Despite Deal, No Hope for Less Brinksmanship Ahead in Debt Limit Fight

In words that seemed to blend a warning with a plea, President Barack Obama said late Tuesday he hoped that in future budget negotiations there will be "a little less drama, a little less brinksmanship."

In remarks at the White House around 11:30 p.m. Tuesday following more than 18 hours of high drama, intense public posturing, and tough behind-the-scenes negotiating, Obama acknowledged that passage of the fiscal cliff package is only the first act in a multi-part drama.

Obama said progress is being made to control the deficit, albeit in small, halting steps.

"We are continuing to chip away at the problem, step by step," he said.

But he warned that he will not negotiate over the need to increase the debt ceiling, referring to the 2011 battle over raising the debt limit – which led to the downgrade of U.S. debt rating - as deeply destabilizing for the U.S.

"We can't go down that path again," he said.

But Republican leaders have signalled they have every intention of using the debt ceiling as powerful leverage to get Obama to agree to significant spending savings.

Moments after the fiscal cliff bill passed the House Tuesday night, Speaker John Boehner issued a statement that declared the fiscal debate will now shift to spending controls and tax reform.

"Now the focus turns to spending," he said.

Treasury has announced that the U.S. has already reached the $16.4 trillion debt ceiling but can avoid breaching that limit for about two months by various cash management steps until it must be increased by legislation. Treasury implemented the first such step Friday when it suspended issuance of those special securities issued for state and local governments, known as SLGS.

Geithner sent another letter to Congress Tuesday, taking the second step saying, "I will be unable to invest fully the portion of the Civil Service Retirement and Disability Fund (CSRDF) not immediately required to pay beneficiaries." In that letter he also said Treasury's investment in the Postal Service Retiree Health Benefits Fund (PSRHB) will be suspended soon. And he specified that the "debt issuance suspension period" will last at least until Feb 28.
During the fiscal cliff negotiations, lawmakers frequently said they believe the debt ceiling will have to be increased in about 60 days.

![Graph showing debt limit](Image)

### Debt Ceiling, Sequestration, FY2013 Government Funding to Converge Soon

This roughly coincides with two other deadlines. The fiscal cliff agreement delays imposition of $110 billion in across-the-board spending cuts for two months. And legislation that funds the federal government expires on March 27 – the temporary funding made necessary by Congress’ failure to approve a budget for the 2013 fiscal year.

"I hate to be too grim but I fear an awful fight over the debt limit that is going to terrify the people of the United States and the world," says Bob Bixby, the executive director of the Concord Coalition.

"It's clear that Republicans see the debt ceiling as a club they can use, at least as a last resort, to get spending concessions from the president. I think we are in for a very acrimonious 2013 on fiscal policy," he warned.

Bill Frenzel, a former Republican congressman who is a guest scholar at the Brookings Institution, also sees a difficult fiscal year ahead.

"There is not going to be any reprieve in the budget wars," says Frenzel.

"The battle will resume immediately on the debt ceiling. Republicans are not going to give the president an increase until he agrees to entitlement reforms. Boehner has been talking about a one-to-one deal - a $1 trillion debt ceiling increase in exchange for $1 trillion in entitlement savings. I'm pretty sure he means it," Frenzel adds.

Frenzel said the one positive development on the fiscal front is the mostly quiet work Senate Finance Committee Chairman Max Baucus and House Ways and Means Committee Chairman Dave Camp are doing to craft a sweeping tax overhaul.

Camp pledged Tuesday on the floor of the House that his panel will develop a sweeping tax reform proposal this year.

Budget experts are sifting through the fiscal cliff agreement to determine its impact on long-term fiscal policy.
"The deal approved today is truly a missed opportunity to do something big to reduce our long-term fiscal problems, but it is a small step forward in our efforts to reduce the federal deficit," Erskine Bowles and Alan Simpson said Tuesday in a statement. They are the architects of the much discussed Simpson-Bowles report that called for at least $4 trillion in deficit reduction over a decade.

Bixby lamented that "The fiscal cliff saga has been a tragically wasted opportunity to get a Grand Bargain or even a modestly good bargain on the budget. The fiscal cliff agreement prevents short-term disruption to our economy but at the cost of actually making our long-term fiscal problems worse."

The Congressional Budget Office issued a report Tuesday saying the fiscal cliff deal will add $4 trillion to the national debt over a decade using a baseline that assumed that all of the Bush-era tax cuts would expire at the end of the year.

The CBO report said $3.638 trillion in additional deficits would come from the various tax cut extensions and $296 billion because of payments on refundable tax credits such as the child credit. Extending unemployment insurance benefits would cost $30 billion.