Senate Panel Told Debt Default Would Be Catastrophic

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While President Joe Biden touted his soon-to-be-announced deficit-cutting budget proposal this week, a Senate Committee was digesting the testimony of economists and experts who spoke on the harsh reality the U.S. government faces in solving the federal debt-ceiling crisis.

The Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Economic Policy met Tuesday afternoon with expert witnesses to discuss the current debt-ceiling crisis during a hearing appropriately titled "The Federal Debt Limit and its Economic and Financial Consequences."

The invited participants who provided testimony were Dr. Mark Zandi, chief economist at Moody's Analytics; Anat Weisenfreund, director of Head Start and Early Learning Programs at Community Action Pioneer Valley; Dr. Douglas Holtz-Eakin, president of the American Action Forum; Dr. Michael R. Strain, director of economic policy studies and Arthur F. Burns scholar in political economy, American Enterprise Institute; and Amy K. Matsui, senior counsel and director of income security at the National Women's Law Center.

Since January 19, the Treasury Department has implemented certain extraordinary measures to prevent the U.S. government from defaulting on its obligations after reaching the statutory debt limit of $31.4 trillion dollars. Congress and President Biden now need to agree upon raising or suspending the statutory debt limit before June to keep the government solvent. But, to date Congress has failed to offer a plan on how best to move forward with the crushing record debt the nation holds as both Republicans and Democrats, as well as President Biden, are far from reaching a consensus.

Committee Chair Elizabeth Warren (D-Mass.) kicked off the hearing by reading an opening statement that was little more than leftist Democrat rhetoric. Warren claimed the "House Republicans don't seem concerned about the upcoming debt limit deadline." She attacked "extremist Republicans" for their firm stance on not extending the debt-ceiling limit. Then Warren painted a "sky is falling" scenario of what could happen if Republicans don't raise the ceiling, stating, "According to Moody's, a very short breach would plunge the economy into a recession and cause the loss of a million jobs — and a longer version could cost as much as 7 million jobs."

Warren closed her statement with her solution to the debt crisis, with the typical wealth-redistributing rhetoric that defines today's leftists, and setting the table for the witness testimony. She said, "Today I sent President Biden a letter, urging him to put out a strong budget this week that raises revenues from the wealthy and well-connected and rejects extremist, job-destroying House Republican plans. Our choice could not be simpler. And that's what we're here today to talk about."

John Kennedy (R-La.) took the high road in his opening statement, sharing that "Congress needs to put the economy back on track and end this reckless tax and spending spree." He added that Congress needed to stop "spending frivolously," because, "if you're going to borrow money, you have to pay it back."

"According to the Treasury, US debt was 124 percent of GDP in 2022. It's clear that the federal government spends too much and has too much debt." Kennedy stated before listing more than $3 trillion in recent Democrat spending. He then suggested that congress should not be permitted to go home until the debt-ceiling situation was resolved, while acknowledging over the past 25 years, congress enacted 20 laws to increase or suspend the debt limit.

Dr. Mark Zandi spoke first, telling the Senate panel that the debt-ceiling crisis was an "immediate threat to any optimism the economy can skirt recession in the coming year." Zandi added his concern over the political debt deadlock, stating, "If lawmakers are unable to resolve the debt limit in time and the Treasury begins paying its bills late and defaults, financial markets would be roiled."

Zandi closed his lengthy remarks by sharing that "the U.S. government pays what it owes in a timely way is a bedrock of the U.S. economy and global financial system. It has paved the way for the U.S. dollar ultimately to become the global economy's reserve currency."

Dr. Michael Strain submitted a comprehensive statement that included graphs of the nation's debt and economic situation. He led off his comments on the debt-ceiling stalemate, stating, "Running up to the eleventh hour to raise the debt ceiling would be a substantial market and economic event that would leave U.S. taxpayers on the hook for billions of dollars of additional interest payments."

"Is the United States a nation with a political system that is so dysfunctional that it cannot pay the bills it is legally obligated to pay? That question is at the heart of the uncertainty around the debt ceiling. If the U.S. defaults on our bond obligations, many investors, international and national leaders, and citizens will answer that question in the affirmative," Strain said in his closing comments.

The Epoch Times reported on the next two speakers, stating, "Amy Matsui and Anat Weisenfreund were both critical of any spending cut compromises to raise the debt limit, saying that proposals from House Republicans would have a disproportionate effect on poor mothers and minorities."

Dr. Douglas Holtz-Eakin shared his comments with the panel, reiterating other witness testimony by stating that a government debt default "would be a cataclysm for the global financial system." He then gave the panel a good history lesson on government debt and came to the same conclusion as the other witnesses, i.e., that Congress needs to raise the debt limit soon to avoid the consequences of default.

Holtz-Eakin closed with a common-sense solution to the debt crisis that all of us could agree on, stating, "Some make the argument that being inflexible with the debt limit will limit future spending but, of course, Congress could accomplish that goal without involving the debt limit. If one wants to control future spending, one should stop spending so much."