Treasury Secretly Exploring Options if Debt Ceiling Isnt Raised

Mary Miller, Assistant Secretary for Financial Markets, is in charge of paying the government's bills, and on June 21 she repeated the party line in London to bankers holding substantial American debt that there is no "Plan B," assuring them that the debt limit would be raised before August 2. Official Treasury spokeswoman Colleen Murray expressed practically the same thing:

> As we have said repeatedly over the past six months, there is no alternative to raising the debt limit. The only way to prevent a default crisis and protect America's credit-worthiness is to enact a timely debt limit increase, which we remain confident Congress will do.

Treasury Secretary Timothy Geithner has also stressed that there is no contingency plan. Last month he confirmed that "our plan is for Congress to pass the debt limit. Our fall-back plan is for Congress to pass the debt limit, and our fall-back plan to the fall-back plan is for Congress to pass the debt limit."

Most didn't believe him. Keith Hennessey, who chaired the White House National Economic Council during the George W. Bush administration, was astonished: "You have to have a backup plan. If you are relying on Congress to avoid the possibility of an Armageddon, you can't just bet on that."

Publicly the options open to the White House and Congress in resolving the standoff over the debt limit ceiling appear to be shrinking. Speaker of the House John Boehner (R-Ohio) just confirmed that tax hikes were "off the table" at a closed meeting of the House Republican Conference, and that whether a debt ceiling agreement can be reached "is really dependent on whether [Democrats] continue to insist on tax hikes." Presidential hopeful Michele Bachmann (R-Minn.) is standing firm as well. In her first TV commercial released in Iowa yesterday, she said, "As a mom of five, a foster parent, a former tax lawyer and now a small business job creator, I know we can't keep spending money that we don't have. That's why I fought against the wasteful bailout, against the stimulus. *I will not vote to increase the debt ceiling.*" (Emphasis added.)

President Obama has just ruled out another option: a short-term deficit agreement that would get the government over the present hump, but would have to be discussed again before the next election. Instead, the President is backing the all-or-nothing $2.5 trillion debt ceiling increase, just enough to keep the government going until after the next election. House Minority Leader Nancy Pelosi (D-Calif.) has continued to make clear her insistence that any debt ceiling agreement would leave Medicare and Social Security alone. She told reporters yesterday:

> I also want to have full clarity where House Democrats stand — we do not support cuts in benefits

> for Social Security and Medicare. [We] do not consider Social Security [as] a piggy bank for giving tax cuts to the wealthiest people in our country. We are not going to balance the budget on the backs of America's seniors, women, or people with disabilities.

As a result, even at this late date, with the clock ticking down to the August 2 drop-dead moment, President Obama was candid: The parties are "still far apart on a wide range of issues."

Here are the options the Treasury Department is secretly considering:

> 1. Delay certain payments beyond August 2;
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> 2. Use the 14th Amendment to do an "end run" around the debt ceiling impasse and just continue spending without congressional authorization;
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> 3. Prioritize payments in some descending order of importance.

Here's what Mary Miller is facing: In August, the U.S. Treasury will take in about $172 billion in revenues, but will have bills to pay of $306 billion. Simply put, without raising the debt ceiling, only about half of those bills are going to be paid. One of the options Treasury is exploring — considered by most as "politically explosive" — is to delay the $50 billion that is due to Social Security recipients on August 3. Another option being explored is delaying interest payments on some of the national debt, also considered highly risky to a nervous bond market that has its full attention focused on the Washington negotiations.

This is the "catastrophe" that Geithner and others have been warning about. But Sheldon Richman, editor of *The Freeman* and TheFreemanOnline.org, asks rhetorically, "Is it true?"

> Consider the source. The people telling us this are the same people who think government spending and tax revenues are never high enough. These are the people who measure "national greatness" in budgetary terms. Of course they'd panic at the news that their credit cards are maxed out.

Professor Robert Higgs of the Independent Institute answers the question, "Have governments defaulted in the past?":

> Of course, they have, on hundreds of occasions over the centuries. Have these defaults triggered "catastrophic economic and market consequences?" No. When a government defaults, there are consequences, of course, including heightened reluctance of lenders to lend to the deadbeat government … [but] the world keeps spinning.
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> Has the US government ever defaulted before? Yes, in 1933, by refusing to honor the gold clauses in its bonds, the Treasury engaged in a massive default.
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> One option is notably absent from any consideration by the Treasury in the event no agreement is reached: defense spending. The Pentagon is responsible, directly and indirectly, for spending nearly a third of the government's income. It's interesting to note that cutting defense spending by just one-third would save $5 trillion over the next decade, before any decisions about Medicare or Social Security are made.

The best option of all of course is simply to accept reality: The government cannot continue to spend more than it takes in. Attempts to hide that simple fact, or to do "work-arounds" to avoid its consequences, are just going to make the eventual resolution of the current fiscal crisis even more painful.

Photo of Timothy Geithner: AP Images