Bond Case Briefs

Municipal Finance Law Since 1971

Biden Warns States, Cities of Fallout From Debt Default.

- **White House warns of possible recession, slump in federal aid**
- **Treasury has warned "extraordinary measures" run out in Oct.**

President Joe Biden's administration is warning state and local governments that the risk of a default on U.S. debt could trigger a recession and curb the flow of federal aid, as it urges Congress to raise or suspend the federal borrowing ceiling and avoid a crisis.

"Hitting the debt ceiling could cause a recession. Economic growth would falter, unemployment would rise, and the labor market could lose millions of jobs," the White House said in a letter to state and local governments, released Friday.

The White House said disaster relief payments, Medicaid and the children's health insurance program, as well as funding for education, infrastructure and child nutrition could be disrupted.

"If the U.S. defaults on its obligations, the ripple effects will hurt cities and states across the country," the letter said.

The letter comes after Senate Minority Leader Mitch McConnell this week rejected an appeal by Treasury Secretary Janet Yellen for Republicans to join with Democrats in raising the federal debt ceiling, leaving the two sides at odds with potentially just weeks to go until the limit is breached.

The debt limit snapped back into place at the beginning of August, but Treasury has been using so-called extraordinary measures since then to avoid a default. Yellen has warned that those measures will run out some time in October.

"If the U.S. defaults on its debt – cities and states could experience a double-whammy: falling revenues and no federal aid as long as Congress refuses to raise or suspend the debt limit," the White House warned, adding that a debt limit crisis could also raise the cost of borrowing for states and municipalities.

It warned that the S&P 500 could plunge in the event of a prolonged standoff, "and the value of state pension fund assets would fall as a result, hampering states' ability to pay their pension obligations."

The administration has been urging Congress to simply raise or suspend the limit, as has been done regularly in the past, though Republicans have seized on the issue as a way to combat Biden's domestic fiscal agenda, which includes tax increases for corporations and a series of proposed spending measures that the GOP opposes.

National Economic Council Director Brian Deese said Friday that the administration ultimately expects Congress to avoid a debt limit crisis.

"We have seen this done in a bipartisan way consistently and the best way to do this is without a lot of drama, without a lot of self-inflicted harm to the economy and to our country, and that's what we're going to do," Deese told MSNBC. "Now, there's a lot of posturing on this issue, but we're confident at the end of the day we'll get this done."

The U.S. Conference of Mayors on Friday urged Congress to act on a bipartisan basis.

"Both parties in Washington have added to our debt, and both parties have an obligation to make sure the United States can continue to pay its bills," Dayton, Ohio Mayor Nan Whaley, the group's president, said in a statement. "This is one of the most basic responsibilities of Congress, and there is no good reason for lawmakers to create a crisis that undermines the full faith and credit of the United States."

Bloomberg Politics

By Josh Wingrove

September 17, 2021