

President Biden, Speaker McCarthy spar over debt limit as default deadline draws closer

President Joe Biden and House Speaker Kevin McCarthy, R-Calif., drew lines in the sand this week over how to address the federal debt limit in an exchange of letters marking their first official communication on the matter since the pair held a face-to-face meeting at the White House on February 1.

But with Congress poised to take a two-week recess and official estimates still indicating that the statutory debt limit will need to be raised or suspended sometime between June and September of this year for the US to avoid a potential default on its obligations, the week ended with no apparent signs of progress on an agreement.

McCarthy to Biden: ‘You are on the clock’

Speaker McCarthy’s letter to Biden, sent on March 28, attempted to put the president on the spot for having so far not engaged with congressional Republicans on the debt limit issue.

[URL: https://www.speaker.gov/wp-content/uploads/2023/03/POTUS_Letter_3.28.pdf](https://www.speaker.gov/wp-content/uploads/2023/03/POTUS_Letter_3.28.pdf)

“Nearly two months ago, you and I sat down to discuss a path forward on the debt limit,” McCarthy wrote. “Since that time, however, you and your team have been completely missing in action on any meaningful follow-up to this rapidly approaching deadline.”

Criticizing the demand by the White House and congressional Democrats for a “clean” increase or suspension of the debt limit—that is, with no policy conditions attached—as an “extreme position,” McCarthy argued in favor of several generally stated policies to “limit spending, save taxpayer money, and grow the economy” that should be part of any debt limit agreement.

According to the letter, those policies should include reducing nondefense discretionary spending to “pre-inflationary” levels. (The speaker has previously espoused reducing fiscal year 2024 appropriations to those enacted for fiscal year 2022, an approach that would require well north of \$100 billion in spending cuts). Other policy demands in McCarthy’s letter include reclaiming unspent coronavirus relief funds, tightening work requirements for certain federal benefit programs, and encouraging US energy independence to help lower energy costs.

McCarthy’s letter did not, however, mention the idea of “pro-growth” tax cuts—something that has been rumored in Washington policy circles to at least be under discussion among Republicans.

The speaker put the onus on the White House to take the next step.

“Mr. President, simply put: you are on the clock,” McCarthy wrote. “Please have your team reach out to mine by the end of this week to set a date for our next meeting.”

While McCarthy's letter lacked specificity on some of the policy demands, the attempt to make the White House responsible for taking the next step reflects in part the fact it is not yet clear whether the speaker is capable of producing legislation raising or suspending the debt limit that can garner a majority of votes in the House.

Biden to McCarthy: Deficit reduction should be pursued on a separate track

President Biden's response to McCarthy, also sent on March 28, repeated a familiar White House argument that the administration is willing to engage in negotiations on deficit reduction, but only on a separate track and not as a condition for raising the debt limit.

URL: <https://twitter.com/POTUS/status/1640842144263839746>

"As I have repeatedly said, [the deficit reduction] conversation must be separate from prompt action on the Congress' basic obligation to pay the nation's bills and avoid economic catastrophe," Biden wrote.

As he has done before, Biden also continued to prod House Republicans to put forward a detailed budget blueprint and deficit reduction plan of their own, arguing that a GOP package—alongside the administration's recently released fiscal year 2024 budget proposal—could form the basis of bipartisan talks to cut government red ink. (For prior coverage of Biden's most recent budget proposal, *Tax News & Views*, Vol. 24, No. 9, Mar. 10, 2023.)

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230310_1.html

Biden also urged House Republicans to present such a fiscal plan before the chamber's two-week spring recess which begins March 31. (A GOP plan was not released by press time and, in fact, House Budget Committee Chairman Jodey Arrington, R-Texas, suggested on March 29 that his committee likely would not take action on a budget resolution prior to any action on the debt limit issue.)

On taxes, the president touted the revenue policy included in his fiscal 2024 budget plan—which relies heavily on tax increases targeting multinational corporations and other large businesses, the fossil fuel industry, and high-income and high net-worth individuals—while knocking the GOP's general desire to extend the expired and expiring components of the Tax Cuts and Jobs Act of 2017 (P.L. 115-97).

URL: <https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf>

"I put forward specific proposals for how to cut deficits by nearly \$3 trillion over 10 years by having big corporations and the super wealthy pay their fair share, cutting special interest subsidies like tax breaks for the oil and gas industry, . . . and expanding Medicare's new ability to negotiate lower drug prices with pharmaceutical companies," Biden said of his budget plan.

"Unfortunately, the tax proposals from the House Republican conference would exacerbate the debt problem I inherited by adding over \$3 trillion in new tax spending skewed to the same constituencies who should be paying more . . .," the president added.

Next steps uncertain

The exchange of letters did not result in any direct discussions between the president and the speaker this week and it seems unlikely the two leaders intend meet in person to address the debt ceiling during the upcoming congressional recess, although staff-level discussions and phone calls may be easier to arrange during the break.

However, House Financial Services Committee Chairman Patrick McHenry, R-N.C., said this week at an event sponsored by *Punchbowl News* that there currently are “no back-channel conversations” taking place between congressional Republicans and the administration and no discussions at the staff level, suggesting that the president is committed to his view that any discussion on the debt limit must be preceded by the House Republicans releasing their own fiscal year 2024 budget blueprint. Senate Majority Leader Charles Schumer, D-N.Y., has also repeatedly called for House Republicans to release a budget blueprint in recent days.

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