

Treasury Secretary Yellen warns US government could run out of money unless debt ceiling is lifted

Nick Beams
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A crisis for the US and global financial system is looming, unless a conflict over lifting the US debt ceiling can be quickly resolved.

The conflict came into public prominence last week, when US Treasury Secretary Janet Yellen wrote a letter to Congress, warning that the government was running out of money, after a debt limit on government borrowing was reinstated on August 1. The limit had been suspended for the previous two years.

Since then, Yellen wrote, the Treasury had been “employing certain extraordinary measures” to ensure that the government could continue to fund itself, but these measures were reaching their limit.

“Once all available measures and cash on hand are fully exhausted, the United States of America would be unable to meet its obligations, for the first time in our history,” she said.

The Treasury was not able to provide a specific estimate of how long the extraordinary measures would last, but the best and most recent estimate was that money would run out some time in the middle of October.

This is not the first time a conflict has arisen over the debt ceiling. The last major battle was in 2011, during the Obama administration. While it was ultimately resolved, and a default avoided, the conflict produced significant turbulence in financial markets and led to a downgrade of the US government’s credit rating, for the first time in history. Standard and Poor’s lowered the nation’s credit worthiness from AAA to AA+.

It is estimated the conflict cost the government \$1.3 billion in increased interest charges on its debt in 2011, with additional costs in the years that followed.

Reporting on the present dispute, the *Financial*

Times wrote that “stand-offs over the debt limit are sometimes dismissed as political theatre that is ultimately resolved, but top Biden administration officials view the stand-off with increasing seriousness.”

Those concerns were set out in Yellen’s letter.

“We have learned from past debt limit impasses that waiting until the last minute to suspend or increase the debt limit can cause serious harm to business and consumer confidence, raise short-term borrowing costs for taxpayers, and negatively impact the credit rating of the United States,” she wrote.

“A delay that calls into question the federal government’s ability to meet all its obligations would likely cause irreparable damage to the US economy and global financial markets.”

She urged that Congress address the debt limit with “broad partisan support,” in order to “protect the full faith and credit of the United States by acting as soon as possible.”

But “broad partisan support” is the least likely of all outcomes, as the debt ceiling issue has become part of Republican opposition to the Biden administration’s spending programs.

The Republicans have insisted that any resolution must be part of a budget reconciliation vote. It can be passed in the House, where the Democrats have a majority, and by the Senate, which is split 50–50, with Democratic Vice-President Kamala Harris having a tie-breaking vote, without any Republicans having to vote for it.

They have refused to pass stand-alone legislation that would lift the debt ceiling, with 46 Republican senators signing a letter to that effect, meaning that it would not

reach the level of 60 votes needed to defeat a filibuster.

Their position was summed up in an interview given by Wisconsin Senator Ron Johnson, who said the Democrats “shouldn’t be expecting Republicans to raise the debt ceiling to accommodate their deficit spending.”

Republican Senate leader Mitch McConnell has insisted in the past that Democrats not expect any Republican support on the debt limit, a position he repeated in an interview last week.

“This debt ceiling is going to cover all of the things that all of us have been opposing,” he said, and the Democrats “need to do the responsible thing and raise the debt ceiling because America must never default on its debt.”

In fact, the raising of the ceiling is needed to cover measures already authorised by Congress and reductions in revenue, going back to the Trump tax cuts of 2017, as well as relief packages carried out under his administration.

White House Press Secretary Jen Psaki appealed for bipartisan support, saying the debt issue was a “shared responsibility,” and “Congress should move forward as they have multiple times.”

But these times are very different. Large swathes of the Republican Party continue to insist that the election was “stolen” and provided crucial support for the attempted coup by Trump of January 6, with the fascist-led storming of the Capitol.

House Speaker Nancy Pelosi told reporters last week: “We have several options.” But she maintained that an increase in the debt ceiling would not be part of the Biden spending package, which the Democrats are now seeking to put through Congress.

In what could become a high-stakes conflict, the *Wall Street Journal* reported last month that one option being considered was a stand-alone bill, that would put pressure on Republicans to support it or risk rattling financial markets.

But given the overriding concern of the Democrats for the stability of Wall Street, and their continued subservience to the Republicans, this option would have to be considered as highly unlikely. Another option may be to attach the debt ceiling to another piece of necessary government funding.

While it has not been featured heavily in news coverage, the debt ceiling issue is attracting

international concern, because of its possible impact on highly fragile global financial markets.

Last week, the *Financial Times* ran the Yellen letter as its lead news story, warning of the “mounting risk of a US sovereign debt crisis.”

In Australia, a column last Friday, by *Sydney Morning Herald* financial commentator Stephen Bartholomeusz, warned that America could be only weeks away from a debt default that would throw the “US economy and global financial markets into chaos.”

He wrote that a default on US debt was “almost unthinkable,” and Congress had always found a way to avert such an outcome. However, he continued, it “can’t be ruled out entirely given how intense and unpredictable politics has become since last year’s US election, and Trump’s eviction from the White House.”



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