

The US Only has a Few Days before its Overspending Hits the Limit of its Borrowing Authority

News:

Headline news of The Washington Post on 13 January 2023: "House Republicans prepare emergency plan for breaching debt limit." Reportedly, "House Republicans are preparing a plan telling the Treasury Department what to do if Congress and the White House don't agree to lift the nation's debt limit later this year, underscoring the brinkmanship newly empowered conservatives will bring to the high-stakes negotiations over averting a U.S. default, according to six people aware of the internal discussions."

Comment:

The US debt keeps going up and has now reached \$31.4 trillion. Janet Yellen, US Treasury Secretary, told Congress last week that the US would reach its allowed ceiling for borrowing on 19 January. "Once all available measures and cash on hand are fully exhausted, the United States of America would be unable to meet its obligations for the first time in our history," according to US Treasury Secretary, Yellen. She warned the newly elected speaker of the House of Representatives "Failure to meet the government's obligations would cause irreparable harm to the US economy, the livelihoods of all Americans, and global financial stability. I respectfully urge Congress to act promptly to protect the full faith and credit of the United States."

Congress decides the debt ceiling and that limits how much money the US can borrow each year. However, the debt continues to rise and the limit is reached every few years, and a crisis is possible as Republicans and Democrats manipulate the impending threat of economic disaster by getting concessions for their own policies in exchange for reaching agreement to raise the limit. In 2011, a crisis caused a credit agency to lower America's credit rating before a deal was agreed. In 2013, the federal government was shut down for 16 days, and in 2018 the shutdown lasted 35 days while the Democrat controlled Congress argued with Trump about funding for the building of the US-Mexico border wall. Things are in reverse now, and the President is a Democrat, and the House of Representatives, that will play the central role in the debates to come, is controlled by Republicans. The same arguments and the same hypocritical accusations will pass between both parties with each accusing the other of the very same things that they themselves did during the last debt crisis.

There may be instability in the financial markets in the coming weeks, but the crisis will take a while to develop because the federal government has implemented 'special measures.' These are accounting tricks to spend money for a few more months without it being visible in the accounting ledgers and to delay other payments such as those towards pension funds. If the two parties have not reached an agreement by the summer, then there will be trouble. The Republicans have not only gained the majority in the House of Representatives, but they have also changed the rules to make it more difficult for legislation (such as raising the debt ceiling) to pass, and they are emboldened by the many troubles falling upon the Biden administration. It is likely that they will press the Biden administration to cut spending and this may even affect foreign policy and reduce the US financial support to Ukraine, which is very unpopular amongst many in the Republican Party.

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