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UNNECESSARY BRINKMANSHIP: THE HINDU EDITORIAL ON THE U.S.’S FISCAL QUAGMIRE

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

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The U.S. is close to breaching its $31.4 trillion debt ceiling, the government-imposed limit on the total funds it can borrow to pay for existing legal obligations including interest on national debt, military salaries tax refunds and Medicare and Social Security. A breach, should it happen by the June 1 deadline, risks an economic debacle that could lead to a credit rating downgrade, with the knock-on effect of soaring interest rates and tanking stock markets. This in turn would have a deleterious impact on retirement and savings accounts, the pace of business activity, and therefore on employment. With the global economy limping out of the COVID-19 recession scenario, a U.S. federal government debt default would represent a shock to the financial system and a still-fragile recovery across many economies may be compromised. Matters could worsen if the U.S. federal government goes into its 22nd shutdown and government employees are furloughed. In an attempt to coax lawmakers into cooperation and hammer out an agreement to raise or suspend the debt ceiling, the White House put out its calculations of the damage that would result: 8.3 million jobs lost, 6.1% drop in annualised growth of real GDP, and unemployment at 5%.

At the heart of this fiscal quagmire is a lack of bipartisan consensus on how to avoid repeating cycles of national economic stress stemming from the debt ceiling itself. Some analysts observe that the ceiling is a useful device for the U.S. government to tie its own hands and submit to a credible commitment to limit public spending, especially as it requires legislative consent, and with it, some congressional oversight authority. Others argue that the ceiling is an “antiquated mechanism” that places unwarranted restrictions on robust fiscal policy, including on the need to meet previously legislated fiscal obligations. Either way, the deeper reason to worry about the debt ceiling bringing the economy to the “precipice of default every few years” is that the ceiling readily serves as a political tool for the party not in control of the White House to gain leverage over the fiscal priorities of the administration and hobble its plan to deliver on campaign promises. A major debt payment is due on June 15. The government could make do with the ever-shrinking fiscal wiggle room until then. However, House of Representatives Speaker Kevin McCarthy, a Republican, would be wise to realise that putting partisan goals and personal popularity ahead of the greater good will not be something that the American middle class will forgive easily in the 2024 presidential election, especially if this brinkmanship ends up causing a painfully intractable economic crisis.

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