

» Print

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: [www.reutersreprints.com](http://www.reutersreprints.com).

# Global Economy: Stakes start rising over Washington gridlock

Sun, Oct 6 2013

By [Alan Wheatley](#)

LONDON (Reuters) - The world is watching Washington's showdown over the federal budget and debt ceiling with the same feelings of horror, disbelief and ghoulish fascination that a slow-motion car crash produces.

The Republican-led House of Representatives is on a collision course with the Democratic White House. Both sides know the damage that would be inflicted on the country if the Treasury runs out of money later this month, risking an unprecedented debt default.

So one of them is sure to blink and swerve away. Aren't they?

Well, they haven't yet. Hard-line Republicans opposed to Obama's healthcare reform have already forced a shutdown of non-essential government functions since October 1 by blocking new spending authority.

"They're doing that, I would say, at the great expense of the average American, the U.S. economy and, to some degree, the global economy," said Jason Ware, chief analyst at Albion Financial Group in Salt Lake City.

After media reports that House Speaker John Boehner would work to avoid default, even if it meant relying on the votes of Democrats, as he did in August 2011, Boehner stressed that his party would continue to insist on budget cuts as a condition of raising the borrowing authority.

For the issuer of the world's reserve currency, whose interest rates form a global benchmark, to default would be nothing short of catastrophic, according to the U.S. Treasury.

That is why investors, though they have been selling stocks as a precaution, still believe a deal will be struck.

"You can come back from a government shutdown. You cannot come back from a default on the debt," said Ware.

## ROSTER OF SHAME

The standoff is already damaging America's standing - a point that U.S. policy makers can expect to hear this week from finance ministers attending meetings in Washington of the Group of 20 leading economies and the International Monetary Fund.

"In view of the latest political failure, a replay of the 2011 summer drama seems likely, which is certainly a concern for U.S. foreign creditors," China's state-owned Xinhua news agency said in an editorial last week.

The United States would join non-exalted company if the unthinkable were to happen.

Angola, Argentina, Cote d'Ivoire, the Dominican Republic, Ecuador, Gabon, Greece, Grenada, Kenya, Liberia, Nigeria, Paraguay, the Solomon Islands, Venezuela and Zimbabwe have all defaulted or restructured their debt in the past decade, according to the GlobalWorks Foundation, a pro-trade non-profit group in Washington.

If there is a silver lining to the fiscal fiasco, it is that the Federal Reserve could see fit to wait even longer before reducing its bond buying from \$85 billion a month.

"They may delay this farther if the impact of the shutdown on the economy is greater than expected," said Petr Zemcik, director of European economics at Moody's Analytics in London.

## FED MINUTES, EARNINGS SEASON

The Fed cited fiscal uncertainty among the reasons for its surprise decision last month not to start withdrawing its extraordinary monetary stimulus.

The minutes of the central bank's September 17/18 meeting will be released on Wednesday and will cast new light on the central bank's thinking.

"Even if we resolve this, there'll be a dent to economic activity and confidence that will give them ample latitude to say we won't taper in December," Albion Financial Group's Ware said.

Bricklin Dwyer at BNP Paribas in New York reckons a two-week shutdown could reduce annualized GDP growth by as much as 0.3 or 0.5 percentage points. Markets so far have been complacent about the impact, he said in a note.



The global economy is at least in better shape to withstand U.S. turbulence than it was earlier this year.

In a quiet week for data, Germany, France and Italy are all likely to report a rebound in August industrial production. That would reinforce expectations that the euro zone logged a second consecutive quarter of growth in the July through September period.

One of the ironies of the shutdown is that the Fed has no government data for now to help it judge the economy's path.

This puts a premium on other sources. Chief among them this week will be the University of Michigan consumer sentiment index for October, which economists expect to show a dip.

The third-quarter U.S. corporate earnings season also gets under way. Forecasts have come down sharply in recent weeks with profit growth now expected at just 4.5 percent, according to Thomson Reuters data.

(Editing by David Holmes)

© Thomson Reuters 2011. All rights reserved. Users may download and print extracts of content from this website for their own personal and non-commercial use only. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: [www.reutersreprints.com](http://www.reutersreprints.com).