

US Debt Default Deadline Fast Approaching

News:

On the 12th of May, US Treasury Secretary Janet Yellen wrote: ‘If Congress does not raise the debt ceiling, we face economic and financial catastrophe. It is vitally important that we make sure it gets done’. Yellen is an experienced economist who previously was the 15th chair of the US Federal Reserve. She repeated her warning on the 15th of May: “With additional information now available, I am writing to note that we still estimate that Treasury will likely no longer be able to satisfy all of the government’s obligations if Congress has not acted to raise or suspend the debt limit by early June, and potentially as early as June 1.”

Comment:

Every few years the theatrical spectacle of the US debt ceiling rattles the interest-based world economy. The US budget and the amount of money the US can borrow are determined separately by Congress, and as the US borrows more money than it produces each year the debt keeps rising and bumps into the Congressionally determined limit, also called the debt ceiling. The ceiling has been reached and the government is running out of money but cannot borrow any more until Democrats and Republicans agree to raise the limit. As the administration is in Democrat hands, the Republicans are refusing to agree until their own demands are met. Hence, crisis as threat of the US government defaulting on its financial obligations looms nearer.

This crisis shakes the confidence of international creditors, and hence the cost of US borrowing rises even before the US defaults on its debt. It might happen, and so lending money to the US becomes riskier. Treasury Secretary Yellen pointed to this in her letter to Congress: “Waiting until the last minute to suspend or increase the debt limit can cause serious harm to business and consumer confidence, raise short-term borrowing costs for taxpayers, and negatively impact the credit rating of the United States ... In fact, we have already seen Treasury’s borrowing costs increase substantially for securities maturing in early June,” she wrote.

The Congressional Budget Office warned that if the debt limit remains unchanged, “there is a significant risk that at some point in the first two weeks of June, the government will no longer be able to pay all of its obligations” and added that the federal government’s debt payments “will remain uncertain throughout May, even if the Treasury ultimately runs out of funds in early June.” So ordinary Americans are losing, as they will have to pay more for food and other basic necessities while the politicians fight for narrow interests.

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