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TESTIMONY

Statement of

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Before

Committee on Financial Services
Subcommittee on Financial Institutions and Monetary Policy
U.S. House of Representatives

Hearing on

"Uncertain Debt Management: Treasury Markets and Financial Institutions"

June 6, 2023

Congressional Research Service
7-5700
www.crs.gov
<Product Code>

Chairman Barr, Vice-Chairman Loudermilk, Ranking Member Foster, and members of the subcommittee, my name is Grant Driessen, and I am a Specialist in Public Finance at the Congressional Research Service (CRS). Thank you for inviting me to testify today on behalf of CRS.

As requested, I will provide a brief summary of extraordinary measures that may be used to delay a binding debt limit, factors that influence when extraordinary measures will be exhausted (the "X-Date"), and the economic effects of an anticipated or actual binding debt limit.[1]

Introduction to Extraordinary Measures[2]

As part of its "power of the purse," Congress uses the statutory debt limit (codified at 31 U.S.C. §3101) as a means of restricting federal debt. Extraordinary measures represent a series of actions used to extend the date by which debt limit legislation must be enacted. The authority for using extraordinary measures rests with the Treasury Secretary (codified at 5 U.S.C. §8348 and 5 U.S.C. §8909). Extraordinary measures have been regularly invoked in recent years, and have delayed required action on the debt limit by periods ranging from a few weeks to several months. Ultimately, accounts and members of the public that are affected by extraordinary measures must be compensated for the delay in payment that results from such actions when the debt limit is subsequently modified.

Debt issuance is a core component of Treasury's role as the manager of government operations, as it is needed when tax revenue collections are insufficient to meet the demand of federal obligations.[3] The primary objective of Treasury's debt management strategy is to finance the government's borrowing needs at the lowest cost over time. To accomplish this, Treasury adheres to three principles: (1) to issue debt in a regular and predictable pattern, (2) to provide transparency in the decision-making process, and (3) to seek continuous improvements in the auction process.[4]

Recently Used Extraordinary Measures[5]

Before or during a period when extraordinary measures are implemented, Treasury typically provides a description of the extraordinary measures available and estimates of their effect on federal borrowing capacity (or how much "headroom" they will add). Treasury provided the most recent description of such measures on May 31, 2023,[6] which included the following measures and projected savings:

1. Suspension of reinvestment in the Government Securities and Investment Fund (G Fund) of the Federal Employees Retirement System, which was estimated to add $294 billion in headroom;

[1] Portions of this testimony are drawn from existing CRS publications, which are cited where applicable.

[2] For more detail on extraordinary measures, see CRS Insight IN10837, *Debt Limit Policy Questions: What Are Extraordinary Measures?*, by Grant A. Driessen.

[3] U.S. Department of the Treasury, *Duties & Functions of the U.S. Department of the Treasury*, available at http://www.treasury.ogv/about/role-of-treasury/.

[4] For further discussion of Treasury's debt management process, see CRS Report R40767, *How Treasury Issues Debt*, by Grant A. Driessen.

[5] For more information on extraordinary measures, see CRS Insight IN10837, *Debt Limit Policy Questions: What Are Extraordinary Measures?*, by Grant A. Driessen.

[6] U.S. Department of the Treasury, "Description of Extraordinary Measures," May 31, 2023, available at https://home.treasury.gov/system/files/136/Description-of-Extraordinary-Measures-May2023.pdf.

2. Suspension of invested balances in the Exchange Stabilization Fund, which was estimated to add $17 billion in headroom;
3. Declaration of a debt issuance suspension period, which was estimated to add $8.3 billion in headroom per month and $143 billion in headroom should extraordinary measures be active on June 30, 2023;
4. Suspension of State and Local Government Securities, which was estimated to add no headroom but prevent further debt increases by approximately $6 billion per month; and
5. Exchanging Treasury securities for obligations in the Federal Financing Bank, which was estimated to add $1.9 billion in headroom.

The extraordinary measures used in 2023 and their projected added headroom and debt savings were generally consistent with other recent extraordinary measure experiences.

Extraordinary Measures Endurance and the "X-Date"[7]

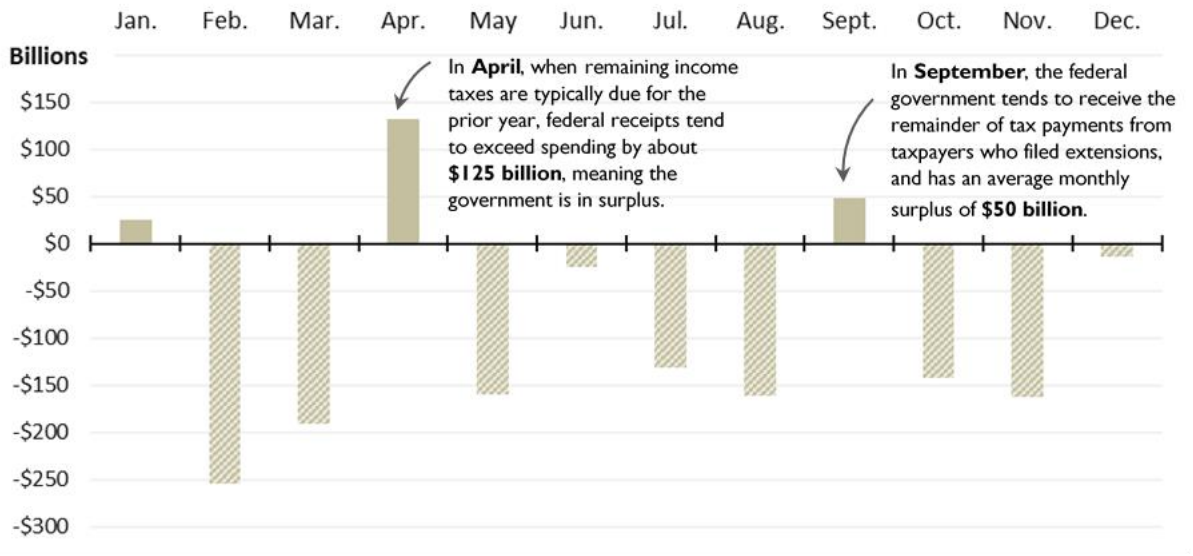
The length of time between implementation of extraordinary measures and the projected X-Date is a function of several factors, including legislative changes that affect the deficit, the timing of federal receipts, and the timing of federal outlays. The debt room that each measure provides also shifts for reasons specific to the measure and underlying account. More specifically, the amount of time it takes to exhaust extraordinary measures depends not only on how much debt room those measures provide, but also on how quickly the federal debt subject to the limit is rising. All else equal, higher net federal deficits will lead to faster increases in debt subject to limit. Higher deficits can be caused by general decline in economic performance, legislative changes that increase outlays or decrease revenues, or other factors.

The speed at which the federal debt grows is also affected by short-term variation in federal budget outcomes (e.g., surpluses and deficits) across months, as shown in **Figure 1**. Much of that variation results from the timing of tax receipts from federal individual income tax returns. Payments and collections for many federal programs are also made on certain days of the week or month, which can lead to daily fluctuations that are difficult to predict as the X-Date draws closer.

[7] For more detail on extraordinary measures endurance, see CRS Insight IN12147, *Debt Limit Policy Questions: How Long Do Extraordinary Measures Last?*, by Grant A. Driessen and Brendan McDermott.

Figure 1. Average Monthly Federal Budget Outcomes, FY1997-FY2023

(in billions of FY2023 dollars)



Source: U.S. Treasury and OMB. Calculations performed by CRS.

Notes: Positive values represent surpluses; negative values represent deficits.

Table 1 shows the projected endurance of extraordinary measures in every implementation period since 2011. Recent experiences illustrate that while seasonal patterns and fluctuations in general debt acquisition are somewhat helpful in determining the endurance of extraordinary measures, the context around each experience is highly influential in determining the ultimate effectiveness of extraordinary measures in preventing a debt limit from binding.

Table 1. Projected Endurance of Extraordinary Measures, 2011-Present

Invocation Date	Annual Growth in Debt Subject to Limit (% of GDP)	Latest Projected Endurance (Months)
January 2023	7.0%	4.5
August 2021	7.5%	2.5
March 2019	5.7%	6.9
December 2017	6.2%	2.9
March 2017	3.5%	6.3
March 2015	2.8%	7.7
February 2014	6.2%	0.5
May 2013	4.3%	4.9
December 2012	4.0%	1.9
May 2011	8.0%	2.6

Source: U.S. Treasury, OMB, and CBO. Calculations performed by CRS.

Notes: Table uses a weighted average of annual debt subject to limit values in cases where extraordinary measures stretched across multiple fiscal years. Endurance projection taken from the last publication issued by either U.S. Treasury or CBO.

When extraordinary measures were implemented in January 2023, initial estimates from CBO,[8] Moody's Analytics,[9] and others generally projected an X-Date between July and September 2023. Initial projections from Treasury[10] identified April (as many individual income tax returns were filed) and early June (as certain large payments were scheduled) as periods of uncertainty in determining when the X-Date would ultimately fall. April tax receipts that were lower than expected led to updated X-Date projections in early May from Treasury[11] and CBO[12] of "as early as June 1" and "the first two weeks of June," respectively. In late May, Treasury further updated[13] their X-Date projection to June 5, 2023.

The Economic Effects of an Anticipated or Actual Binding Debt Limit[14]

The federal government has never operated under a binding debt limit. Economic theory and evidence from recent debt limit activity indicate that the effects of an anticipated binding debt limit or actual binding debt limit could include:

- the direct effect of late or missed federal payments;
- financial market effects, both from federal security investors and in market transactions where federal securities play a prominent role; and
- indirect effects on borrowing and general economic confidence from households, businesses, and other governments.

Federal statutes contractually obligate the government to pay interest penalties if it does not make payments in a timely fashion. For example, the government must generally pay interest on tax refunds paid more than 45 days after the tax filing deadline.[15] The Prompt Payment Act (P.L. 97-177) generally requires the government to pay interest on other payments made after they are due, or more than 30 days after receiving an invoice.[16] Any debt limit breach that occurs when many such payments are due would

[8] Congressional Budget Office, "Federal Debt and the Statutory Limit, February 2023," February 15, 2023, available at https://www.cbo.gov/publication/58906.

[9] Moody's Analytics, "Going Down the Debt Limit Rabbit Hole," March 2023, available at https://www.moodysanalytics.com/-/media/article/2023/going-down-the-debt-limit-rabbit-hole.pdf.

[10] U.S. Treasury, "Debt Limit Letter to Congress," January 13, 2023, available at https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-McCarthy-20230113.pdf.

[11] U.S. Treasury, "Debt Limit Letter to Congress," May 1, 2023, available at https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-McCarthy-20230501.pdf.

[12] Congressional Budget Office, "Federal Debt and the Statutory Limit, May 2023," May 12, 2023, available at https://www.cbo.gov/publication/59130.

[13] U.S. Treasury, "Debt Limit Letter to Congress," May 26, 2023, available at https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-McCarthy-20230526.pdf.

[14] For more information on the economic effects of debt limit episodes, see CRS Report R47574, *Debt Limit Policy Questions: What Are the Potential Economic Effects of a Binding Federal Debt Limit?*, by Brendan McDermott and Grant A. Driessen.

[15] Internal Revenue Service, *Interest*, updated January 10, 2023, at https://www.irs.gov/payments/interest. See also 26 U.S.C. §6611.

[16] See CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*, by D. Andrew Austin, Clinton T. Brass, and Dawn Nuschler.

likely impose additional costs on the government, thereby increasing total federal spending in the short run.

If investors perceive Treasury securities as riskier and demand higher interest rates to hold them, the federal government would have to make larger interest payments in the future. These higher payments would increase total federal outlays and net deficits moving forward.

Financial markets view federal securities as among the safest capital assets to hold, which combined with their broad availability makes them a critical part of investor portfolios.[17] The perceived reliability of federal debt, along with the high volume of federal debt ($24.1 trillion in marketable debt as of January 2023) in circulation, suggests that shifts in the perception of federal creditworthiness may lead to notable disruptions in the financial marketplace. There is evidence that investors avoided certain Treasury securities perceived to be "at risk" (those with maturity periods right around the expectation of a binding debt limit) during the debt limit episode of 2013 and moved their portfolios toward perceived safer investments.[18] These types of movements increase the general volatility of the financial marketplace, which can lead to further financial and economic disruption.

A rise in the perceived riskiness of federal debt might also have consequences for routine financial transactions that often depend on the availability and reliability of Treasuries. Large financial actors in the United States and around the world often use Treasury securities as collateral for short-term transactions.[19] A rise in the likelihood of federal security default may delay or reduce the level of such transactions, which could lead to slowdowns or reductions in subsequent economic activity.

The potential adverse effects of a binding debt limit could also include a wide range of ramifications for households and businesses in the remainder of the economy. Any downgrade in the perceived value of federal securities would thereby decrease the value of domestic asset holdings. Domestic investors hold roughly 70% of federal publicly held debt,[20] meaning much of this sudden loss of wealth would affect households and businesses within the United States. The remainder would affect foreign asset holders, including foreign central banks.

Thank you for the opportunity to testify today. I look forward to any questions that you may have.

[17] Moody's Analytics, "Going Down the Debt Limit Rabbit Hole," March 2023, at https://www.moodysanalytics.com/-/media/article/2023/going-down-the-debt-limit-rabbit-hole.pdf.

[18] U.S. Government Accountability Office, "Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches," GAO-15-476, July 2015, available at https://www.gao.gov/products/gao-15-476.

[19] See CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*, by D. Andrew Austin, Clinton T. Brass, and Dawn Nuschler.

[20] CRS calculations based on data from U.S. Treasury and Federal Reserve Board, "Major Foreign Holders of Treasury Securities," January 2023, at https://ticdata.treasury.gov/Publish/mfh.txt.