



The Big Casino

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“A journey of a thousand miles must begin with a single step.” – Lao-tzu

The recent meeting between President Biden and Speaker McCarthy marked the first real guidepost for the debt ceiling debate. While we are only at the beginning of a protracted, surely torturous, debate that will consume Washington for the coming months until at least mid-summer, we do think recent events merit a closer examination.

The Debt Ceiling Debate Begins

Here are our initial observations:

• Both the president and the speaker have worked to project a public posture of reasonableness. The president stepped back from initially accusing the GOP of engaging in economic “vandalism” and the speaker noted the debate cannot be about “drawing lines in the sand and saying, ‘it’s my way or the highway’”. More notably, the president – at least publicly – moved off the untenable position of refusing to “negotiate” on the debt ceiling. While the initial meeting with the speaker was not a negotiation per se, it has to be seen as a small win for McCarthy in that there was an Oval Office discussion and recognition of the two sides engaging.

• Call it what you will – “grind”, “slog”, “trek” – but this debate is going to be a slog. OMB Director Young said the Biden Administration is approaching the debt ceiling debate as a “marathon”. Others with whom we have spoken on the Hill have used more florid language. Bottom line: this argument is going to take a long time, probably blowing pasty “deadlines” as the 2013 debate did. Any ultimate solution is going to fall apart once or twice, maybe even on the House or Senate floor, before it is ultimately resolved. Strap in for a long haul.

• Do not expect serious proposals from either side for several months. The early stages are about scene-setting and thematic positioning. The president and speaker have both tried initially to claim the moral and rhetorical high ground, but these are just the first steps in framing the public debate and not in crafting substantive legislative action.

The debate will naturally intensify again around March 9 when the Biden Administration releases its FY24 budget proposal and then in the days after the April 17 tax filing deadline (the 15th is on a Saturday) when the Treasury will have a better idea about revenue flow.

- The press has seized upon the debate ceiling to focus on the dynamic between the Biden Administration and Republicans, especially the new House majority. The good news is this will help to focus attention on the most pressing public policy issue in 2023 months in advance of the deadline; most of the past debates on the debt ceiling started much later relatively speaking. The bad news is in the current hyperbolic, partisan media environment the early attention could incentivize stalwarts on both the left and right to stake out unrealistic positions as a way of earning attention.

- In an historical context, the debt ceiling debate is quite rational. Going back to World War II, sharp fiscal debates have always followed crisis spending. This most recently occurred in 2011 and then again in 2013 following increased government spending on the TARP program and other relief efforts. The natural tendency is always to think our current situation is “different” or “the worst ever”, but usually – as with debt ceiling debates – we are only going through a new version of a very old debate.

- Some next steps seem apparent. House Republicans will focus hearings not just on eccentric oversight (e.g., Hunter Biden laptop) but also on a “meat and potatoes” review of the trillions in Covid relief spending as part of making the case there is wasteful spending to be cut as part of a debt ceiling effort. Democrats will continue to work to wall-off entitlement programs from the discussion and sharpen the argument about the need for more revenue from “the rich and big corporations.”

- How does this end? At this early stage of the game, we only know a couple of things for certain:

- o The solution will be bipartisan. Sixty votes will be needed in the Senate (Hill Republicans are clear no reconciliation bills are coming), and the narrow margin in the House combined with caucuses that have veered far left and right respectively means some members will have to cross the aisle to pass a bill.

- o Part of the solution could be delayed. The decisions involved in crafting a debt ceiling bill was very, very hard for both parties. Instead, they will likely look to delay and to buy time, perhaps through some sort of fast-track commission process like the base-closing model from the 1990s that forces lawmakers to take binding up-down votes on proposed solutions in the near future.

- o Ignore the crazy “solutions”. Talk of trillion-dollar coins will capture some attention but will not be part of any ultimate resolution of the debate.

o The president and the Speaker are the central characters in the story and are likely to remain so. But eventually the Senate Leaders will have to be involved; we are less convinced House Democrats will play a major role, but only because the House minority is often relegated to the sidelines in high-profile debates. Sens. Schumer and McConnell could unofficially look to an ad hoc, bipartisan “gang” to help float ideas and pave the way to a final bill.



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