

# Treasury Secretary Yellen issues another warning on debt ceiling

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US Treasury Secretary Janet Yellen has renewed her call for Congress to lift the debt ceiling when it votes on the issue next week warning that failure to do so would produce an “economic catastrophe.”

Earlier this month, Yellen wrote a letter to Congress calling for bipartisan agreement on the issue and followed it up with an op-ed piece published in the *Wall Street Journal* (WSJ) on Sunday.

The fact she felt the need to place an article in the pages of the WSJ, the main voice of finance in the US, indicates the seriousness with which it is regarded in the Biden administration.

In her latest comment, Yellen repeated her warning that if the ceiling were not raised then sometime in October, it was not possible to say when, the Treasury Department would run out of cash and the federal government would be unable to pay its bills.

“The US has always paid its bills on time, but the overwhelming consensus among economists and Treasury officials of both parties is that failing to raise the debt limit would produce widespread economic catastrophe,” she wrote.

Yellen noted that the debt ceiling had been raised about 80 times since 1960. In the past this had generally been done without conflict with the notable exception of 2011 when, as Yellen recalled, “debt-limit brinkmanship” under the Obama administration “pushed America to the edge of a crisis.”

Given the situation in Congress, with large sections of the Republican party still pushing the claim of a “stolen election” that facilitated the January 6 attempted coup, Yellen believes that a crisis, even more significant than that a decade ago, could erupt over the debt issue.

Clearly appealing to sections of finance capital to directly intervene, Yellen said the US had never

defaulted and doing so “would likely precipitate a historic financial crisis that would compound the damage of the continuing public health emergency.”

She warned a default would trigger a spike in interest rates, a steep drop in the stock market and other financial turmoil. “Our current economic recovery would reverse into recession, with billions of dollars of growth and millions of jobs lost.”

The House will vote next week on whether to lift the \$28 trillion debt ceiling. The Senate Republican leader Mitch McConnell as well as House Republicans have said they should not have to vote for a bill to finance expenditure by the Biden administration they oppose. Some 46 Republican senators have signed a letter saying they will not vote for a stand-alone bill that lifts the ceiling.

In her op-ed piece Yellen repeated the point she made in her letter to Congress that the increased authorisation was not to facilitate additional spending but to cover commitments already made, noting that 97 percent of the amount was “incurred by past congresses and presidential administrations” and “even if the Biden administration hadn’t authorized any spending, we would still need to address the debt ceiling now.”

As on every other issue, most notably on the fascistic coup attempt, Yellen is appealing to what the Democrats call their “Republican colleagues” to respect previous norms and “paying America’s bills” should not be a controversial issue. During the previous administration, that of Donald Trump, she recalled that “Congress suspended the debt ceiling three times with bipartisan support and without much fanfare. For this reason, I’m confident our lawmakers will address the debt ceiling once again, but they must act quickly.”

There is an obvious contradiction here. If Yellen were confident the issue could be resolved “without much

fanfare,” she would not have found it necessary to publicly write on the issue twice in the past week, pointing to a “catastrophe” if it is not settled.

Yellen also warned of any last-minute solution. “There is a big difference between avoiding default by months or minutes,” she wrote. In 2011 the conflict led to the downgrading of America’s credit rating, there was a “severe stock market downturn,” that led to “financial-market disruptions that persisted for months.”

Her warnings come amid uncertainty in financial markets over the direction of the Federal Reserve’s monetary policy, which have been intensified by the sharp market fall yesterday as a result of the debt crisis of the major Chinese property developer Evergrande.

The Fed’s policy making body will meet for two days this week where the key issue will be the timing and the quantity of the “tapering” of its asset purchasing program, currently running at \$120 billion a month, initiated in response to the financial market meltdown of March 2020 at the start of the pandemic.

There are divisions in the Fed between those who maintain that the wind down should begin soon and those fearful that if such a move is too sudden it could trigger financial turbulence because the markets have become so dependent on the flow of money from the central bank.

Fed chair Jerome Powell has been seeking to balance between the two camps. He has said that a move to “taper” asset purchases by the end of the year could be “appropriate,” while at the same time insisting this should not be taken as a signal that the Fed is ready to lift its base interest rate from its present level of near zero.

Commentators, such as former Treasury Secretary Lawrence Summers, have warned that the present easy money policy of the Fed runs the risk of creating a situation of “stagflation”—rising prices amid a slowing economy.

Financial analyst Mohamed El-Erian has repeated his previous warnings about the dangers of the Fed’s present policies in a comment published on Bloomberg yesterday. He called for the Fed to immediately initiate tapering with the goal of completely eliminating asset purchases by the first half of next year and that it should signal a gradual lifting of interest rates in the second half.

But he concluded that the Fed was more likely to adopt a “dovish approach” because of the extent to which “central bank liquidity has turbocharged asset valuations” leading to a “decoupling from underlying economic fundamentals.”

Appealing as this may seem, he continued, it was short-sighted because it allowed financial and economic risks to rise and by the time the Fed “finds itself forced to hit the brakes, the window for doing so in an orderly fashion may prove worryingly tight.”



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