Debt Ceiling Options Gone, Rubin Declares

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Treasury Secretary Robert E. Rubin declared yesterday he has run out of legal options to keep the nation from default beyond March 1 unless Congress votes to raise the $4.9 trillion limit on federal borrowing.

His announcement surprised some on Wall Street, where until now most had regarded the debt limit struggle with complacence.

President Clinton's State of the Union address will be carried by all major television networks at 9 tonight.

"Wow!" said Ray Stone of Stone & McCarthy Research Associates, an economic analysis firm in Princeton, N.J. "I don't think this can be bluff."

But Republican leaders in the House scoffed at Rubin's warning. "Given the secretary's track record, he's not reliable," said House Majority Leader Richard K. Armey (R-Tex.). When President Clinton asks for a new bill to increase the debt limit, Armey said, "he will get it."

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Rubin has warned Republicans in the past that the government would default unless he took extraordinary actions. But before each payment deadline, Rubin was able to evade the limit with last-minute fiscal maneuvers, prompting Republican charges that he was playing politics. House Speaker Newt Gingrich (R-Ga.) refused yesterday to take any of Rubin's several calls to discuss the debt limit.

House and Senate Republican leaders said last night they were in no hurry to take up new debt ceiling legislation as Rubin urged. Armey repeated House Republicans' insistence that any increase in the debt limit must be tied to "substantial" concessions by the White House in talks over balancing the federal budget, which President Clinton has repeatedly refused to do.

In a letter to Republican leaders in Congress, Rubin outlined three measures he is ready to employ to free up $19.3 billion in borrowing authority, enough to last about five weeks.

But in uncharacteristically clear words, Rubin proclaimed that he would do no more.

After March 1, he stated, "Treasury will no longer be able to fulfill all of its financial obligations without legislation increasing the statutory debt limit. . . . Beyond these actions, there are no legal and prudent options I am able or willing to take."

Even with the special measures, Rubin said he could not guarantee the Treasury Department could meet a $5.8 billion interest payment on due Feb. 29. The department will definitely run out of cash on March 1 without an increase in the limit because it must make more than $30 billion in payments, including those to Social Security recipients, veterans and active duty military personnel.

At a meeting with reporters at the Treasury yesterday, Rubin did all but roll up his sleeves in an effort to prove he had no more fiscal tricks. "We will not sell the nation's gold and I will not withhold tax refunds," he said, emphatically rejecting options that had been suggested by outside analysts. ". . . I've said no to both."

Wall Street executives have never taken the prospect of default seriously, because it could have a cataclysmic effect on world financial markets. Rubin's warning came after markets had closed and traders were at a loss to predict its consequences.

"The rule of thumb on such things is that they are either seen as a prelude to an acceleration in the negotiating process or grandstanding," said Paul Isaac, partner at MN Associates, a financial firm in New York.

Statements from both sides now appear to put Congress and the White House on a collision course over the debt limit. Not all Republicans, however, are comfortable with the politics of brinksmanship. Even some of the most stalwart House conservatives worry that their aggressive tactics will only antagonize voters.

House Budget Committee Chairman John R. Kasich (R-Ohio) earlier this month called for passage of a debt extension bill without condition. Yesterday, Kasich said Gingrich and others have legitimate concerns about getting budget concessions, but added that "I think at the end of the day we have to pass a debt ceiling bill."

To keep the government operating through the end of February, Rubin said he would:

- Suspend the reinvestment of about $3.9 billion in Treasury securities held by the Exchange Stabilization Fund, the Treasury kitty used to finance last year's rescue of the Mexican peso.
- Swap approximately $9 billion in assets borrowed by the Tennessee Valley Authority and the U.S. Postal Service from the Federal Financing Bank to the Civil Service Retirement and Disability Fund.
- Redeem ahead of schedule $6.4 billion in government securities held by the Civil Service Retirement Fund, a maneuver made legally justifiable by extending by two months to January 1997 an earlier judgment about how long the debt limit standoff might last.

Those moves were not surprising. All three were options that specialists in federal finances have been predicting Rubin would invoke should the debt impasse continue. The real significance in Rubin's comments was in what he said he would not do.

Rubin repeated that he will not touch the more than $300 billion held in the Social Security trust funds or, for that matter, make use of any money held in the nearly 190 other federal trust funds managed by the Treasury. His letter rejects as "completely unacceptable" options such as selling government gold and delaying tax refunds.

Staff writers Jay Mathews and John M. Berry contributed to this report.