BUSINESS

A debt limit fight would hurt

Treasury: 2011 battle indicates negative reactions in markets and from consumers

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WASHINGTON — President Barack Obama has long argued that a failure by Congress to raise the debt limit would have catastrophic consequences for the economy.

Now a Treasury Department report argues that "even the prospect of a default can be disruptive to financial markets and American businesses and families."

Using the 2011 debt limit battle as a case study, the Treasury Department says consumer confidence fell 22 percent, the stock market dropped 17 percent and monthly payments on new mortgages went up an average of $100 — all because of market uncertainty over an increase in the $16.7 trillion debt limit.

An earlier report by the Government Accountability Office, an accounting arm of Congress, also said uncertainty over a debt limit increase can be costly to taxpayers. In 2011, the debt limit showdown cost the government $1.3 billion in increased borrowing costs, according to that study. It looked at the yield spread between government and corporate bonds to determine how the markets were reacting to the uncertainty caused by the debt limit debate.

One estimate by the Bipartisan Policy Center — taking into account the increased yields on longer-term bonds issued in 2011 — said the cost could be closer to $18.9 billion over 10 years.

The Treasury report notes that the risk spreads "likely reflects the sovereign debt crisis in Europe among other factors."

But Treasury officials say they're "starting to see some tentative signs that the current debate is affecting financial markets." Yields for Treasury bills that mature in late October, for example, are higher — perhaps because of concerns about whether the government would pay them.

"The price moves are small and could easily reverse quickly," the report says.