Press Release

What If the Federal Government Hits the Debt Limit?

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U.S. Treasury Secretary Steven Mnuchin recently advised Congress that the federal government may hit the current debit limit sooner than expected. AAF's Director of Fiscal Policy Gordon Gray explains the debt limit's significance and the implications if the government fails to increase or suspend it.

His central points:

- 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; and
- While federal payment systems seemingly could ensure timely interest payments, that scenario is fraught with risks.

Read the analysis.