Written by **Thomas R. Eddlem** on August 1, 2011

GOP Caves to $2.4-Trillion Debt Limit Increase, Deficits Forever

All of official Washington touted the deal as one of fiscal responsibility. "Our framework is now on the table that will end this crisis in a manner that meets our principles of smaller government," House Speaker John Boehner told the press after reaching the deal with the White House.

The White House termed the deal "a win for the economy and budget discipline" in a memo posted on the White House website. "It will allow us to avoid default and end the crisis that Washington imposed on the rest of America," President Obama said in a statement upon concluding the deal. "It ensures also that we will not face this same kind of crisis again in six months, or eight months, or 12 months. And it will begin to lift the cloud of debt and the cloud of uncertainty that hangs over our economy."

Of course, the U.S. government was never on a course for default. Had negotiators not reached a deal, the President would have been able to continue to spend whatever tax revenue came into the U.S. Treasury on congressionally-approved expenditures. Serious spending cuts would have had to have been made, however. The federal government takes in enough revenue to pay interest on the debt, Social Security and Medicare recipients, and U.S. military personnel, but little would be left over for the other functions of the federal government.

The deal allows an immediate increase of $400 billion in the national debt and another $500 billion in the fall. The deal also allows an increase of $1.2-1.5 trillion in the debt limit next year, based upon enactment of recommendations of a bipartisan deficit commission the deal sets up. If the commission refuses to agree to cuts equal to the increase in debt limit, automatic cuts of the same amount take place. The deal includes none of the tax increases that the White House and Democratic leaders sought.

The deal still has to be approved by both houses of Congress, but the House and Senate leaders of both parties have endorsed the agreement, and most observers expect approval over Tea Party and left-wing opposition. "I can't support any plan that doesn't eventually balance," Tea Party hero Rand Paul (R-Ky.) told the press on the eve of the deal. "They are talking about seven or eight trillion dollars of new debt. And I don't think the country can withstand that."

The stock market showed some relief that a deal had been reached to avoid an official default, but credit ratings agencies expressed skepticism similar to Senator Paul at the paltry amount of the "cuts" and the congressional agreement for endless deficits. The Washington, D.C.-based newspaper *The Hill* reported that Moody's may cut the U.S. government's credit rating anyway. "Reductions of the magnitude now being proposed, if adopted, would likely lead Moody's to adopt a negative outlook on the AAA rating," *The Hill* quoted Moody's as concluding. "The chances of a significant improvement in the long-term credit profile of the government coming from deficit reductions of the magnitude proposed in either plan are not high."

The even more skeptical Standard and Poor's had floated a $4-trillion cut in deficits as a minimum earlier in the week in order to avoid a consideration for lowering the U.S. government's credit rating. "A grand bargain of that nature would signal the seriousness of policy makers to address the fiscal situation in the U.S.," John Chambers, chairman of S&P's sovereign rating committee, said in a video interview July 28.

The irony is that U.S. debt will enjoy a short-term boom market for the federal government, as explained by Tad Rivelle, the head of fixed-income investment at Los Angeles-based TCW Group Inc. Rivelle told Bloomberg that reductions are "going to be good for Treasuries, ironically, because it's bad for the economy." Rivelle explained that "it ought to further restrain economic growth by in effect withdrawing a good deal of fiscal stimulus." In essence, Rivelle argues that all of the federal government borrowing is sucking the growth out of the economy.