

GOP Continues to Play Games with the Debt Limit, Putting Economy at Risk

This week, House Republicans are once again putting the U.S. at risk of defaulting on its obligations, and another downgrade of our credit rating. The “Pay China First” bill that Republicans are bringing to the House Floor this week is not a real solution to our nation’s fiscal situation. In fact, it is planning for a default, and would have disastrous economic consequences. The Republican bill would require paying debts to foreign creditors before paying for other obligations, including pay for active-duty military, veterans’ benefits, Medicare or Medicaid payments, or payments owed to small businesses. By paying China first, this Republican bill creates enormous uncertainty for businesses, world markets, and our economy, and it puts our nation’s creditworthiness at risk. Republican game-playing with the debt limit resulted in the first-ever credit downgrade for the United States in August 2011.

House Republicans have previously said they will provide legislation to avoid another default of the country’s credit rating:

House Majority Leader Eric Cantor: “[Republicans] will bring a bill forward that will ensure that we don’t go into default.” [House Floor, 4/12/13]

Ways and Means Committee Chairman Dave Camp: “By requiring Treasury to issue debt to make these payments, this legislation provides an ironclad plan to avoid the risk of default going forward.” [4/24/13]

Outside reviews show that Republicans’ debt prioritization bill does not live up to this promise. Instead of providing a solution to our debt limit, the Republican bill delays the problem and risks another downgrade to our nation’s credit rating.

Economists have warned that debt prioritization is unrealistic and could cause greater harm to our economy:

S&P Managing Director of Sovereign Ratings David Beers: “It would mean a very sudden fiscal shock that the longer it lasted would filter powerfully through the system. **Potentially that would be deeply disruptive to the economy.**” [Reuters, 7/26/12]

JP Morgan Chief Economist Michael Feroli: It “would be like the **financial market equivalent of that Hieronymus Bosch painting of hell.**” [Washington Post, 1/14/13]

Republicans admit prioritization is unrealistic:

Keith Hennessey, former President George W. Bush’s National Economic Council director: “**Payment prioritization doesn't stop payments, it just delays them.** Then the

aggrieved party sues the government, and probably wins, and **it turns into a bloody mess.**" [[1/14/13](#)]

Tony Fratto, Deputy Press Secretary for President George W. Bush and a spokesman on economic policy who fought through approximately seven debt limit increases with Congress: "**Prioritization is impossible.** Is the government really going to be in the position of withholding benefits, salaries, rent, contract payments etc., in order to pay off Treasury bondholders? **That would be a political catastrophe.**" [[Huffington Post, 1/15/13](#)]

Steve Bell, former Republican staffer with the Senate Budget Committee, now at the Bipartisan Policy Center: "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. 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. As a practical matter, it just can't be done.**" [[New York Times, 1/17/13](#)]

Others are equally pessimistic, citing the inability to prioritize among payments, and the negative economic impact prioritization could cause:

Washington Post Fact Checker: "By available evidence, it appears **all but impossible for the Treasury Department to pick and choose among payments** — or to keep up that balancing act up [sic] for very long." [[Washington Post, 1/16/13](#)]

The Economist Magazine: "That would still wreak havoc.... **Not only would that threaten to send the economy back into recession. It would also deprive doctors, pensioners, contractors and millions of others of money needed to meet their own obligations, setting off a chain reaction of defaults.** Nor would the sanctity of the debt be guaranteed. Disgruntled creditors could challenge the legality of prioritizing interest payments; populists could demand that Chinese bondholders be paid last, not first. One miscalculation could leave the Treasury without enough money to make an interest payment. Even a few days' default would roil the global financial system, which relies on Treasuries in countless transactions. The mere possibility could incite skittish investors to dump their holdings, driving up interest rates." [[The Economist, 1/12/13](#)]

It's time for House Republicans to get serious about our nation's fiscal credibility. House Republicans should work with Democrats to remove any doubt that Congress will allow the United States to default on its bills, and take responsible action to show the world that the U.S. will meet its obligations.