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Raising nation's debt ceiling becomes high-stakes debate

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Washington— It's the most pitched debate in the nation's capital, and how it ends could affect everyone's finances in many ways.

Congress has less than two months to resolve the question of whether to raise the nation's debt ceiling, and those on both sides of the issue are digging in their heels. The White House and congressional Democrats say not raising the ceiling could sink the world economy, while Republicans say the nation's ballooning deficit is more dangerous.

The sparring has revealed wide differences.

The White House warns failing to raise the debt ceiling threatens to sink the economy just as states such as Michigan start to regain their fiscal footing.

Republicans say spending cuts and deficit control are key to economic growth and are demanding that any increase in the borrowing limit be matched with cuts of equal or greater size, though the cuts could be over the next decade or more.

Currently at \$14.3 trillion, the debt ceiling is the federal government's self-imposed credit limit, and includes the money it borrows from investor nations and its own trust funds (Social Security and Medicaid, for example).

If it isn't raised before early August, the federal government essentially can't pay its bills, creditors start to worry and the economic effects grow exponentially.

Americans would feel the impact of not raising the debt ceiling through higher mortgage rates, lost jobs, lower business exports and a cutoff of money for federal programs.

"The general consensus is that the debt ceiling topping out would be very, very bad in ways we've never imagined," said Van Conway, principal of Conway McKenzie, a business turnaround firm in Birmingham. "Once it's hit, the government starts to default on its obligations and when that happens, everything's pretty much downhill from there."

Treasury Secretary Timothy Geithner says the federal government's credit line will be fully tapped by Aug. 2 and there's increasing worry that for the first time, the U.S. government could default on its financial obligations.

Talks between Democrats and the GOP toward a compromise on the debt ceiling continued Thursday in a private meeting. It was the sixth meeting between Vice President Joe Biden and top lawmakers.

Biden and Geithner made a pitch for more revenue. Republicans resolutely oppose anything that could be called a tax increase.

Democrats insisted that new taxes must be part of any deficit-reduction deal, a position Republicans have rejected.

The U.S. House took its first vote last week to raise the debt limit to \$16.7 trillion. It failed, 318-97, as Michigan Democratic Reps. John Dingell, Dale Kildee and Hansen Clarke voted for it. Republicans vowed after a meeting with President Barack Obama to block an increase unless big cuts were made — including to Medicare.

Rep. Bill Huizenga, R-Zeeland, said that for him to vote for an increase, it would have to be tied to significant spending cuts.

Huizenga said he doesn't have a specific target. "But the deal would have to be really, really good."

If the dire predictions come true, here are some of the possible effects:

The nascent national economic recovery, which is beginning to add jobs, would grind to a halt. That means more worker layoffs nationwide and in Michigan, which has seen more than 1 million jobs lost in the past decade.

If the economy grinds to a halt, that will have implications worldwide, threatening to dry up export markets. Michigan sent \$44.5 billion worth of products overseas last year, according to U.S. Commerce Department statistics, from autos to office furniture, and from corn to cherries.

Mortgage and other loan markets would gyrate wildly, dragging down the real estate and stock markets. Home values in Metro Detroit have declined this spring to their lowest levels since 1993 after tens of thousands of homeowners defaulted on their mortgages, sending foreclosures skyrocketing.

Interest rates on loans and credit cards would likely rise since the federal government would be paying more on its own debt, throwing credit markets into turmoil. Creditors could demand higher interest rates from the federal government, if they decided to continue lending the United States money at all. Even if Congress were to later raise the limit after hitting the debt ceiling, creditors would likely demand higher interest rates since the guarantee of repayment would be shakier.

Thousands of businesses struggling to get back on their feet from the economic downturn could get a second shock, too, since the market disruptions would interrupt lines of credit.

The stock market would likely tumble, severely affecting the value of businesses such as Boeing, ExxonMobil, Chase Bank, Ford Motor Co., Steelcase, Dow Chemical Co. and General Motors, which just re-entered the market in November after its government-led bankruptcy.

Pension group fund investments would be hit hard. Take the General Retirement System for the city of Detroit, for example. Its \$2.25 billion in assets includes \$230 million invested in securities, mortgage-backed securities and mortgage and construction loans. If those investments lose value, the amount the pension fund can pay out to recipients could be in jeopardy.

Nearly 2 million federal workers — and more than 50,000 in Michigan — would likely not be paid since Washington wouldn't have access to money.

Pension funds and other retirement accounts could see another deep dip in value, potentially one worse than the market's 2007 and 2008 lows. For workers nearing retirement age, that means even recent market gains could be wiped out, ruining nest eggs for soon-to-be retirees and for those already retired.

Funding for federal programs could be in jeopardy. About 1.8 million Michiganians receive need-based health benefits through Medicaid; 1.8 million get Social Security; more than 1.3 million are on food stamps and temporary aid to needy families. The state gets billions in federal aid each year to administer the programs, payments that could be cut off if the government defaults and runs out of cash.

White House officials, in briefing reporters, however, saved the scariest possibility for the end.

"There is no back-up plan," one senior administration official said. "None."

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Additional Facts

Where Michigan delegation stands

The Detroit News surveyed the delegation. Here's what they had to say:

Rep. Dan Benishek, R-Crystal Falls: Won't vote "yes" until there are "substantial spending reductions and government reforms."

Rep. Bill Huizenga, R-Zeeland: Wants to tie a rise in the debt ceiling to "lowering our country's enormous burden of debt — and creating policies that are going to change the trajectory."

Rep. Justin Amash, R-Cascade Township: Spokeswoman Emily O'Neill said Amash "intends to vote 'no' on raising the debt ceiling unless there is major reform, such as movement toward a balanced budget amendment to the Constitution."

Rep. Dave Camp, R-Midland: "There must be significant cuts and reforms as part of any debt ceiling vote — including entitlement programs like Medicare."

Rep. Dale Kildee, D-Flint: Spokeswoman Erin Donar said Kildee would "be a 'yes' on a clean (one without spending cuts, spending caps, a balanced budget amendment or a combination of those options) debt limit vote. However, his vote will of course be based on the final details of the bill."

Rep. Fred Upton, R-St. Joseph: Said last week's vote in the House "sends the signal that the spending and deficit eras of the past have to end."

Rep. Tim Walberg, R-Tipton: Spokesman Kent Sholars said Walberg "continues to believe that spending cuts are necessary to grow our economy again."

Rep. Mike Rogers, R-Brighton: "The only conceivable way Congress could grant the president's request to raise the debt ceiling is if there is a massive overhaul of the way Congress spends taxpayer money to ensure we don't end up here again."

Rep. Gary Peters, D-Bloomfield Township: "I will not vote to raise the national debt limit without a comprehensive, responsible plan to reduce the deficit."

Rep. Candice Miller, R-Harrison Township: "I will not vote to raise the debt ceiling unless it is accompanied by real and meaningful cuts and budgetary reforms that put us on a path to a balanced budget and economic prosperity."

Rep. Thaddeus McCotter, R-Livonia: In a letter to House GOP leadership, McCotter wrote he "unequivocally ... will not vote for a 'clean' debt ceiling increase."

Rep. Sander Levin, D-Royal Oak: "Brinkmanship with our economy and our nation's obligations is highly irresponsible. We should set a framework for immediate and long-term deficit reduction, but not by threatening a default that numerous economists and CEOs have warned would have calamitous consequences on our economy."

Rep. Hansen Clarke, D-Detroit: Spokeswoman Kim Bowman said Clarke will support a clean debt ceiling raise.

Rep. John Conyers, D-Detroit: Conyers supports a clean debt ceiling raise "to prevent this cataclysmic event from unfolding."

Rep. John Dingell, D-Dearborn: "Raising the debt ceiling is unfortunately imperative. ... I agree with calls for responsible spending policies and efforts to reduce the national debt, but it's a bad thing to play chicken with this."

Sen. Carl Levin, D-Detroit: Hasn't made intention clear, but has said the potential damage from not raising the ceiling makes using it as a political negotiating tool dangerous.

Sen. Debbie Stabenow, D-Lansing: "Any vote on the debt ceiling should be combined with measures to pay down the debt over the long term."