Congress Passes Debt, Budget Deal

Bill to Reopen Government Through Jan. 15, Lift Debt Ceiling Until Feb. 7

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Updated Oct. 17, 2013 12:43 a.m. ET

The U.S. Senate on Wednesday put in motion the final steps of a bipartisan solution to the weeks-long budget drama, voting 81-18 to raise the nation's borrowing limit and reopen the government. Watch video of the reading of the voting results.

A potentially crippling U.S. debt default was averted late Wednesday, as Congress passed legislation to end a political showdown that had rattled financial markets, splintered the Republican Party and showcased Washington dysfunction.

The House voted 285-144 to reopen the government through Jan. 15, suspend the debt ceiling through Feb. 7 and lay the groundwork for talks over broader budget issues. The Senate earlier approved the bill 81-18. President Barack Obama signed the bill early Thursday morning.

The agreement, crafted by two Senate leaders, offers only a temporary reprieve from the brinkmanship that has become a hallmark of divided government. Still, news earlier Wednesday that the bill was moving toward final passage had been enough to send the Dow Jones Industrial Average up 205.82 points, or 1.4%, to 15373.83—putting it 1.6% above its level on Sept. 30, the last day the government was fully open.

Early Thursday, Asian stocks and bonds followed gains in the U.S. while the dollar touched a three-week high against the yen and Treasurys rose.

The deal marked a victory for congressional Democrats and Mr. Obama, who blocked GOP efforts to curtail the 2010 Affordable Care Act. Conservatives had made curbs on the health law a condition of funding federal agencies, prompting
a fight with Democrats and the government shutdown that started on Oct. 1.

"This has been a very bad two weeks for the Republican brand," said Sen. Lindsey Graham (R., S.C.), who is up for re-election in 2014. "For the party, this is a moment of self-evaluation. Either we are going to assess how we got here and try to self-correct, or, if we continue down this path, we are really going to hurt the Republican Party long term."

The White House budget office said that furloughed federal employees—who numbered 800,000 at one point—should expect to return to work Thursday. With time to act running short, the bill reestablishes Treasury’s authority to borrow just as it was about to exhaust emergency measures to issue new debt.

"We fought the good fight," House Speaker John Boehner (R., Ohio) said in an afternoon interview on a Cincinnati radio station. "We just didn’t win." He also said in a statement that his party’s fight against the health law would continue through “aggressive oversight that highlights the law’s massive flaws and smart, targeted strikes that split the legislative coalition” backing the measure.

In the House, 198 Democrats and 87 Republicans voted for the bill. Opposing it were 144 Republicans. No Democrats voted against the bill. Mr. Boehner voted for the bill, as did Majority Leader Eric Cantor (R., Va.) and Majority Whip Kevin McCarthy (R., Calif.). However, Budget Committee Chairman Paul Ryan (R., Wis.) voted against it.

"Today’s legislation won’t help us reduce our fast-growing debt," Mr. Ryan said after the vote. “In my judgment, this isn’t a breakthrough. We’re just kicking the can down the road.”

In the Senate, 54 members of the Democratic caucus were joined by 27 Republicans in voting for the bill. They included Sen. Mitch McConnell (R., Ky.), the Senate GOP leader, and Senate Majority Leader Harry Reid (D., Nev.). Eighteen Republicans voted no.

Mr. Obama said the legislation will lift the "cloud of uncertainty" the fiscal crisis has created. "We now have an opportunity to focus on a sensible budget," he said, adding that he wants to focus on immigration reform and other issues he said could be tackled this year.

Republicans came up essentially empty-handed from the battle that split the party over the tactic, driven by the most combative conservatives, of pressing for curbs to the 2010 health law. Public-opinion polls showed that the battle badly damaged the GOP’s reputation, but the deal emerging from it made no major change to the health law and contained no new deficit-reduction measures.
Track key U.S. market indicators as the default deadline looms.

If there is a silver lining in this cloud, it's that hopefully this debacle means that the power of those that favor confrontation has peaked, and we can start legislating again, in a bipartisan way, without this dangerous brinkmanship," said Sen. Charles Schumer (D., N.Y.).

Many Republicans in the House were dismayed by the outcome. As the Senate prepared to vote, Mr. Boehner met with his caucus in a short, closed-door meeting that participants described as grim. He said he would vote for the bill and urged them to do so, arguing that with this fight settled, public attention could shift to the administration's problems in implementing the health law.

Mr. Boehner praised Republicans for waging a good fight before receiving a standing ovation, according to lawmakers in the meeting. When GOP leaders opened the discussion to their rank and file, not a single one had a comment. "For a brief moment, reality set in," said Rep. Peter King (R., N.Y.).

The deal was opposed by the conservative political groups Heritage Action and Club for Growth, which both urged Republicans to vote against it because it did nothing significant to roll back the health law. But conservative Republicans let the deal move forward without delay in the Senate, while vowing to fight on in future battles.

Sen. Ted Cruz (R., Texas), a leader in the conservative's "defund Obamacare" strategy, blamed the defeat on party leaders. "Once again, it appears the Washington establishment is refusing to listen to the American people," he said outside the Senate chamber, as Senate leaders announced the deal inside.

A key question is whether wounds from the fight will change the political and policy dynamics when Congress tries to meet the January deadline for funding the government for the remainder of fiscal 2014 and the February deadline for again raising the debt limit.

Sen. Mike Johanns (R., Neb.) said he hoped the next round would be more focused on basic budget questions than on "this cul-de-sac" argument over the health law.

The agreement was reached on the eve of an important landmark in the nation's finances. The Treasury has said that as of Thursday it would exhaust its emergency borrowing ability and be left only with only about $30 billion to pay the nation's bills.

The deal left untouched Treasury's powers to use emergency measures to delay default in the future, which Republicans had wanted to limit. By retaining those powers, Treasury may be able to continue new borrowing for a month or so after Feb. 7, without Congress approving a new debt.
Investor fear over a possible U.S. debt default reared its head this month in the market for one-month Treasury bills, which briefly yielded more than longer-dated securities.

The bill includes one minor change to the health law sought by Republicans, setting new procedures to verify the incomes of some people receiving government subsidies for health-insurance costs. It also provides back pay for all federal workers who were furloughed during the government shutdown.

Some of the most conservative lawmakers said the fight had been worthwhile. "Americans now understand Republicans are willing to fight. They understand we’re willing to take on Obamacare," a cheerful Rep. Tim Huelskamp (R., Kan.) told reporters after the meeting.

Although the outcome of the fight was widely acknowledged to be a big victory for Mr. Obama, it may have come at a great cost: He has burned bridges among Republicans needed to advance other parts of his second-term agenda.

"He’s tried to destroy the Republican Party," said Rep. Raul Labrador (R., Idaho). "I think it would be crazy for the House Republican leadership to enter into negotiations with him on immigration, and I’m a proponent of immigration reform."

—Chris Dieterich and Siobhan Hughes contributed to this article.

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saying he "never had an intention" of blocking the bill, despite wide speculation that he might mount a filibuster. Photo: Getty Images.