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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Monday's White House meeting kept alive the possibility of reaching a debt ceiling deal this week. No major breakthroughs were announced, but the tone of the two sides, coupled with reports of agreements on some of the easier issues, signal that a deal is within reach. Even as talks progress, political landmines lay ahead. We reiterate that even if negotiations stall, the chances of a default on U.S. Treasuries are remote.

Following their Monday evening meeting, President Joe Biden and House Speaker Kevin McCarthy each struck positive tones in comments to the press. **Even though the meeting did not produce an agreement (it was not expected to), the direction of the talks suggest that the possibility of reaching a deal to raise the debt limit is achievable.**

It is getting late in the week to vote on a bill before the X-date, especially if that date is June 1. The direction and the tone of the talks suggests, however, that a deal will be reached in the coming days. Note: It takes at least four days from the time an agreement is announced to passing the bill through Congress – one day to draft the legislation and 72 hours to allow members of Congress review the text (a nonnegotiable requirement of House Republicans).

Despite the positive tone and the agreement on some smaller issues (i.e., rescinding unspent COVID funds) there are still several hurdles to clear before raising the debt limit:

1. The two sides remain apart on spending caps. Although it seems the parties should be able to compromise on the numbers, this could be a sticking point.
2. The two sides seem to be close to agreeing to the concept of energy permitting reform, but the details of what reforms will be enacted remain elusive.
3. Finally, passing a compromise debt ceiling bill will require Congress to thread a needle. Any compromise bill will likely be opposed by the Democrats' progressive wing and the Republicans' conservative wing. A compromise should be able to pass with the mainstreams of each party voting as a block but there will not be much room for error. As we have previously noted, if former President Donald Trump were to blast the deal, it could reduce the level of Republican support which could, in turn, reduce Democratic support – if Democrats do not want to let Republicans off the hook by giving them a pass on a tough vote. If Democrats sense reduced buy-in by Republicans, Democrats might decide that they won't do the heavy political lifting on their own.

Bottom-line: the chances of reaching a deal in the coming two weeks have risen. Even if this optimism is misplaced and negotiations stall, chances of a default on U.S. Treasuries are remote. The Treasury Department is likely to prioritize bond payments above other government obligations and should have enough cash to pay bondholders even if the debt ceiling is not raised by early June.

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