

DiNuzzo Investment Advisors, Inc.

FEE-ONLY WEALTH MANAGERS

Interim Market Correspondence

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Should We Even HAVE a Debt Ceiling?

If you want insight into the U.S. debt ceiling debate, this is probably NOT the right video to watch. But, unlike the debate, the video is actually funny:

<http://www.youtube.com/watch?v=MMDDxQkvTY0>

Until recently, the U.S. government's debt ceiling didn't get a lot of publicity; it has been raised without fanfare 70 times in the last 50 years. Now that it's front page news, some analysts are wondering why we have such a thing in the first place. An article in the August 1 issue of The New Yorker notes that there is no provision for a debt limit in the U.S. Constitution, and among democratic nations, only the U.S. and Denmark have a mandated debt limit that has to be raised by their legislative bodies.

The debt ceiling was adopted in 1917, at a time when the government budget was created and controlled by the U.S. President. The ceiling gave Congress a small measure of control over the President's spending habits, but in the years since, we have evolved to a system where Congress authorizes government spending in line item detail. The New Yorker article notes that the only reason we need to lift the debt ceiling, after all, is to pay for spending that Congress has already authorized. If the debt ceiling is not raised at the last moment, the President, ironically, would have greater authority; President Obama would be the one to decide which bills get paid and which do not, with no input from Congress.

The irony of the debate, lost in the screaming headlines and press coverage that always seems to focus on the politics rather than the merits of each proposal, is that the U.S. nearly defaulted--and actually did lose its pristine credit rating--at a time when investors were happily lending it money at some of the lowest interest rates in history. This is a crisis entirely of our own making. At a time when the U.S. economy is still recovering from the subprime meltdown, skyrocketing oil prices, the Eurozone debt crisis and ripples from the Tohoku earthquake, it was entirely unnecessary to bring on the federal debt downgrade, the market panics and the reckless brinksmanship--what the New Yorker economist (evidently a soccer fan) says might be the biggest own goal in history.

Sincerely,



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