What the Debt Ceiling Debate Means to You

July 21, 2011 â€“ Unless youâ€™ve been living in a cave for the past few weeks you probably know that Congress is engaged in a fierce battle over increasing the debt ceiling. This is the amount of money that the government can legally borrow. What you may not have considered is that this debate will impact your personal finances regardless of who wins the debate. The real questions are â€œhow much? And â€œhow soon?â€•

Tweet

(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();

The debate over the debt ceiling has become an ideological battle. On the one hand, there are members of Congress who make the argument that â€œdeficits donâ€™t matterâ€• when it comes to the federal government. They want to continue to spend and to increase taxes.

On the other hand, there are other congressional members who argue that continuing to spend at current levels will eventually lead to a government default anyway. That we need to cut spending dramatically and find a way to reduce or eliminate the countries long term debt.

The result of the battle is that it is becoming increasingly likely that there will be no deal in place between the two sides by the August 2nd deadline that Treasury Secretary Timothy Geitner has said is the drop-dead date. But what does that really mean to you?

Establishment politicians in both parties are using scare tactics to try to get their way. By and large, they keep telling us that the government will default on its loans. But if that happens, the responsibility for it will rest squarely with the President and his administration. During the month of August, the federal government will take in approximately $200 Billion in revenue. That is more than enough to pay the interest on the countryâ€™s debt, pay Social Security and Medicare and to pay our military obligations. It doesnâ€™t leave much room for anything else though.

And thatâ€™s the problem. All of the other spending programs run by the government would have to be scaled back or shut down.

If the administration does choose to default on the countryâ€™s debt, the effects would be felt almost immediately by virtually everyone. Most people would feel the impact in their credit card debt. Credit card interest rates are tied to Treasury interest rates. They would spike overnight. This alone could lead to huge financial pressure being place on consumers who are already living in the longest and deepest recession since the Great Depression.

Additionally, student loan rates, mortgage rates, automobile loansâ€¦ all of these would spike up. The potential is there to collapse the economy.

Because of this, it is unlikely that the government will default. But it may very well reduce Social Security and Medicare payments in an effort to keep the lights on with other programs.

If a compromise is reached, there is a real possibility that taxes will go up. And because of the way the tax system is structured, any new taxes are most likely to impact small businesses and entrepreneurs. Thatâ€™s not good in a recession .These businesses generate roughly 70% of all new jobs in this country.

The real problem with the debt ceiling debate is that just the fact that we are so close to the August 2nd deadline demonstrates a complete lack of leadership in Washington. The Senate has not voted to pass a budget in more than 2 years. Instead, to shield themselves from voter wrath, they have passed one continuing funding resolution after another; burying the details in ways that make it difficult for citizens to determine what is being spent.

And the White House has yet to put out a detailed plan for reducing spending even through the President has said publicly that such a plan is no longer optional. The fact that nothing has been written down and provided to the public again demonstrates a lack of leadership.

One thing is certain though. deficits definitely matter. The US government is now borrowing 40 cents of every dollar it spends. That is not sustainable. And it is paying out $360 Billion in interest on the debt every year; about $1,300 per person in this country just in interest.

Regardless of what happens in Washington as a result of this debate, the consequences of whatever is decided will be paid for by you and me for many years to come. And the impact of the decisions being made right now are very likely to hit us all in the wallet within the next few weeks.

byJim Malmberg
Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.
Follow me on Twitter: