

Obama, Congress fail to break debt deadlock
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WASHINGTON, July 25 — US lawmakers failed to achieve a budget breakthrough and instead worked on rival plans yesterday in an impasse that heightened prospects for a catastrophic US debt fault.

With time running out, Republican and Democratic lawmakers split into opposite camps and held talks among themselves. There were no signs of a deal emerging to head off a default in nine days that could trigger global economic calamity and downgrade America's Triple-A credit rating.

Lawmakers missed a self-imposed deadline of producing a deficit-reduction deal by the time Asian markets opened yesterday, but planned to outline a proposal today. A deficit deal is needed to permit a vote to increase the US\$14.3 trillion (RM42.9 trillion) US debt ceiling by August 2.



US President Barack Obama (**picture**) heard details of a Senate Democratic plan that would rely on spending cuts, not new tax revenue, which would violate one of his key demands.

Edgy markets responded to the stalemate, but not in dramatic fashion.

Although some had predicted global markets would fall apart without a deal before the Asian markets opened yesterday evening, the reaction was relatively modest as investors pulled out of riskier investments like stocks and headed for safe haven assets like gold, pushing the metal to a new record.

US stock futures fell, signalling a poor open for US markets and showing that investors were increasingly worried about the failure of legislators to coalesce around one approach. Early currency trading suggested a move away from the US dollar, with the biggest drop in the greenback coming against the Swiss franc.

"The fact that they seem to be jumping from one type of proposal to another and not converging on anything is beginning to worry markets," said Steven Englander, head of G10 FX strategy at Citigroup.

"I also think damage is being done by setting deadlines that aren't going to be met," he said.

The battle is over how deeply to cut government spending on social programs and whether to increase taxes, reflecting the challenges of divided government in an age when Republicans and Democrats are beholden to their right and left bases of support.

Democrats want to ease the pain of spending cuts by increasing taxes on the wealthy, a prospect Republicans oppose.

"This is a like a long labour, with the dad in the waiting room, waiting to see if it's a boy or a girl and the doctor's coming out and saying 'I can't tell you yet,'" Republican Representative Jack Kingston told Reuters. — Reuters

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