



# The Big Casino

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## Debt Ceiling Analysis Update

Following Treasury Secretary Yellen's recent letter pegging a potential "X Date" for Treasury hitting the debt ceiling, there has been renewed vigor in public and private discussions surrounding the matter. The White House meeting tomorrow with the president and the four congressional leaders is the next step in the ongoing drama.

We see the Yellen letter moving the discussion from a preliminary, opening sequence of positioning and setting of public expectations to a middle phase of more serious give-and-take. Students of Chess will recognize this framework. Analyses of Chess divide games into three sections – an opening sequence, the middle game, and finally the concluding end game. In the last several months since Kevin McCarthy assumed the speakership, both sides have staked out positions and engaged largely in public scene-setting. The one Oval Office meeting did little except to check a box for both sides, and then each settled into a sporadic tit-for-tat to see if either would waver or show weakness. House Republicans passing a bill shifted some onus back to Democrats and the Biden Administration responded with the Yellen letter.

Here are some observations and estimations we have prior to the White House meeting tomorrow.

### The Cascade Effect

We continue to hear from lawmakers and staff on both sides of the aisle how the debt ceiling discussion delays work on other issues. This is occurring not just because the issue sucks all the proverbial oxygen out of the room, but also because major pending efforts (Farm Bill, Defense Authorization, FY23 spending bills) all required budget baseline figures and bill writers hesitate about getting out front of debt ceiling talks out of fear of undermining their respective party positions.

Many public figures are given credit for this adage, but no matter who coined it the thinking remains true. In a year where little significant legislation is likely to be enacted, the must-pass nature of an ultimate debt ceiling bill provides a

vehicle for most any policy idea with which both sides could be comfortable. The Biden Administration has already tacked cautiously to the political center on a few issues (e.g., oil and gas drilling in Alaska) and a handful of other issues appear to have enough bipartisan support (e.g., federal permitting reform) that they could be included as well. Lawmakers on both sides of the aisle will continue to float ideas for possible inclusion.

## Never Let a Crisis Go to Waste

### Gimmicks

Novel approaches to grappling with the debt ceiling continue to pop up in the press – the trillion-dollar coin, invoking the 14th amendment's ban on questioning the “validity of the public debt”, etc. We remain very skeptical any of these approaches come into play. First, most of them are simply nutty and would undermine American credibility on the global stage. For instance, a trillion-dollar coin sounds like something from conspiracy theorist's blog or science fiction novel: no one we have seen in public policymaking seems to be taking it seriously. Second, more complex thoughts like the 14th Amendment admonition have simply not ripened enough in the public domain to be viable yet. Whatever the outcome in the ultimate end game of debt ceiling talks, we think it will center on more familiar, tried-and-true policy mechanisms.

### Disdain

The disdain and thinly veiled contempt for the House Republicans by both Washington Democrats and the mainstream press is eye-popping. Remember the flurry of articles last fall premised on the notion that McCarthy was essentially not smart enough to be Speaker of the House? Smartly, he has used this disdain to his advantage, employing what Republicans see as brazen hostility from the Washington “establishment” to rally his thin majority. It also gives him a low bar of success to cross; for instance, did anyone really think House GOP would not do what new majorities do and rally behind a new speaker to pass a debt ceiling bill and address the most pressing issue in public policy today?

The lack of understanding of each other in this discussion is striking. For instance, consider the recent reports of the Biden Administration's attempt to influence Hill GOP via outreach to the U.S. Chamber and other business community members. This coming after years of tension between the House GOP and Chamber and broader congressional

## I Barely Know You

Republican skepticism of “woke” business leaders. At the same time, Hill Republicans suggesting repeal of provisions from the Inflation Reduction Act, the Biden Administration’s seminal legislative achievement, sound as fanciful as the misguided notion that the GOP could ever force the Obama Administration to agree publicly to repealing parts of the Affordable Care Act. Both sides seem to be trying still to run plays from an older playbook and need to update their conceptions about what the other side needs to reach an agreement.

## The June 1 Date

While some Republicans doubt the firmness of the June 1 date, it will still serve to force some debate, if not actual action, in the coming weeks. As always, the congressional calendar and the lack of legislative days (nine days before the scheduled Memorial Day recess) will also be a driving factor and will also help to dictate activity by both sides. Several credible public sources have projected to X Dates later this summer, so while there may be an unspoken flexibility to the Yellen date her letter served to refocus and reignite the public discussion. As we saw during both the 2011 and 2013 debt ceiling debates, both sides will bend deadlines and soften positions nearer to an X Date especially if negotiations seem promising.

## The End Game

We believe the most likely next step toward the eventual end game is some sort of short-term extension of the debt ceiling until later this year. It seems impractical to think there can be a meeting of the minds in the 23 days until June 1, and both sides have cautiously floated the notion of an extension. As was the case with both the 2011 and 2013 debt ceiling talks, we can expect (1) talks to drag out until the last minute and (2) failed votes on the Hill and collapses of talks before this process plays out to a bona fide conclusion.



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