

The debt ceiling bill passed by House Republicans would eliminate tax credits for new emissions credits for nuclear energy, renewable energy manufacturing, domestic sourcing of electric vehicle components, hydrogen production and extensions of the wind and solar production credits. It was a remarkable smackdown of American industry and, if enacted, a big win for foreign competitors in Asia and Europe. It will also eliminate many projected manufacturing jobs for American workers.

Quite apart from the loss of potential jobs, the bill also seems likely to trigger the loss of many existing jobs. [Business Insider](#) reports that:

“Moody’s economists Mark Zandi, Cristian deRitis, and Bernard Yaros predicted that if Republicans achieve a “dramatic reduction in government spending” while leaving Medicare and Social Security off the table, as they have vowed to do, it could trigger ‘a recession in 2024, costing the economy 2.6 million jobs at the worst of the downturn and pushing unemployment to a peak of near 6%.’”

The draconian budget cuts required by the bill would either require substantial cuts in the defense budget or else drastic reductions in everything else the government does, from food stamps and agricultural subsidies to immigration enforcement and drug prosecutions to environmental protection and state education grants. (Defense is about half of discretionary government spending, so if it’s exempted, everything else has to be cut twice as much.) The federal layoffs would probably be followed by layoffs of state employees and teachers with the loss of block grants to the states. All of this would be accompanied by a fall in demand by those newly unemployed workers, resulting in a downturn in sales by businesses.

The Fed would be forced to push interest rates toward zero to deal with the recession. We might also see a return to quantitative easing by the Fed, meaning large-scale purchases of bonds by the Fed in order to put more money into circulation. There’s a real risk that inflation would return, and perhaps a return of stagflation: unemployment and a stagnant economy accompanied by high inflation.

All of this would be a blow to the rural areas that are the core of GOP support. We’ve already seen that most of the billion-dollar manufacturing plants incentivized by tax credits would go into states like Texas and Georgia. Farmers could be hard hit as the loss of food stamps reduces purchases and farm subsidies get squeezed by budget cuts. I assume that the Democrats will soon be running ads in rural areas making the case that newly announced projects may be canceled and farms could be hurt.

It does often seem that the culture wars are more important to Republicans than the economic welfare of their constituents and at least some of their constituents probably feel the same way. Still, it's hard to think that they're actually happy about the prospect of economic mayhem. And they have to know that wiping out the climate provisions of the IRA is something that Biden cannot accept, not if he wants anyone under 40 to vote for his reelection. The potential impact on carbon emissions — and on the future of the planet — is just too great.

It seems more likely to me that this part of the bill is intended as a bargaining chip, at least by McCarthy if not by everyone in the caucus. It remains unclear whether he could conceivably get enough votes for *any* bill that Biden would be willing to sign. Biden knows that a default would be catastrophic, but he also knows that McCarthy is equally aware of that fact. And he knows that huge concessions in this round would just be a prelude to continued rounds of demands for rollbacks every time we get close to the debt ceiling.

I'm not sure where any of this is heading, but the fact that we are again dancing close to the precipice should make Americans increasingly nervous. It's certainly having that effect on me.