Research

Extraordinary Measures: Are They the New Normal?

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On the morning of October 1st, the federal government had over $88 billion in its checking account at the Federal Reserve. By sunset, that balance was down to $50 billion; over $38 billion dollars had gone out the door in a single day, fairly typical for the first day of any month. While this does not represent the totality of federal finances it lends scale to funds ebbing and flowing through the Treasury.

Despite these large expenditures (and those made on similar past days) federal debt subject to statutory limit stayed poised just $25 million under the legal cap, less than .1 percent of what the federal government spent on October 1st. Put another way, the United States was 19 seconds away from default. But that's where the debt had been fixed since May 19th. And this is hardly the first time the debt has been held just under the debt limit for extended periods of time the United States is now in the midst of its longest streak of artificially maintaining the debt subject to limit at just under the legal maximum.

The latest increase to the statutory debt limit, "The No Budget, No Pay Act" temporarily suspended the debt ceiling in February 2013, but reinstated it on May 18th essentially at whatever the level of outstanding debt subject to limit at the time was. Yet when the calendar flipped to the following Monday, May 19, the United States government did not default.

Why didn't the US default when it was so close to the debt limit? As Secretary Jack Lew described in a letter sent to Congress just before the debt limit was reinstated, the Treasury has a number of "extraordinary measures" it can use to avoid a default1. The mechanisms for these measures are complex, but the bottom line is they allow the Treasury, for a finite period, to continue to fund the government past the date they run up against the debt limit2. Policymakers know this, and nowadays Congress normally delays passing a debt ceiling extension until well after the limit is reached.

When implementing these extraordinary measures, the Treasury usually keeps the amount of debt subject to the limit just $25 million under the debt ceiling. But without a debt limit extension from Congress, the Treasury has no choice but to maintain this threshold for an extraordinarily long time to avoid default. Daily Treasury Statements, which display, among many other things, the current amount of public debt subject to the limit, allow observers to note the number of days for which the Treasury has had to maintain such a close margin. 3 Using these reports we can see that the Treasury kept the debt just below the limit for 78 days during the 2011 crisis. Longer still was the spell preceding the 1996 budget fight, which lasted 135 days and, until recently, was the longest in recent record.

While 135 days is a long time to hover so close to apparent default, the Treasury has since surpassed this streak. Since the debt limit was reinstated in May, the Treasury has continuously maintained the debt at $25 million below the limit, and on October 1st surpassed the 1996 record and began its 136th day of maintaining its small margin. The Treasury has said it will exhaust extraordinary measures on October 17th4.

As risky as it sounds, the implications of utilizing extraordinary measures for this long is unclear. While the accounting tricks the Treasury undertakes sometimes create additional costs5, the monetary consequences are relatively small. However, as long as the United States continues to run large external deficits and require continued financing of its existing debt portfolio, it remains subject to the scrutiny of capital markets. Continued reliance on “extraordinary measures” may well contribute to skepticism from market participants that will inevitably result if the United States fails to get its fiscal house in order. An even greater threat remains once “extraordinary measures” are exhausted and the U.S. risks potential default.