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USA

# Debt Ceiling Doomsday?

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**Is there any ruling class in history that would sit by as its country went bankrupt, not by necessity but to serve the ideological agenda of a political fringe? It seems incredible, yet at face value it seems that this perspective is looming on August 2 - and not to just any country but to the world superpower, the United States of America.**

Legislation to raise the U.S. debt ceiling is usually a routine procedure whose necessity is well understood. The Republicans' position is to hold this measure hostage to the right wing's savage budget-cutting agenda. Take a blowtorch right now to Social Security, Medicare, Medicaid and every other social program - and don't touch the rich "Euros" the Republican leadership demands. Is this a bargaining posture, or are the Republican leaders paying more attention to the Tea Party than to the real needs of capital?

Is the U.S. debt problem like that of Greece? No - Greece is effectively insolvent because it is trapped in the European currency zone, because of enormous structural corruption, and because international banks have imposed austerity measures that are pushing its economy down so it's even less able to pay its debts. The U.S. dollar in contrast is the world's reserve currency, and will remain so for the foreseeable future (replaced by the euro?? - forget it).

Our problem, in the first instance, is the trillion-dollar permanent war budget, made worse by George W. Bush's habit of starting wars and pretending that they didn't have to be paid for. The theory that cutting taxes for the rich would grow the economy didn't help either. In any case, the bills do come due.

Without trying to get technical, the August 2 date is when the U.S. debt is projected to hit the \$14.3 trillion ceiling and the government can no longer borrow to cover its expenditures - and since over 40 cents of every dollar Uncle Sam spends has to be borrowed, a lot would go unpaid. But what, and how much, and with what consequences?

Learned opinions vary. According to Richard Wolf in USA Today [1]:

"To hear Treasury Secretary Timothy Geithner tell it, interest rates would spike, stock and home values would sink, savings and investment would dry up, jobs would disappear, businesses would fail, and everything from tax refunds to troops' salaries would go unpaid. Federal Reserve Chairman Ben Bernanke says it would lead to "Euros" severe disruptions' in financial markets, lower credit ratings and damage to the dollar and Treasury securities....

"Others say the doomsday scenarios are hogwash. Sen. Pat Toomey, R-Pa., says it would take a simple law laying out who gets paid first when the government no longer can borrow 41 cents of each dollar it spends. As long as bond holders collect interest on time, he says, there would be no default "Euros" just "Euros" sudden, drastic spending cuts' such as furloughing federal workers or delaying welfare payments."

Got it so far? Financial Armageddon, warn Geithner and Bernanke. No sweat, says the Republican Senator, just pay the bondholders and let the people starve.

Leftwing economist Dean Baker offers a different perspective [See below]:

"While the country will still be left standing after a debt default, there is one important sector that will not be standing:

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Wall Street. A debt default would almost certainly make all the major banks insolvent as they would have to mark down the value of U.S. government debt, which had been held as a completely safe asset. The loss of value would also apply to all the assets backed by the government, such as the mortgage backed securities issued by Fannie Mae and Freddie Mac.

"Even when the economy revived, the U.S. financial sector would never hold the same place in the world as it does today... This fact is essential in understanding the endgame on the debt ceiling. Suppose that we get to the dates in August when the Treasury has reached the limit of its ability to shuffle accounts and literally can no longer pay its bills. Secretary Geithner will at that point make an announcement that in three days there is an X billion payment on Treasury bonds coming due. He will say that the government does not have the money in the bank and will therefore have to miss this payment.

"The markets will then go into turmoil. We will see the same sort of plunge in the stock market that we saw when the House voted down the TARP the first time back in September of 2008. At that point, the Wall Street boys will be screaming their heads off at Speaker Boehner and the rest of the Republican leadership...In this context the Republicans will do exactly what they did with the TARP. They will cut deals, make the threats and do whatever else is necessary to round up the votes needed to raise the debt ceiling.

"When everyone remembers that this is what the endgame looks like, they will realize that there is no need to put essential programs like Social Security, Medicare and Medicaid on the chopping block to get Republican support for raising the debt ceiling...(A)t the end of the day, President Obama holds the cards. He could say that he wants a clean debt ceiling bill and no deals on cutting back the country's key social insurance programs. Of course, that may not be President Obama's agenda."

Interesting game of chicken, isn't it? It seems that Wall Street, the banksters and the capitalist ruling class as a whole have to decide how close to come to the brink of default, in order to force through their program of austerity on a terrified population. The smart money is betting, based on experience, that president Obama and the Democrats will cave in - it may be "President Obama's agenda " to actually look for the excuse to do so - and agree to another "historic bipartisan compromise" of cuts that depress the economy and weaken the president's reelection prospects in 2012.

There's the outside possibility, however, that the Republican leadership in Congress, which is supposed to pay close attention to what corporate capital demands, might misread the signals or be too frightened of the Tea Party faction to pull back from the brink in time. In that case, we might find out what a U.S. default - even if it's only a brief one - looks like. No one really knows whether it would look like an economic blip or an apocalyptic moment.

For those of us at the sharp end of the austerity stick, it might not be a bad idea after all to look at Greece "Euros" where an enraged population has inserted itself into the arrangements between their government and the International Monetary Fund. The threat of a social explosion imposes some limits on how far the domestic and international masters feel they can push down the Greek people's standard of living. Not a bad example, considering what's at stake for us.