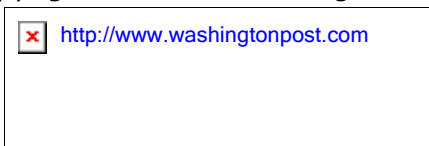




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**December** 25, 2002, Wednesday, Final Edition**SECTION:** FINANCIAL; Pg. E01**LENGTH:** 1175 words**HEADLINE:** Congress Asked to Raise Debt Ceiling; Treasury Plea Likely To Spur Political Fight**BYLINE:** John M. Berry, Washington Post Staff Writer**BODY:**

The Treasury Department yesterday asked Congress to raise the government's \$ 6.4 trillion ceiling on the **national debt**, setting the stage for a major political conflict early in the 108th Congress.

With the government's budget deficit and the need to borrow rising sharply, Treasury has no choice but to seek a higher ceiling. But before that happens, some Bush administration officials expect opening salvos of the 2004 presidential campaign, including sharp criticism of the administration's economic policies, to be fired on Capitol Hill. The request to raise the debt ceiling provides critics an opportunity to question anew President Bush's tax cuts and his response to sluggish growth. That debate will play out on the floor of the House and Senate, as well as in the confirmation hearings for Treasury secretary-designate John W. Snow, expected to begin late next month. In a carefully worded letter sent yesterday to House Speaker J. Dennis Hastert (R-Ill.), Deputy Treasury Secretary Kenneth W. Dam said that because of responses to the Sept. 11, 2001, terrorist attacks and "the economic slowdown which began in the summer of 2000," government debt will reach the \$ 6.4 trillion limit in the latter part of February. By dating the slowdown to mid-2000, Dam tied it to the Clinton administration rather than to Bush; that argument has been part of the administration's defense of its handling of the economy.

Last spring, a similar request for an increase ran into strong opposition from some conservative Republicans and many Democrats, and its passage was delayed for several months. That delay forced the Treasury to resort to a variety of financial maneuvers -- some of which Republicans had decried as illegal when the Clinton administration used them in earlier years -- to allow the government to continue to pay its bills. Analysts said the same sort of delay is likely again this year, only with the budget in considerably worse shape that it was then.

Republican leaders, who will control both the House and Senate when they convene Jan. 6, made no public statements in response to the letter. For many weeks last spring, Hastert was unable to persuade numerous members of his party to vote for a higher debt limit and in the end the legislation passed by only a single vote.

However, Senate Majority Leader Thomas A. Daschle (D-S.D.) and Senate Budget

Committee Chairman Kent Conrad (D-N.D.) quickly seized the opportunity to launch an attack.

"This administration is in a state of deep economic denial," Daschle said in a statement, noting that Dam's letter sidestepped any mention of the major tax cut passed at President Bush's urging in 2001. "Denying that the \$ 1.7 trillion tax cut is a main cause of the skyrocketing debt is incredible, and it isn't fooling anybody. They need to get serious and get a new economic plan now."

Conrad had similar words:

"The Bush administration's Christmas present to taxpayers is a request to raise the nation's debt ceiling," he said. "By raising the debt ceiling to pay for the president's tax cuts and his other spending, the Bush administration is wanting our children and grandchildren to pay our bills. The president's continued insistence to make his 10-year tax cuts permanent will cost this nation another \$ 400 billion this decade, and \$ 4 trillion next decade. . . . How can [the administration] ask yet again to raise the debt ceiling and still pursue its failed economic policy of more long-term tax cuts?"

President Bush and other administration officials have repeatedly defended the tax cut on the grounds that it will enhance future economic growth and that it provided a timely boost for the economy during a recession.

The administration would like to have the debt ceiling raised as part of the legislation that Congress must pass soon to authorize the government to continue spending money during fiscal 2003, which began Oct. 1. Only a few of the required appropriation bills have been passed, and most of the government is operating under a continuing resolution that allows departments and agencies generally to spend only about the same amount as they did in the previous fiscal year.

But how the current budget impasse will be resolved is unclear, and adding a debt-ceiling increase to the pot could make a resolution even more difficult to achieve, according to one Capitol Hill budget expert. The effort could well sidetrack efforts by both the administration and congressional Democrats to pass additional tax cuts early next year to stimulate lagging economic growth.

Raising the ceiling "should be a no-brainer with the Republicans controlling both houses of Congress, but it will not be," said Ward McCarthy, who follows budget matters for Stone & McCarthy, a financial markets research firm. "The threat of a maxed-out debt ceiling generates too much political leverage and, as a consequence, tends to be too tempting a target for a variety of parasitic attachments.

"Furthermore, the debt ceiling is viewed as being a barometer of fiscal irresponsibility," McCarthy said. "Increases in the debt ceiling find opposition from both extremes of the political spectrum. The risk is that the politicians will once again turn this into a fiasco. Keep in mind that the current debt ceiling was approved in the House by a one-vote margin in late June of this year and that the \$ 450 billion increase enacted at that time was less than the Treasury had requested."

The debt ceiling applies both to money borrowed from the public and money Treasury borrows from government trust funds, such as those from which Social Security and Medicare benefits are paid. Those funds are running large annual surpluses, which Treasury borrows to finance part of government spending, and it gives the trust funds government securities in return.

Even with the trust fund surpluses, analysts expect the federal deficit to reach \$ 175 billion or more, compared with \$ 159 billion in fiscal 2002. In fiscal 2001, before last year's recession and stock market tumble, the government ran a surplus of \$ 127 billion.

Some officials in the Bush administration, and those in prior administrations of both political parties who have had to deal with debt ceilings, regard the legal ceiling itself as an anachronism that does nothing to restrain federal spending or hold down deficits, but rather lends itself to political mischief. They hold that view because deficits and debt are the result of decisions by Congress and the president on spending and taxes.

If those decisions require Treasury to borrow more money, then the department has no choice. If a debt ceiling prevented such borrowing, Treasury would be forced to default on money due the owners of its maturing securities. The impact of such a default would so damage the reputation of U.S. government securities as the safest in the world that some past Treasury officials have contemplated violating the ceiling, an illegal act but one with fewer consequences than a default.

**LOAD-DATE:** December 25, 2002

[◀ prev](#) Document 4 of 44 [next ▶](#)