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Experts skeptical of GOP plan to avoid default by prioritizing federal payments

By Peter Schroeder and Bernie Becker – January 17, 2013

Experts are dismissing Republican proposals to prioritize federal payments in the event of a debt-ceiling breach, arguing they would be nearly impossible for the Obama administration to carry out.

A growing number of Republicans are looking to sap the drama from the debt-ceiling fight by pushing measures they say would protect the country from the most damaging aspects of hitting the borrowing limit.

They have drafted bills that would direct the Treasury Department to prioritize key payments if the government is no longer able to borrow money, ensuring that the nation honors its debt obligations above all else.

But experts on both sides of the aisle believe that approach would be a logistical nightmare that still would keep the nation exposed to economic dangers.

"The economic impact of the United States government not honoring … literally billions of dollars' worth of domestic commitments, bills, beneficiaries, I think it would change the nature of the United States," said Steve Bell, a former Republican staffer with the Senate Budget Committee who is now at the Bipartisan Policy Center.

"Call it a default, call it a technical default; it doesn't make any difference. You're not paying the bills you owe on time and in full."

President Obama and Treasury Secretary Timothy Geithner have made a habit out of chiding Republicans for demanding major spending cuts in exchange for raising the nation's $16.4 trillion borrowing cap.

At a press conference on Monday, Obama rattled off a series of negative consequences that he said could come if Congress failed to raise the debt limit in time. Social Security checks, veterans' benefits and military pay could be delayed, the president declared, and investors would begin to question America's reputation as a safe haven.

But some Republicans believe the president and his allies are chanting doom and gloom to paint the GOP as an economic saboteur. The reality, they say, is the executive branch has tools to avoid the catastrophic consequences of a default on the nation's debt.

GOP members in the House and Senate are pushing bills that would direct Geithner to ensure payments on interest, Social Security and military pay are made first — and have suggested those proposals make them more reasonable than the White House. Obama has said he will accept nothing short of a prompt increase in the debt limit.

“I think 99.9 percent of my constituents would say that sending out Social Security payments and keeping veterans hospitals open is a bigger priority than national parks, for instance,” said Rep. Patrick Tiberi (R-Ohio), a senior member of the Ways and Means Committee. “Nobody is talking about default except for the president.”

Reps. Daniel Webster (R-Fla.) and David Schweikert (R-Ariz.) have also introduced legislation on the matter, with Webster’s proposal also prioritizing Medicare benefits.

Sen. Pat Toomey (R-Pa.) stressed the priority payments idea through much of the 2011 debate over raising the debt ceiling, getting more than 30 GOP senators to sign on to his legislation. He is expected to reintroduce the bill next week.

“There are all kinds of different financial latitudes that can be employed here,” Rep. Trent Franks (R-Ariz.), who has signed on to Webster’s bill, told The Hill. “As long as the interest is paid on the debt, the full faith and credit of the United States remains solidly intact.”

Rep. Tom Price (R-Ga.), also a Ways and Means member, said assurances that Treasury would continue servicing U.S. debt payments would keep financial markets from panicking.

The Ways and Means panel is scheduled to hold a wide-ranging hearing on the debt ceiling next week.

“I think the markets understand the challenge that we have to get the economy growing is spending, and is the deficit,” Price said. “I think they understand what the fundamental problem is.”

But the credit rater Fitch warned Tuesday that a failure to make good on any of the government’s bills, while not technically a default, would still be enough to justify a downgrade to the nation’s credit rating.

And, in a postmortem to the last debt-limit fight, Treasury’s inspector general said the department’s systems are not built to prioritize the 80 million or so payments the government makes each month.

Congress, the inspector general added, has not directed the Treasury on how to decide which bills get paid and which don’t, raising a slew of legal and logistical questions that would be difficult to resolve.

Tony Fratto, a former Treasury official and spokesman in George W. Bush’s administration, said prioritizing payments would be more difficult than it sounds. The government owes daily payments for debt servicing, Fratto noted, and the receipts that Treasury brings in from day to day can vary wildly.

In 2011, Treasury decided that delaying all payments for a particular day until there was enough cash to make all the day’s payments was the “least harmful … of these very bad options.”

“As a practical matter, it just can’t be done,” Bell said.

Even if the government could ensure its debt obligations were paid in full, some Republicans contend the strategy is a political loser for their party.

The GOP proposals would, in effect, place paying the interest on debt — to creditors such as China — above all else, including the Social Security checks that are sent to seniors.

Democrats gleefully labeled similar efforts in the last debt-limit standoff as “Pay China First” bills.

“I think anyone who thinks this is politically wise has lost their mind,” said Fratto, who is now a partner at Hamilton Place Strategies.

But others maintain that, if the rubber really met the road, the Treasury would do what it could to avoid the worst outcomes of a default.

Mark Calabria, director of financial regulation studies at the Cato Institute, said he believed Treasury could ensure its interest payments on debts were met. But prioritizing the avalanche of other obligations might prove difficult.

“They do have the ability to track [interest payments],” he said. “But practically, their ability to fine-tune who they pay and who they don’t is limited.”