U.S. will hit its debt limit Thursday, start taking steps to avoid default, Yellen warns Congress

Description

Treasury Secretary Janet Yellen on Friday notified Congress that the U.S. will reach its statutory debt limit next Thursday.

After that, the Treasury Department this month will begin “taking certain extraordinary measures to prevent the United States from defaulting on its obligations,” Yellen wrote in a letter to new House Speaker Kevin McCarthy, R-Calif.

The Treasury “is not currently able” to estimate how long those emergency actions will allow the U.S. to pay for government obligations, she wrote.

But, “It is unlikely that cash and extraordinary measures will be exhausted before early June,” Yellen added.

She warned McCarthy that it is “critical that Congress act in a timely manner to increase or suspend the debt limit.”

“Failure to meet the government’s obligations would cause irreparable harm to the U.S. economy, the livelihoods of all Americans, and global financial stability,” Yellen wrote.

“I respectfully urge Congress to act promptly to protect the full faith and credit of the United States.”

A spokeswoman for McCarthy had no immediate comment on Yellen’s letter.

White House Press Secretary Karine Jean-Pierre told reporters later Friday, “Congress is going to need to raise the debt limit without condition”

“It is one of the basic items that Congress has to deal with and that should be done without conditions. So there is going to be no negotiation over it,” Jean-Pierre said. “This is something that must get done.”

Yellen’s letter effectively starts a clock counting down how long the federal government can continue to make interest payments on its debt.

Congress in December 2021 increased the federal debt limit to about $31.4 trillion.

The limit is the total amount of money the U.S. government is allowed legally to borrow to pay for its existing obligations. Those obligations include “Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments,” Yellen noted

The so-call called extraordinary measures available to the Treasury secretary free up the government’s borrowing capacity.

This can extend the clock for weeks or months while Congress hashes out a bill to raise the borrowing limit.

Senate Majority Leader Chuck Schumer, D-N.Y., and House Democratic leader Rep. Hakeem Jeffries of New York, in a joint statement, said, “Congress must act on legislation to prevent a disastrous default, meet our obligations and protect the full faith and credit of the United States.”

“A default forced by extreme MAGA Republicans could plunge the country into a deep recession and lead to even higher costs for America’s working families on everything from mortgages and car loans to credit card interest rates,” the leaders said in their statement.

Yellen wrote that the two extraordinary measures that Treasury expects to implement are redeeming existing and suspending new investments of the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund; and suspending reinvestment of the Government Securities Investment Fund of the Federal Employees Retirement System Thrift Savings Plan.

She noted Congress previously authorized the Treasury to use such measures, which the department has employed in the past.

“After the debt limit impasse has ended,” those funds “will be made whole,” Yellen wrote.

A senior White House official told CNBC the Biden administration plans to pursue negotiations in earnest with Congress after the mid-April tax deadline.

At that point, the official said, the federal government will have a better idea of how much revenue is coming in, how far it will go in paying the country’s bills and how urgently it needs to reach a deal.

The trajectory of the American economy between now and then will also determine how brazen Republicans become in their demands to cut spending in response.

Sen. Mitch McConnell of Kentucky, the top Senate Republican, has a long record of rejecting an increase to the debt ceiling unless fiscally conservative policies are included.

It remains unclear whether the new GOP majority in the House under McCarthy will unite over its own set of demands.

McCarthy has made little secret of the fact that Republicans intend to demand massive spending cuts to the federal budget in exchange for approving an increase in the debt ceiling.

But he told reporters on Thursday that GOP lawmakers "don't want to put any fiscal problems through our economy, and we won't."

The new House majority leader, Rep. Steve Scalise, R-La., earlier this week compared the U.S. borrowing limit to a household credit card, saying the nation needed to curb its spending the same way a person with maxed out credit cards would.

"At the same time you're dealing with the debt limit, you're also putting mechanisms in place so that you don't keep maxing it out," Scalise said to reporters on Capitol Hill, "because if the limit gets raised, you don't go to the store the next day and just max it out again."

"You start figuring out how to control the spending problem. And this has been going on for way too long. And we're going to confront this," he said.

What Republicans have failed to say, however, is that, unlike a household that defaults on its debt, a U.S. government default would have massive repercussions around the world.

A default on Treasury bonds could throw the U.S. economy into a tailspin as bad as the Great Recession, the research firm Moody's Analytics warned in a September 2021 report.

At the time, Moody's also projected a 4% decline in gross domestic product and the loss of nearly 6 million jobs if the U.S. defaulted.

In her letter to McCarthy on Friday, Yellen wrote, "Indeed, in the past, even threats that the U.S. government might fail to meet its obligations have caused real harms, including the only credit rating downgrade in the history of our nation in 2011."

Yellen added: "Increasing or suspending the debt limit does not authorize new spending commitments or cost taxpayers money. It simply allows the government to finance existing legal obligations that Congresses and Presidents of both parties have made in the past."

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1. Economy-Business-Fin/Invest
2. Main

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