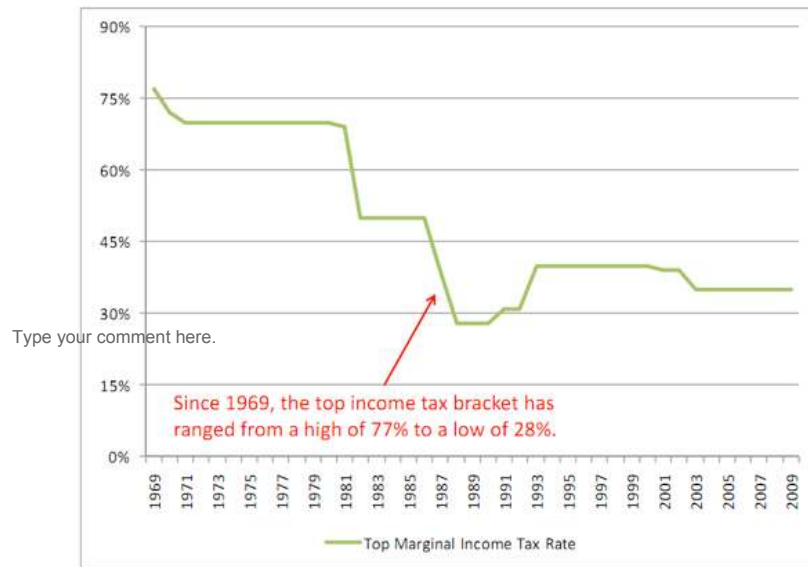
The term "ceiling" implies a solid barrier beyond which one cannot pass. What we have is something more akin to a debt low-hanging-mist.

Beyond being a fiction, the debt ceiling focuses our attention on the wrong thing. A debt problem is the effect of either (or a combination) of two causal problems: too little revenue or too much spending. By talking about a "debt" ceiling, we are lulled into the false sense that the debt problem can be solved by either raising **taxes** or reducing spending.

In fact, the government has little control over its revenue. The chart below shows fluctuations in the top income tax rate in the US since 1969 compared to Federal revenues (all sources combined) as a fraction of **GDP**.

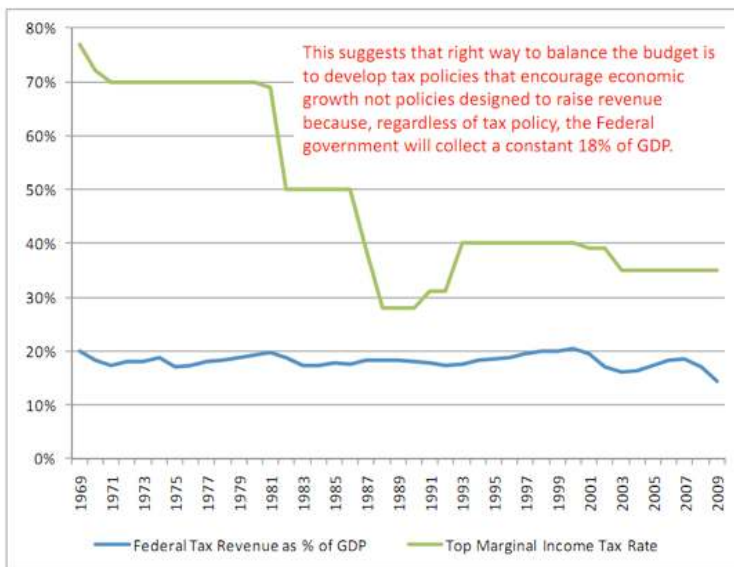
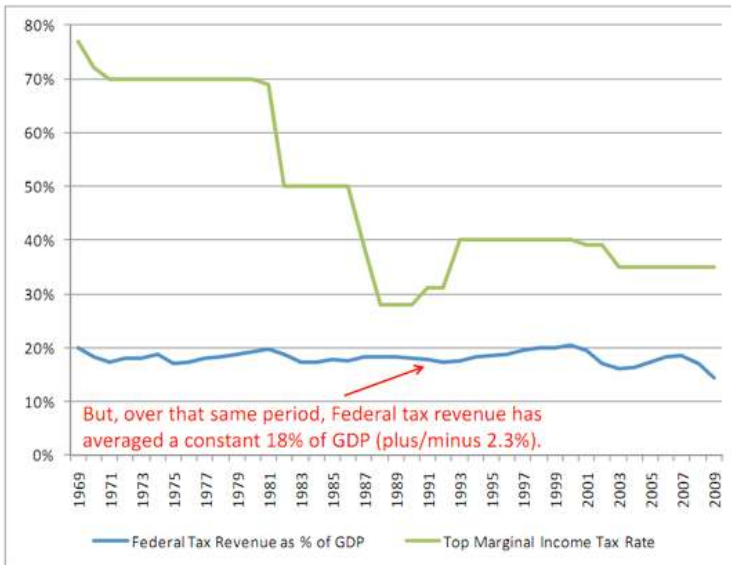
Since 1969, the top Federal income tax rate has ranged from a high of 77% to a low of 28%. During that period, Federal revenues have remained at a relatively constant 18% of **GDP**. This may be due to our being on the sweet spot of the Laffer curve. It may be due to an increased incentive to identify tax loopholes as tax rates rise. Whatever the cause, the fact remains that, regardless of tax policy, the Federal government gets a fixed 18% of the economic pie.

If tax revenues are fixed, this suggests that the debt problem is really a spending problem. Congressional fiscal conservatives should co-opt those looking to raise the debt ceiling with the following proposal: eliminate the debt ceiling entirely in exchange for a spending ceiling that caps total spending at 18% of GDP.



Data source: Bureau of Labor Statistics, National Taxpayers Union





Don't Miss: Professor Davies frightening presentation "[Here's How the US Debt Outstrips the Economic Output of the Entire Planet](#)".

Professor Antony Davies teaches at Duquesne University's Donahue School of Business and offers [contrarian commentary on conventional wisdom](#).

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