



By: *Tomorrow's Affairs Staff*

# Debt ceiling crisis - expensive pre-election pressure from republicans



In January US Treasury Secretary Janet Yellen has informed Congress that the government has reached the borrowing limit of about \$31.4 trillion, and requested that the debt ceiling be raised unconditionally. But a solution is not in sight.

Time cannot stand still and wait for a compromise on Capitol Hill, but has pushed US public finances to the point where there is talk about a “disaster”, the collapse of the economy, and a new global crisis.

”There are choices, but the answer is there is no good alternative that will save us from catastrophe. The only reasonable thing to do is to raise the debt ceiling and avoid the dreadful consequences that will come if we have to make those choices”, Secretary Yellen said in Japan last Thursday, on the eve of the meeting of the G7 finance ministers and central bank governors.

US President Joe Biden will continue the conversation with the leader of the republican majority in the House of Representatives, Kevin McCarthy, which he started last Tuesday, without any rapprochement so far.

The government and the budget users can be somewhat encouraged by the agreement between Biden and McCarthy to continue the talks, even though it was the only agreement from the previous meeting at the White House.

## The deadline for the agreement is expiring

Meetings like this address the dramatic situation in the government and the entire American economy.

The deadline by which an agreement is possible has come very close because, after

June 1, the government will not have the authority to pay its debts.

Initial positions, which have been in effect for months, are more or less unchanged. While the administration and president Biden are asking Congress to allow the debt ceiling to be raised unconditionally so that the government can pay its obligations, the republican majority is making that decision conditional on cutting government spending.

This stalemate has “eaten up” the critical months in which a compromise might have been possible, but the approach of the June 1 deadline creates anxiety and even fear of a crisis, which the US has always managed to avoid.

## Republicans have not set conditions before

Since 1960, the US has increased, extended, or revised the debt ceiling 78 times, on average more than once a year.

During Donald Trump's term, Republicans voted 3 times in Congress to increase the debt ceiling without any conditions.

The current negotiator with the US president, Kevin McCarthy, voted for these decisions all 3 times. Trump is asking his party friends in Congress to do the opposite and not to give in.

re going to give you a massive default, if they don't

There are few indicators of a compromise. A month ago, republicans in the House adopted a law that raises the debt ceiling, which also includes an obligation for the government to reduce its expenses by trillions of USD over the next 10 years.

This solution was a Republican manoeuvre to present themselves as a constructive party, offering a way out of the crisis.

They knew in advance that it would not be acceptable to the other side. They just formalised what they have been saying for months in the form of law.

m prepared to begin a separate discussion 'I' about my budget and spending priorities but not under the threat of default", Biden said last Tuesday, after speaking with republican leaders in Congress.

## Risky bypass of the Congress

However, they agree on one thing. Neither party wants a short-term raising of the debt ceiling, which would avoid default, and more importantly, buy some time for new talks.

Since the deadline is rapidly approaching, despite the decision of Congress, it is possible that the president and the administration decide to raise the debt ceiling using the 14th amendment to the US Constitution, which reads: "the validity of the public debt of the United States, authorised by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned."

However, Secretary Yellen rejected this option in Japan, saying that the idea was "legally questionable".

But the very fact that a way out is sought in decisions that would be controversial Constitutionally and under the terms of the system of separation of powers, reveals the scale of the crisis, which is approaching if a

solution is not found.

President Biden even hinted that he might cancel his trip to Japan next week for the G7 summit due to the discussion on the debt ceiling, which he says is "the single most important thing that's on the agenda".

## Reversing post-pandemic recovery

If there is no agreement, the consequences will be unfavourable. According to White House calculations, a short-term default alone would eliminate half a million jobs, and if extended, the economy would be damaged by about 8 million jobs, nearly as many as during the 2008 financial crisis.

The inability of the government to pay its obligations would undoubtedly influence the recovery of the economy after the Covid-19 pandemic and, at the same time, trigger global disruptions and the weakening of the US economic leadership.

Memories of the year 2011 remains marked by anxiety. The credit rating of the US was lowered for the first time in history due to the same problems.

Republicans are using their new majority in the House to exert political pressure on the administration, particularly on the prospects of Joe Biden in the critical, final year of his term, and ahead of his new presidential bid.

If they put him in a situation where the government runs out of money to pay its obligations, the republicans would have a double gain.

They would nullify the effects of Biden's

economic measures in the period of recovery from the consequences of the pandemic and create an army of angry Americans who were not paid the money owed to them.

But what would be the price of such a political victory? Probably a deep economic, perhaps even constitutional crisis, which the US has not experienced, followed by the decline of its authority and a long-term crisis of its global leadership.

While waiting for the outcome, perhaps we should remember the statement of Senator Mitch McConnell, the leader of the republican minority in the Senate, from previous talks with President Biden last Tuesday: "the United States is not going to default. It never has and it never will".