

## What Happens After the US Passes a Debt Limit Deal?

Written by Harry Kazianis

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HARRY KAZIANIS, AUG 1 2011

As of this moment on Sunday at 2:00 pm US Eastern Standard time it would appear that members of the congressional leadership representing Democrats and Republicans as well as President Obama are slowly working towards a resolution of raising the US debt ceiling. While there has been no definitive agreement or passage of this latest deal, it would appear all the principle parties involved are speeding their way towards a resolution.

Thank God. Seriously, it should never have come to this. I feel my temperature boiling so I will leave it at that. I think my wife will be the happiest person this is over so I will stop yelling at the television screen every night when the debt limit issue is brought up. A happy wife is a happy home for sure.

It's always good to resolve any self-made crisis without the whole financial system coming to the bring of collapse yet again.

Whilst there are very few details of what the final deal will look like and what cuts are yet to be unveiled, it has come to the point that a deal is essential to the US and the global economy. A technical default, one in which the US could not pay all its bills would surly be a disaster. While economists and pundits argue about what would happen, it would most likely do enough damage to slip the US economy into a recession, considering the latest GDP reports on Friday showing growth just over 1%.

I know I would be directly affected. If a technical default did happen, student loan money might be one of the things that are deemed non-essential and held back. I like many other Americans receive student loans to attend college. Something tells me if Harvard does not receive the loan money I need to attend, I will be in a little bit of a bind. Something tells me Harvard does not take IOU's.

While I am ecstatic and happy that there seems to be the makings of a deal to avert a technical default, I am concerned about what comes next. Who pays the price for this deal? With no revenue raisers (AKA tax increases), what group or groups is going to pay for this austerity plan?

Sadly, it seems to be by and large the middle class and the elderly (once again). President Obama was very bold when he went against many in his own party to offer up cuts and slow the rate of growth in widely popular Social Security and Medicare/Medicaid plans. Common sense would suggest Republicans would then agree to some revenue increases to match the Presidents level of compromise. At this point in time with the new plan being floated, there are no increases in revenue to speak of. Great. It seems austerity will be on the backs of the middle class and the elderly after all.

So if seniors and the elderly are going to pay for this new "American Austerity", who else will pay? Lets face facts: if there are no revenue increases, there will have to be cuts in pretty much every part of the US budget. With a proposed \$3 trillion dollar cut in the US federal budget over 10 years and a current \$1.4 trillion dollar yearly deficit that means \$300 billion is coming in a cut in next years budget and every year after. If the Republicans get there way and military spending is not cut, it will be you and me, the average American taxpayer who will feel the cuts. Could Pell Grants disappear to help American college students pay for school? Could cuts in welfare and aid to the poor be on the chopping block? What about federal aid to US states and localities who already have cut their own budgets to

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the bone? Someone has to pay, and in the end, it will be the average American who will feel these cuts the most.

Besides the middle class and others who will now bare the brunt of this new austerity, there are even greater consequences to consider. The US must now face the anger of Moody's, Standard and Poor's and others who rate US debt. The US credit rating maybe cut just because of the political chaos that the world has witnessed. The US debt rating maybe slashed because of the simple fact that politicians allowed the US to come too close to the edge. Even a debt ceiling deal that makes substantial cuts might just be too little, too late.

Sadly, nothing good will come out of any of this. The American economy in my opinion will either stay stagnant or dip further, possibly into another recession... all from a self made crisis. The greatest wounds are truly self-inflicted.

US politicians seem to have forgotten history. It is never a good idea to slash spending when there is uncertainty if the economy is on a sound footing after bad economic times. Maybe if they opened their history books and looked up the year 1937 they would draw some simple lessons. With the US economy slowing to a trickle, pulling vast sums of money out of the mix is only going to make things worse. The only hope is that with this crisis over, Americans will be less fearful to spend and businesses that are successful will hire more with this crisis now hopefully moving into the rear-view mirror. Major American corporations are sitting on over \$1 trillion dollars in cash reserves. Lets hope they spend some money and hire some folks.

There might be one good outcome in this whole mess: The American electorate hopefully won't vote for people who stick their head in the sand and vote *no* to something when it means disaster for the nation. Yes, I am talking to you tea party members in the House and Senate. Thanks for creating this crisis!

Umm... but come to think of it... didn't President Obama vote against an increase in the nations debt some years ago as well when he was in the Senate? Yikes...

It seems my friends no one's hands are clean in this national nightmare. I just hope a deal is done and we can move on to more important matters for everyone's sake.

But wasn't the outcome already preordained? See below....

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### About the author:

Harry serves as Editor-In-Chief for The Diplomat as well as a CSIS: WSD Handa Fellow. He has served in the past as Deputy Editor for e-IR. He specializes in security studies with a keen interest in modern Chinese military strategy and foreign policy. Harry has written in publications including The Diplomat, East Asia Forum and the Foreword Report.