U.S. DEBT LIMIT DEAL: COSTS AND CONSEQUENCES FOR NIGERIA

On April 4, 2011, U.S Treasury Secretary, Tim Geithner sent a second letter (the first letter was sent on January 6, 2011) to the U.S. Congress stating that the Debt Limit would be reached not later than May 16, 2011. He, however, informed Congress that the use of extraordinary measures would extend Treasury's ability to meet commitments through August 2, 2011. Indeed, the U.S. Treasury has always put in place contingency plans to postpone reaching the debt limit.

For the benefit of readers who may not be conversant with the current debate about U.S. Debt Ceiling, it should be noted that the U.S. Public Debt is a measure of the obligations of the United States federal government and is presented by the U.S. Treasury in two components and one total:

- Debt held by the Public, representing all federal securities held by institutions or individuals outside the federal government, including that held by Federal Reserve System and State and Local Governments;
- Intra-government Holdings, representing U.S. Treasury securities held in accounts which are administered by the federal government such as the OASI Trust Fund administered by the Social Security Administration; and
- Total Public Debt Outstanding, which is the sum of the above components.

Accordingly, the gross public debt increases or decreases as a result of the Annual Unified Budget deficit or surplus.

There is no doubt that the U.S. government has reached the statutory debt limit which is $14.29 trillion. It should be noted that the approved debt limit by U.S. Congress is $14.3 trillion. This would leave a current shortfall of $125 billion per month.

What is not known to some people is that one of the ways the U.S. government raises money is through issuance of Treasury Securities. Nigeria is one of the foreign holders of U.S. Treasury Securities arising mainly from oil exports. As of May 2011, the largest single holder of U.S. Treasury securities was China, with 26 percent of all foreign – held U.S. Treasury securities. Be that as it may, this exposure to potential financial or political risk should foreign banks stop buying Treasury Securities or start selling them heavily was addressed in a June 2008 report issued by the Bank of International Settlement. The U.S. Congress has the constitutional power to adjust the debt limit, although Congress cannot effectively influence short- term fiscal and budgetary policy through legislation.

There is no gainsaying the fact that as the U.S. government reached the debt limit/ceiling, there would be potential effects on its operations if a debt limit deal is not brokered. The potential implications of reaching and not raising the debt limit/ceiling are many. One potential impact on U.S. government operations if the debt limit/ceiling is reached and not increased is adverse effect on federal spending. Not only would the U.S. government delay paying its obligations but may also not be able to pay its employees on time with a backlog of unpaid bills. Happily, this present situation would not lead to U.S. government shutting down as this is not the same as failure to pass appropriations.

It must be pointed out that one potential economic and financial effect, if the debt limit is reached and not increased, is that the U.S. may default on her securities. A default on the securities could have adverse effects on the economy, public welfare and government's ability to market future securities as there would be crisis of confidence in U.S. Treasury securities worldwide.

Substantially, adverse effects of U.S. government's default for even a short time would preclude the government from honouring all of its obligations including paying employees' salaries and wages, social security benefits, civil service retirement, contractual services and supplies.

Thus, Nigeria would have to queue up like other countries which are foreign holders of U.S. Treasury securities since President Obama has said that default might not be avoided should Congress fail to adjust upwards the debt ceiling. This, it is contended, might affect the economy of Nigeria as she may not be able to meet most of her fiscal and budgetary obligations in the short-term as she depends heavily on oil exports.

It is not as if there are no emergency measures which the U.S. government can take in the event of Congress not increasing the debt limit/ceiling. It is, however, not clear what the financial markets would do in certain situations. The U.S. Treasury might prioritize which obligations to pay while other obligations would go into unpaid queue. In other words, the U.S. federal government's inability to borrow or use other means of financing implies that payment of some or all bills or obligations would be delayed. This unfolding scenario might expose the U.S. to inability to stand behind its legal obligations and commitments. If this happens, then, it is likely that the Nigerian economy will suffer hiccup.

Happily, the preceding ugly scenario you've read is now averted. On August 1, 2011 the House passed the Debt Limit Bill 269 to 161 increasing the statutory debt limit by $2.1 trillion. As the world waited with bated breath the Senate passed the debt ceiling bill 74 to 26 on Tuesday August 2, 2011. Although the debt ceiling deal has averted major financial crisis, it would be enough for U.S. government to keep borrowing into 2013.

More significantly, the debt ceiling deal will compel U.S. government to spend slightly less on domestic discretionary programmes in 2012 than it did in 2011. This, of course, will be the first such annual decrease in federal outlays since the Korean War. Today everybody in Washington is breathing deep sighs of relief. We too should heave a sigh of relief. In any case, I knew that the Democrats and Republicans in the 112th Congress would rise to the occasion as injury to one American citizen is an injury to all.

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