US debt ceiling reloaded

By Nicole Goebel
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The suspension of the US debt limit - achieved after a monumental standoff between Republicans and Democrats last October and a government shutdown - ends on Friday. The fear of default raises its ugly head again.

The US debt ceiling is back and so is the d-word: default. On Friday, America's debt limit was reinstated after having being suspended since last October**.** The borrowing cap is now locked at the total amount borrowed on that day.

The suspension was part of a budget deal that ended a prolonged standoff between Congress and the US administration on raising the limit and the subsequent 16-day partial government shutdown, so the country could continue to pay its creditors.

It was but a brief reprieve, and as Treasury Secretary Jack Lew pointed out to the Bipartisan Policy Center on Tuesday (04.02.2013) that "even though the House [of Representatives - the ed.] and the Senate approved a budget and passed a bill to keep the government running, they did not yet provide the borrowing authority to pay for the spending commitments they made."

And there's the rub. If Congress does not act - and only Congress can raise or suspend the ceiling - the Obama administration will now have to resort to what's called extraordinary measures to meet its financial obligations. Lew has already warned that these won't last the government very long, possibly only to the end of February. He pointed out that the money will run out faster this time, as tax refunds are usually due at this time of year.

No one has 'guts' for default

But while back in October, the Republicans tried to defund the Affordable Care Act - President Barack Obama's health care program, also known as Obamacare - in exchange for raising the ceiling, we won't see that kind of "rallying cry" this time round, says Jeffrey Miron from Harvard University and the Cato Institute.

"It's no become clear that no one has the guts to make default happen, apart from maybe a small group of die-hard Tea Party members," he told DW.

"The Republicans are looking for moderate concessions - something that sounds like mom-and-apple-pie," he added, so something inoffensive, like reversing benefit cuts for disabled veterans.

And, indeed, nothing indicating an appetite for prolonged brinkmanship has emanated from the Republicans' three-day retreat in Maryland so far. House Speaker John Boehner has merely said that no final decisions on concessions had been made and that "we do not want to default on our debt and we're not going to default on our debt."

What seems clear is that Republicans are not attaching changes to Obamacare insurance provisions nor approval of the Canada-to-Texas Keystone XL oil pipeline to the debt ceiling issue.

Obama, for his part, refuses to negotiate, seeking a so-called clean, meaning no-strings-attached, raise of the ceiling.

'Spectacular own goal'

Miron says while Republicans' concerns over high government spending are "legitimate," their posturing last autumn was all about positioning the candidates for the mid-term primaries and avoiding a challenge from the right.

Only it backfired. Americans largely blamed the Republicans for the stalemate and the partial government shutdown.

Jacob Funk Kirkegaard from the Peterson Institute for International Economics, agrees. "It was a spectacular own goal," he told DW, adding that the fact that "we're having this discussion at all is nonsense, and it's basically testament to the overall recalcitrance of the Republican Party.

No serious risk of default

The last three years have seen repeated wrangling over budgetary issues and the debt ceiling. In 2011, Republicans demanded hefty spending cuts in return for increasing the ceiling, leading to the US's first ever debt downgrade, by Standard & Poor's, from a top-notch AAA to an AA+ rating.

Most experts agree that there is no serious risk of the US defaulting on its debt, as it can prioritize payments to international bondholders, for example, if the ceiling is not raised, and defer domestic payments on pensions and other benefits.

But bondholders and other investors are a sensitive bunch, and if confidence in the world's biggest economy suffers, it can cause them to hold fewer US Treasuries or US dollars.

"This is the biggest impact of all this," Kirkegaard told DW. "An increase in uncertainty, less investment, fewer jobs created and lower growth."

"Brinkmanship over the debt ceiling casts uncertainty over the full faith and credit of the US and risks undermining confidence in the role of the US dollar and having a detrimental effect on the economy," Ed Parker, a managing director at Fitch Ratings told DW via e-mail.

The International Monetary Fund also chimed in on Thursday, saying that "it's essential to reduce uncertainty by raising the debt limit promptly and in a durable manner," according to Spokesman Gerry Rice .

And lower levels of investment usually mean a weaker currency, which could also hit Americans where it hurts the most: higher gasoline prices and higher inflation.

Not so fast

Jeffrey Miron, on the other hand, isn't quite as worried. "Between the end of 2009 and now, we've seen all sorts of policy changes that people thought would affect the economy, but they've had relatively little effect," he told DW.

"There's a tendency to focus on what's the worry of the day, but there are many factors causing an economic crisis." He points to US growth, which has been relatively steady over the last five years.

He believes that "longer-term fiscal balance is the real problem" and that slowing the growth of entitlement spending" like Medicare and retirement programs is the way to go.

"Debt is only one aspect of an overall financial situation. If a country has good growth prospects, debt is not an issue. It's expenditure," he told DW.

While February 7 is only a nominal deadline, the US government can't borrow once it hits the ceiling. The revenues it receives daily can tide it over for a while, but the ceiling will have to be raised sooner rather than later.