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Threat of Default

The hard choices on how to adjust government services are mostly left to Congress to negotiate in separate spending packages due before the Oct. 1 start of the next federal fiscal year.

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By Erik Wasson and Billy House – Bloomberg News.
(via TNS)

The U.S. House of Representatives passed debt limit legislation forged by President Joe Biden and Speaker Kevin McCarthy that would impose restraints on government

spending through the 2024 election and avert a destabilizing U.S. default.

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vulnerable to challenges from discontented members. But the bill ultimately received more votes from the Democratic minority than the GOP majority, a fact conservative critics will use to argue the speaker made a bad deal.

The outcome marked a rare moment of bipartisan accord in a bitterly divided Washington.

Biden called the House vote “good news for the American people and the American economy.”

Investors already largely judged the danger of a U.S. default past and are shifting attention to other uncertainties more likely to influence growth, such as another possible Federal Reserve interest rate increase and signs of a weakening Chinese economy.

The debt bill would remove the threat of another default crisis for the remainder of Biden's current term, suspending the debt ceiling until Jan. 1, 2025. In exchange, Democrats agreed to cap federal spending into 2025, likely forcing some retrenchment in government services given the current 5% annual inflation rate.

The deal now heads to the Senate, where approval is virtually certain and the only question is timing. John Thune, the Senate's No. 2 Republican, said earlier Wednesday that there could be a deal to pass the measure by Friday night, days ahead of the June 5 default deadline.

During the House debate, both parties took a victory lap. McCarthy called the legislation “a step toward smaller government.” House Democratic leader Hakeem Jeffries said his party succeeded in “stopping extreme MAGA Republicans from crashing the economy.”

Spending restraints in the deal may have a big impact on individuals, notably young

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\$64 billion in cuts next year, though White House officials claim they have a side deal to counteract most of those cuts, effectively amounting to an overall spending freeze.

Still, the deal marks a turning point toward reining in government spending after years of record-breaking COVID-related bailouts and two signature Biden initiatives unleashing large government investments in infrastructure and combating climate change.

Even so, hard-line conservatives denounced the compromise for falling short of Republican demands for deeper spending cuts and more stringent work requirements for recipients of food assistance and other anti-poverty aid.

Fury among ultraconservatives over the concessions poses a serious risk to McCarthy since he could be thrown out of his job by even a small group of Republicans because of his party's narrow majority. Republican Rep. Dan Bishop said Tuesday he would call for a vote to remove the speaker.

Democratic progressives also were angered over the agreement's spending cuts, provisions expediting permitting for energy projects and expanded work requirements for federal food stamps. Revving up lackluster enthusiasm for Biden that Democrats' core progressive voters are showing in recent polls will be critical to the president's reelection.

(Bloomberg staff writers Steven T. Dennis, Jarrell Dillard, Anna Edgerton and Gregory Korte contributed to this story.)

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