

▶ developments in the Arctic require more thought and some specific actions: the Coast Guard's capabilities in the north should be significantly improved.

There are also revealing details of shortcomings and grandstanding in the gulf response. The positioning of booms to contain the surface oil—buoyant orange evidence that something was being done—often owed more to politics than practical planning. The lengthy offshore berms on which Louisiana's governor Bobby Jindal and other local politicians insisted proved a costly fiasco. The need to spend money on the gulf environment in more helpful ways, though, is one of the report's main conclusions; it calls for 80% of the fines that BP will end up paying—a sum in the billions—to be used on environmental restoration redressing damage from many other sources as well as the recent spill.

The markets responded to what was not in the report: conclusions of criminal misconduct and recommendations that the sector be reined in. Shares in BP, Transocean and Halliburton all went up on the day that the conclusions were released. More important will be the reaction of politicians. Much of what the commission suggests can be done without legislation, but for some things Congress will need to be involved, which may give the industry's misgivings some play. Still, the report's good sense and specific focus should stand it in good stead. ■

California's budget crisis

Modocians and Alamedans

Jerry Brown hopes to pass a budget by doling out equal pain to all

SETTLING back into the governor's office the last occupied 28 years ago, Jerry Brown this week reminded Californians that it was time to "face the music". On January 10th he duly proposed a nasty budget. California, after years of fiscal upheaval, confronts yet another deficit of \$25.4 billion in the current and coming fiscal year, larger than the entire budgets of most states. The question before Mr Brown was how to apportion the coming pain so that political compromise becomes possible.

Indeed, as he spoke (unscripted, as is his wont), he chanced upon a catchy summary of California's underlying problem. In recent years, he said, the state has been paralysed by a stand-off between two alien-sounding tribes, the "Modocians" and the "Alamedans".

Modoc is, in fact, a rural and arch-conservative county in the state's extreme north-east where most people voted

Federal debt

Dancing on the ceiling

WASHINGTON, DC

Talk of America defaulting on its debt is just that

FOR most finance ministers default is usually a subject to be avoided at all costs. Not so in America, where Tim Geithner, the treasury secretary, sent Congress a letter on January 6th describing in gory detail the "catastrophic economic consequences" such an event would entail.

The letter was part of the dance that takes place whenever the administration asks Congress to raise the ceiling on the national debt. America is unusual in requiring a vote both to adopt a budget, and to issue any debt necessary to finance it. Grandstanding legislators typically demand concessions from the administration before raising the ceiling. There is obvious potential for a stand-off, just as there was in 1995-96, when Bill Clinton rejected the budget cuts proposed by congressional Republicans as a condition for raising the debt ceiling.

A similar confrontation now looms. The Republicans, who took control of the House of Representatives on January 5th, say they will not raise the debt ceiling until they get \$50 billion cut from spending for the fiscal year that ends on September 30th.

The Treasury can still borrow an extra \$327 billion and draw down some \$200 billion in deposits at the Federal Reserve before it breaches the current ceiling of \$14.3 trillion. Mr Geithner says that will happen between March 31st and May 16th. He can then get additional breathing space by means of various gimmicks, such as redeeming debt issued to civil-service pension plans. Lou Crandall of Wrightson ICAAP, a research firm, reckons the Treasury could free as much as \$223 billion that way, and another \$278 billion by selling mortgage-backed securities and privately originated student loans it acquired during the crisis. These steps, he says, could tide the government over until the autumn.

Once all such devices were exhausted, Mr Geithner warned, the Treasury would have to default on something. But

against Mr Brown. Alameda, east of San Francisco, is one of America's most liberal counties and voted overwhelmingly for Mr Brown. But Modocians might also stand for California's Republicans in general, who doggedly oppose any new taxes. Alamedans might typify the state's Democrats, who reflexively balk at spending cuts.

Mr Brown, ideologically a rather Pro-



After \$14.3 trillion, Geithner wants more

he did not specify exactly what. The ambiguity may be deliberate. Even with no increase in the ceiling, the Treasury can easily service its existing debt; it is free to roll over maturing issues, and tax revenue covers monthly interest payments by a large multiple. But in that case it would have to postpone paying something else: tax refunds, Medicare or Medicaid payments, civil-service salaries, or Social Security (pensions) cheques.

It is not clear what the legal priority is among the Treasury's obligations, whether contractual such as bond debt or statutory such as social security. "This is an area where the federal government itself is often the interpreter," says a former official. Yet if it came to it, deciding between the two should not be hard. Delayed payments may hurt pensioners and cause political damage, but a default on Treasury debt would unleash global financial chaos. Either outcome would be deeply unpleasant; that may be Mr Geithner's most potent weapon.

tean Democrat, is deliberately making Alamedans and Modocians wince equally, in the hope that they both redefine themselves as simply Californians. Thus he proposes to address half of the budget gap with more spending cuts, to be enacted by the Democrat-controlled legislature, and then to plug the remaining gap by asking voters to extend, for five years, several temporary taxes with a ballot initiative to be ▶▶