

## Debt ceiling war raises angst among Floridians

By **DAVID LYONS** | Sun Sentinel

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A rising storm between the Biden Administration and Republicans in Congress over raising the federal debt ceiling is generating nervousness among retirees who fear they may see a cutoff in Social Security benefits and consumers and businesses that face spiraling interest rates.

At 78 years old, Santiago Matheus of Dania Beach is carefully watching the looming political showdown in Washington over whether the nation's debt ceiling should be raised anew.

"Of course I'm worried," he said. "It would be an unprecedented situation if they allow the debt limit to be not increased on time."

Matheus, who was once a Wall Street securities broker and who recently emerged from personal bankruptcy, said he'd lose 40% of his income if his Social Security payments are halted because the government can no longer pay its bills.

"If that was to stop I would be in serious trouble," he said. "You never really think of not relying on that."

The potential dilemma emerged earlier this year when the U.S. government hit the \$31.4 trillion limit on authorized borrowing. Since then, Treasury Secretary Janet Yellen, a past chair of the Federal Reserve, has used so-called extraordinary measures so the government could pay its bills.

“Failing to increase the debt limit would have catastrophic economic consequences,” according to a policy statement on the Treasury Department website. “It would cause the government to default on its legal obligations — an unprecedented event in American history. That would precipitate another financial crisis and threaten the jobs and savings of everyday Americans — putting the United States right back in a deep economic hole, just as the country is recovering from the recent recession.”

The department also notes that the debt limit “does not authorize new spending commitments. It simply allows the government to finance existing legal obligations that Congresses and presidents of both parties have made in the past.”

Yet, the showdown between the Biden Administration and Republicans in Congress is about future spending and the spiraling federal deficit. Republicans want the White House to accede to spending cuts as a price for authorizing another increase in the debt ceiling.

On Tuesday, President Joe Biden is scheduled to meet with House Speaker Kevin McCarthy, Senate Minority Leader Mitch McConnell, Senate Majority Leader Charles Schumer and House Democratic Leader Hakeem Jeffries to discuss a possible way forward, with the Democrats insisting that future spending should not be part of the conversation.

Yellen told Congress last Monday that the government may not be able to pay its bills starting June 1. It's a date that precedes a July-September period pegged by the Congressional Budget Office.

### **Limited immunity for Florida's economy**

Ironically, the looming showdown in Washington comes as the job market continues to show strength in the face of the Federal Reserve's efforts to cool the economy with higher interest rates.

On Friday, the U.S. Bureau of Labor Statistics released figures showing an acceleration of hiring and worker pay increases in April. The national jobless rate fell to a 10-year low of 3.4% and nonfarm payrolls rose 253,000 from 165,000 in March.

Few economists and politicians are sanguine about the potential impact a default would have on the national and state economies. As the COVID-19 pandemic eased, Florida's economy rebounded ahead of most states and has enjoyed strong growth. Many believe the state would not escape anticipated ripple effects of a default-driven economic slowdown.

“Florida will not be immune to those consequences,” said William Luther, an economist and associate professor at Florida Atlantic University in Boca Raton.

Highly leveraged companies that already have issued bonds or stock would see higher interest rates reduce their value, he said. “But that’s a problem for those holding those bonds or holding those stocks.”

Faced with higher borrowing costs, it would be “problematic” for those companies to issue new bonds. In turn, any efforts to finance expansions would be limited.

But Sean Snaith, an economist at the University of Central Florida, said the state’s economy is stronger than most.

“We’re in a pretty strong position to weather any economic storm in Florida,” he said. “What happens in the U.S. economy affects Florida. What’s also true is that recessions when they happen do not play out the same way in different parts of the country.”

Joseph Luzinski, senior managing director of DSI, a management consulting firm that helps restructure companies, said the debt ceiling dispute is another contributing factor to undercutting the economy.

“My sense is that it creates further instability in the economy,” he said. “People are going to continue girding for a recession, maybe not as much in South Florida, but certainly nationwide.”

Local House Democrats see big problems looming in their own backyards.

U.S. Rep. Debbie Wasserman Schultz of Weston argued there would be far-reaching consequences for her district, which covers much of Broward County.

“A default would inflict catastrophic pain on our economy and brutalize those in our community who can least afford it,” she said in a statement to the South Florida Sun Sentinel.

“Seniors would face delays on Social Security checks, veterans may not get their benefits, and the cost of car payments, student loans, credit card bills, and mortgages will all skyrocket,” she added. “Even for families doing well right now, millions of jobs would disappear, 401Ks would take massive hits and we’d likely plunge into a recession.”

Impact estimates shared by the Congresswoman’s office include the following:

- \* About 7,900 jobs would vanish in her district alone. Nationally, a default could eliminate more than 7 million jobs.

- \* Social Security payments for 75,000 families would be jeopardized.

\* Health benefits would be at risk for 206,000 people who rely on Medicare, Medicaid, or veterans assistance.

\* The retirement savings of 100,000 people nearing retirement would diminish by \$20,000 from a typical portfolio.

In a statement, U.S. Rep. Jared Moskowitz, another Democrat whose district includes Coral Springs, Fort Lauderdale and Boca Raton, said, “the gamesmanship that’s been going on for months has put us at further risk of defaulting. Everyone needs to sit down and find a path forward.”

Republican U.S. Rep. Mario Diaz-Balart, whose district runs from Miami-Dade County across the state to Naples, said the GOP did its part by passing a bill that both addresses the deficit and allows for a boost in the debt ceiling.

“House Republicans passed a debt ceiling increase that tackles reckless spending while ensuring that our military, veterans, and nation’s most vulnerable receive the funding they need,” Diaz-Balart said in an emailed statement. “Now, it’s time for President Biden to sit at the negotiating table to get it done. Defaulting is entirely in the hands of President Biden.”

Business executives see no upside for commerce in the event of a default.

“In the event the debt ceiling was not raised, it would negatively impact the construction industry and the overall economy by increasing borrowing costs and reducing the availability of credit, causing further delays in the construction industry and leading to the cancellation of government contracts with various construction firms,” said George Vail, principal of the Avison Young in Miami, the global commercial real estate services firm.

### **Few personal finance options**

The choices are also narrow for investors with stock and bond portfolios.

“We always believe there are going to be bumpy roads throughout the course of time,” said Mason Williams, chief investment officer at Coral Gables Trust Company, a wealth management firm that operates several South Florida offices. “We’re not telling them to do anything on a larger scale. There is really no investment strategy around this event.”

He said the firm wants its clients to “make sure they have cash” to meet personal financial obligations over six to nine months.

For those living on the financial margins, bankruptcy looms as an option. Some lawyers in the field are positioning themselves to respond to those who might need help.

“Within the bankruptcy community it’s the old tale of the “Boy Who Cried Wolf,”” said Fort Lauderdale bankruptcy lawyer Chad Van Horn. “They always work out some sort of accommodation. I think our industry as a whole would not be ready for it. We’re gearing up just because the financial conditions are favorable for bankruptcies right now.”

As inflation has ballooned, “wages aren’t keeping up with expenses,” he said, and an anticipated recession brought on by higher interest rates will likely cause higher unemployment rates.

“If there is a default the fallout is going to be massive,” Van Horn asserted. “People planning on retiring are going to have to re-enter the workforce.”

### **Social Security ‘Escape Clause’**

For the estimated 70 million Americans who are collecting Social Security, there is a federal law on the books that would keep payments flowing in the event of a default, said Steve Robinson, chief economist at The Concord Coalition, a bipartisan nonprofit that has advocated for fiscal restraint since 1992, when the federal deficit stood at \$4 trillion.

A so-called escape clause passed by Congress in 1996 allows the Treasury Department to draw from Social Security and Medicare trust funds should there be a delay in raising the debt ceiling.

“The Treasury has the authority to redeem trust fund securities to pay benefits,” Robinson said by email. “However, Congress would need to pass legislation to repay the trust fund for any interest it might lose as a result of the redemption — such authority currently exists with respect to the civil service trust fund.”

Robinson, however, is not enthusiastic about invoking the 1996 law.

“Congress should increase the debt limit and avoid additional extraordinary measures,” he said.

As much as the Biden administration would like to separate the debt ceiling from budget discussions, some executives are getting increasingly impatient with the spiraling deficit.

Peter Dyga, president and CEO of the Florida East Coast chapter of Associated Builders and Contractors, wondered if the debt ceiling dispute is “any worse than the idea that we can continue to raise debt in this country?”

“It’s starting to come home to roost,” he said. “We’ve got to find a way to control government spending while at the same time making good on our promises.”

Snaith, the UCF economist, agreed. The debt ceiling showdown, he said, “forces a conversation we haven’t had for a long time. Can we keep running deficits like this?”

## Photo finish?

Ultimately most observers believe the White House and Republicans will get a deal done, though not until the final hour.

“Even though I predict that policymakers will eventually be able to pass a resolution to raise the debt ceiling, it will ultimately come down to the wire due to the political brinkmanship currently being played out in Washington, D.C.,” Vail said.

“I think that all of the key players understand that a default would be catastrophic and for that reason few people actually believe that it will happen,” said Luther of FAU. “Everyone is kind of pricing in that some compromise is going to be reached and I think that’s likely.”

Williams of Coral Gables Trust thinks a deal will be done as well, but not until the combatants extract concessions that satisfy their respective constituents.

“It is never an easy process because both sides are going to dig in and see what they’re going to get out of it,” he said.

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