



The Daily Dish

Remember the Federal Debt Limit?

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We haven't heard much about the federal debt limit for a while, but yesterday the Congressional Budget Office (CBO) issued a timely (and scintillatingly titled) wake-up call: "[Federal Debt and the Statutory Limit, July 2021](#)." At present, the federal debt limit has been suspended until July 31 of this year. On August 1, the debt limit will come back and be reset at its old value (\$22 trillion) plus any new borrowing through July 31. CBO estimates that there is an additional \$6.5 trillion through June, so the new limit will be somewhere north of \$28.5 trillion.

Regardless of the exact number, the important point is that on August 1 the federal government will be at the debt limit. As CBO puts it, "If the current suspension is not extended or if a higher debt limit is not legislated before August 1, from that date forward, under normal procedures, the Treasury will have no room to borrow other than to replace maturing debt. To avoid breaching the limit, the Treasury would then begin to take the extraordinary measures that, along with cash inflows, should allow it to finance the government's activities for a limited time without an increase in the debt ceiling."

So, what, exactly, does a "limited time" mean? Again, CBO indicates, "Treasury would probably run out of cash sometime in the first quarter of the next fiscal year (which begins on October 1, 2021), most likely in October or November, the Congressional Budget Office estimates. If that occurred, the government would be unable to pay its obligations fully, and it would delay making payments for its activities, default on its debt obligations, or both."

Is it plausible that the government could delay payment on some of its activities? No. So-called prioritization of payments is just too risky.

Is it reasonable to entertain the possibility of default? No. Default would shake the market for Treasury securities to its core. Since Treasuries are the foundation of the global financial system, any impairment of their liquidity would be tantamount to a global financial crisis. It is simply unthinkable.

So, Congress will have to raise or suspend the debt limit, which is politically unpopular. Expect both parties to blame the other for the need to raise the limit. Similarly, expect each to try to place the onus of passing the increase on the other. None of this maneuvering is new or desirable. Far too often, approaching the debt limit has engendered legislative brinksmanship. This fosters toxic politics, endangers the underpinnings of the global financial system, and exposes the taxpayer to risk. Many believe that a solution must be found that automates raising the debt limit, perhaps as a reward for passing a sensible budget resolution (for example).

But, until some alternative is found, Congress will have to deal with the debt limit the old-fashioned way: by voting. Get ready; the fun is just starting.