



## Press Release

# What Really Happens If the Federal Government Hits the Debt Limit?

PAULINA ENCK | OCTOBER 6, 2021

The U.S. Treasury Secretary recently advised Congress that the federal government may hit the current debt limit on October 18. In a new insight, Director of Fiscal Policy Gordon Gray explains what the debt limit is and the implications of a failure to increase or suspend it.

### Key points:

- Congress is presently at an impasse, with a closely divided Senate unable to assemble the votes to increase the Treasury's borrowing authority.
- Failure to increase or suspend the debt limit would require the federal government to reduce financial activities to the amount of cash inflow and consequently prioritize which expenses the federal government pays.
- This scenario – *prioritization* of payments – is highly risky, and an actual default on Treasury securities would substantially harm economic growth and raise unemployment.

[Read the analysis](#)