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INSIGHT

The Debt Limit in 2021

Updated September 23, 2021

Debt limit episodes—which can be defined as starting when the statutory limit on federal debt restricts some of the U.S. Treasury's normal debt operations and ending when new legislation to modify the limit is enacted—have been a recurrent federal fiscal feature in the past two decades. Since 2002, the debt limit has been modified 18 times. The Bipartisan Budget Act of 2019 (BBA 2019; P.L. 116-37), enacted in August 2019, had suspended the debt limit through July 31, 2021. The limit was reset at just over $28.4 trillion at the beginning of August 2021.

On September 8, 2021, Treasury Secretary Janet Yellen notified Congress that the debt limit "most likely" would become binding in October. Projections from other sources are similar. Secretary Yellen called on Congress to act in a September 19, 2021, commentary, warning of dire consequences if the debt limit were not raised.

Recent debt limit episodes share similarities, although the issue in 2021 has a few unique characteristics. First, the COVID-19 pandemic and the emergence of the Delta variant remain a source of economic uncertainty. In addition, fiscal responses spurred by the pandemic have accelerated the pace of federal debt accumulation. Second, the U.S. Treasury sharply increased its cash balances in 2020 to accommodate those fiscal responses. Third, since 2015, Bipartisan Budget Acts that adjusted statutory caps on discretionary spending imposed by the Budget Control Act of 2011 (BCA; P.L. 112-25) also suspended the debt limit. A debt limit suspension was also included in the FY2018 continuing appropriations act (P.L. 115-56). The expiration of those discretionary spending caps at the end of FY2021 rendered moot the need for legislation to modify them. Thus, the most frequently used legislative vehicle for the past few debt limit modifications is unavailable in 2021.

On September 21, 2021, the House passed H.R. 5305 on a 220-211 vote. The measure would suspend the debt limit through December 16, 2022.

Federal Debt and the Debt Limit

When in force, the debt limit covers over 99% of federal debt. Federal debt grows when outlays exceed revenues and when the federal credit balance sheet expands. Federal debt outstanding since the debt limit was reset at the start of August 2021 has remained at $28.4 trillion. Most of that debt—$22.3 trillion—is held by the public, including $5.4 trillion in Federal Reserve holdings. Another $6.2 trillion is held as *intragovernmental debt*, mostly in various federal trust funds such as Social Security and federal

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retirement programs, which hold special Treasury securities that can be redeemed later to pay program expenses.

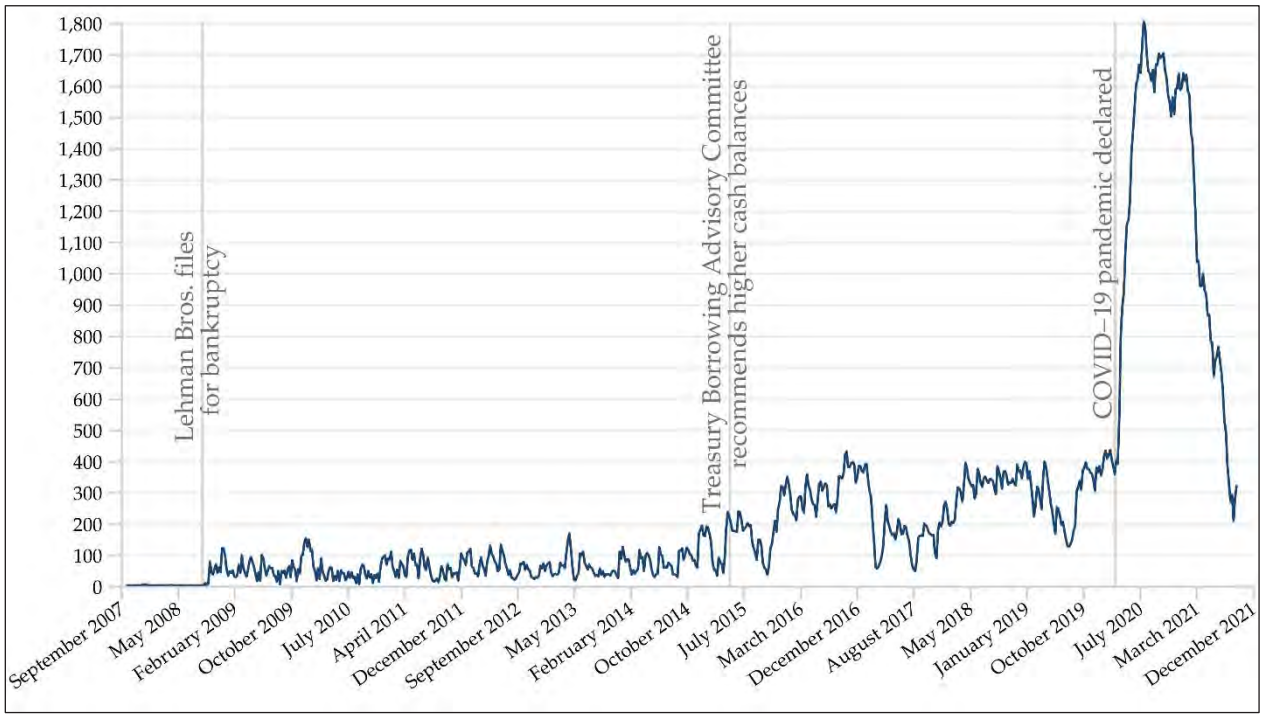
The Treasury Secretary and Extraordinary Measures

The debt limit, as noted above, was reset to a level accommodating federal financial commitments since the BBA 2019 suspended it in August 2019. On August 2, 2021, Treasury Secretary Janet Yellen informed Congress that she had invoked authorities to use "extraordinary measures" and urged legislative action to address the debt limit. In particular, Secretary Yellen declared a "debt issuance suspension period" that allows the U.S. Treasury to suspend investments in Civil Service and U.S. Postal Service retirement funds to help meet other federal obligations. Federal financial operations then continue normally, although debt limit restrictions complicate Treasury's debt and cash management. Once a debt limit episode is resolved, Treasury must report on how it used extraordinary measures.

Treasury Cash Balances

During a debt limit episode, Treasury can pay obligations as long as it retains borrowing capacity, cash balances, and funds available through its extraordinary measures. Treasury's cash balances are now much higher than a decade ago, as **Figure 1** shows. Before the Lehman Brothers investment bank collapsed in September 2008, Treasury cash balances were kept to minimal levels. Balances then fluctuated at levels mostly below $100 billion, although low interest rates reduced the opportunity cost of holding cash.

Figure 1. Treasury Cash Balances, $Billions, FY2008-FY2021



Source: CRS calculations based on U.S. Treasury's *Daily Treasury Statement*. Levels are weekly averages of cash balances of the U.S. Treasury's Federal Reserve Account.

In 2015, a Treasury advisory committee recommended increasing cash balances to cover an average week's outlays as a precaution against financial disruptions on the scale of those following the September

11, 2001, attacks or 2012's Hurricane Sandy. Cash balances rose sharply after the March 2020 declaration of COVID-19 as a pandemic, as then-Treasury Secretary Steven Mnuchin acted to enable rapid disbursement of CARES Act (P.L. 116-136) payments.

After the debt limit suspension lapsed at the end of July 2021, Treasury's cash balances had shrunk to $459 billion. That level was close to Treasury's prior projection that cash balances would be down to $450 billion when the debt limit reset. By September 7, 2021, Treasury's cash balance was $232 billion.

How Long Can Treasury Pay Federal Bills?

At some point, Treasury's cash balances and borrowing capacity will be exhausted, implying that some federal obligations could not be paid on time, unless the debt limit were modified. Predicting when that might occur is especially hard in 2021. Economic recovery and growth in government revenues is rapid, although subject to "elevated" levels of uncertainty, according to the Federal Reserve. About $1.5 trillion in COVID-related budgetary resources remains unspent, which may heighten uncertainty on the pace of federal outlays. The gap between outlays and revenues—that is, the deficit—is at historically high levels in FY2021 (**Figure 2**).

Figure 2. Federal Outlays and Receipts As a Percentage of GDP, FY1962-FY2026

Source: CRS calculations based on Office of Management and Budget (OMB), Congressional Budget Office (CBO), and Bureau of Economic Analysis (BEA) data and projections. FY2021-FY2026 outlay and revenue projections reflect Administration proposals. Gross domestic product (GDP) projections are from CBO's July 2021 budget update.

A July 2021 Congressional Budget Office projection suggested that Treasury "most likely" would exhaust its cash reserves in October or November. Secretary Yellen, in a September 8, 2021, letter to congressional leaders, noted that the Treasury could not give a specific estimate of how long those measures and cash balances would suffice to meet federal financial obligations due to the "considerable uncertainty" about coming outlays and receipts. She stated, however, that the "most likely outcome" was that Treasury's financial resources would be exhausted in October.

Other mid-September 2021 analyses came to similar conclusions. A brief (available to congressional clients from this Insight's author upon request) from Wrightson/ICAP—a research unit specializing in

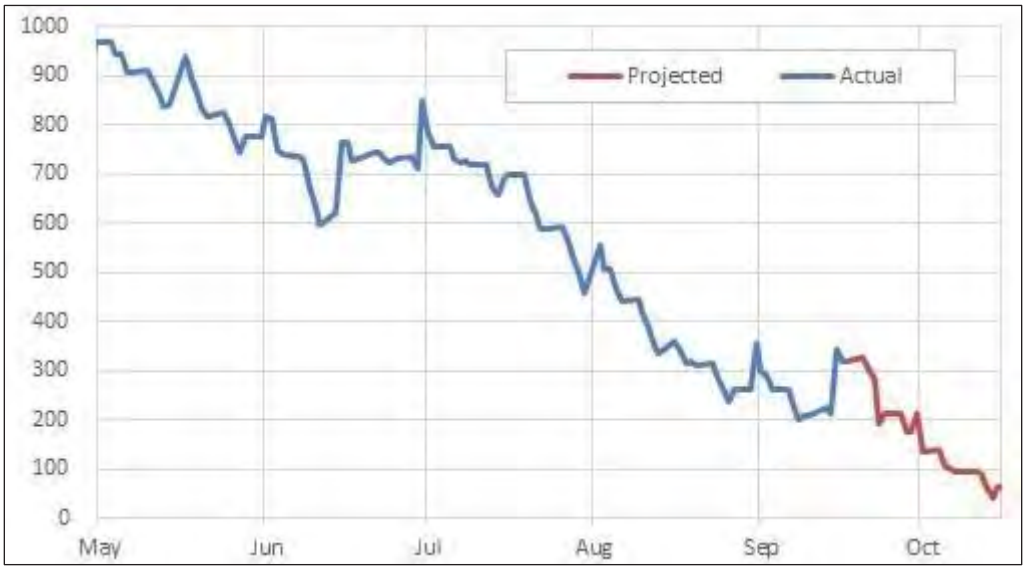
Federal Reserve and Treasury operations—noted that certain extraordinary measures had drawn down faster than expected, which "pulled our estimate of the drop-dead date forward by a couple of weeks" to around October 22, 2021. Slightly larger than projected corporate tax revenues (due on September 15, 2021) pushed that point estimate back a few days (updated Wrightson brief also available via author). **Figure 3** shows Wrightson projections of Treasury cash balances.

A Moody's analysis projected an earlier critical date—around October 20, 2021. Moody's also warned that a federal default would be a "catastrophic blow to the nascent economic recovery from the COVID-19 pandemic" and that "global financial markets and the economy would be upended, and even if resolved quickly."

A Goldman Sachs estimate (available to congressional clients from this Insight's author upon request) suggested that the debt limit would need to be raised by mid-October 2021, although Treasury's resources might last until the end of October 2021. All of these projections are subject to substantial uncertainties due to pandemic-related spending, disruptions caused by natural disasters, and the uneven pace of the economic recovery.

Figure 3. Treasury General Account at Federal Reserve

Daily Level in Billions of Dollars



Source: Wrightson ICAP, *Money Market Observer*, September 22, 2021.

Notes: Values projected from September 17, 2021, through October 15, 2021.

Congressional Options

Congress has used different means to control federal debt at different times. Since February 2013, Congress has suspended the debt limit several times. The Bipartisan Budget Acts of 2015 (BBA 2015; P.L. 114-74), 2018 (BBA 2018; P.L. 115-123), and 2019 (BBA 2019; P.L. 116-37) each suspended the debt limit and adjusted statutory caps on discretionary spending then in place upward, among other provisions. Those caps on discretionary budget authority, set in the BCA, expired at the end of FY2021, although sequestration of nonexempt mandatory spending has been extended. As noted above, debt limit measures have also been packaged with appropriations measures.

In the decades before 2013, debt limit legislation typically specified a set dollar amount on outstanding debt. In 2011, the Budget Control Act allowed for three increases in the debt limit, with two subject to

congressional resolutions of disapproval. Congress has at times passed stand-alone debt limit measures and, at other times, has packaged debt limit modifications with other provisions.

Author Information

D. Andrew Austin
Analyst in Economic Policy

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