As the debt-ceiling debate escalates, so does the political rhetoric.

The Obama administration used to warn, correctly, of the consequences of a debt default. But it now conflates default with all spending reductions, which it describes inaccurately as not paying our bills. The president suggested to CBS News last week that "there may simply not be the money in the coffers" to pay for Social Security benefits. And virtually every senior member of the administration's economic team describes the Republican position—raising the debt ceiling to the extent of spending cuts—as "irresponsible."

Loan defaults are when a borrower neglects to make scheduled payments of interest or principal. When it is a corporation that defaults, this typically leads to increased interest costs and reduced access to capital markets. It sometimes leads to insolvency.

But when a corporate borrower reduces its work force, sheds lines of business or cuts salaries, it isn't a default. It's a restructuring. For many companies, such steps are not harbingers of insolvency but instead wise retrenchments, aimed at enhancing long-term business health to the benefit of creditors.

Part of the reason the corporate profits of companies in the Standard & Poor's 500 Index for the second quarter of 2011 are expected to be up nearly 14% over last year is due precisely to this phenomenon. Retrenchment and restructuring following the financial crisis created leaner, more profitable companies. Bond markets surged in response, signaling creditors' approval.

The United States is not in imminent danger of insolvency, but it needs a restructuring. This was the conclusion of a recent, nonpartisan research project, "USA Inc.,” that was led by famed Wall Street analyst Mary Meeker. She had input from me and others spanning the ideological spectrum from Meg Whitman to Peter Orszag. Among other things, "USA Inc." was an attempt to review the country's finances assuming they were analyzed and accounted for like those of a business.

The results were striking. For example, if Congress had submitted fiscal year 2010 financial reports of our country in a fashion similar to a corporation, the U.S. would show a negative net worth of $44 trillion, an operating loss of $817 billion, and $1.3 trillion of negative cash flow.

"USA Inc.,” also notes the dangers of relying on promises and forecasts by politicians—such as the vague future spending reductions that have been offered by Democrats in the debt-ceiling negotiations. The danger should be apparent to all, and the stakes couldn't be higher. Consider that cumulative Medicare spending has exceeded $1.4 trillion, or 10 times the original political forecasts in 1965.

The report also highlights why the most important policy prescription for financial health should focus on growth. If we sustain average growth in excess of 5% for the next decade, we would balance our budgets, obviating the need for a debt-ceiling debate. The challenge is achieving such a lofty target given that average growth for the past 40 years has been 2.83%, but it is a noble goal.
The logic for increasing the debt ceiling coupled with spending reductions is not to forestall default—there is plenty of revenue to cover interest on the national debt. Nor is it to ensure timely Social Security checks—Congress, for example, could legislate a small increase in the ceiling to accommodate monthly timing differences of revenue and expense for this program at the Treasury.

Rather, an increase in the debt ceiling coupled with real spending cuts phased in over the decade will allow us to begin a necessary restructuring after years of profligacy. It would also prevent the administration from using its power to withhold disbursements as a political weapon.

Importantly, it might also forestall another recession that could be triggered by an immediate, dramatic reduction in government spending if Congress doesn't raise the ceiling. In such a case, approximately $700 billion of spending reductions would be required for the balance of 2011—virtually every discretionary expenditure. Lower tax revenues in a double-dip recession driving deficits higher would be the most likely trigger for a downgrade by the credit agencies, leading to higher interest rates and borrowing costs.

One of the longstanding problems we have in understanding the nation's true fiscal picture is the government's arcane "cash basis" budget methodology. As "USA Inc." observes, government budgets only record long-term liabilities such as entitlements when they are paid, whereas corporations must reflect the net present value of liabilities as they occur. This leads to short-term, distorted thinking—citizens and politicians believe the country is in much better financial condition than it really is, and that it is therefore able to take on even more obligations.

Republicans should require, as part of the ultimate budget deal, more business-like budgeting for the federal government. Such a change would give leaders the tools for better-informed decisions and deter demagoguery enabled by incomplete data.

As to "irresponsibility," isn't this charge more logically leveled at an administration that, rather than assuring the markets and the world that the full faith and credit of the United States will never be compromised under any circumstance, takes seemingly every opportunity to suggest that it might? Or to suggest to seniors that their Social Security checks are at risk, when the means to preserve their benefits are so readily available?

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