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September 21, 2021

The Honorable Janet Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Madam Secretary:

As the Chair and Vice Chair of the Treasury Borrowing Advisory Committee, we are deeply concerned about the market consequences that could arise should Congress fail to raise, suspend, or eliminate the statutory debt limit in a timely manner. The U.S. Treasury has been employing extraordinary measures since August 2nd to avoid breaching the debt limit, but these tools will soon be exhausted, leaving Treasury with insufficient funds to meet all of its financial obligations. If left unresolved, this situation would put the U.S. government at risk of missing debt payments—an outcome that would have severe consequences for the U.S. Treasury market and, ultimately, for the U.S. economy. Even if default were avoided, continued negotiations over the debt limit could cause needless volatility, create additional operational expenses for market participants, and do lasting damage to the Treasury market.

Having a liquid, well-functioning Treasury market provides a tremendous advantage to the United States. The events of the past year and a half underscore this point. The federal government could not have launched its swift and forceful fiscal response to COVID-19 without the capacity to borrow large amounts of funds in a rapid and efficient manner. Since early 2020, Treasury has been able to borrow more than $5 trillion, on net, mainly to fund the relief packages passed by Congress. Past legislative actions already necessitate taking Treasury debt far above the current limit. Raising, suspending or eliminating this antiquated constraint would simply authorize Treasury to fulfill the obligations that Congress has already approved.

If a protracted fight over the debt limit casts doubt on the creditworthiness of the U.S. government or the timeliness of its debt payments, the Treasury market would likely experience significant disruptions that could spark broader market stress. It may become difficult to buy or sell some Treasury securities, given uncertainty about their payment status and operational complexities. The repo market could come under pressure, making it difficult to fund holdings of Treasury securities. Investors might pull back from money market funds in a rapid manner, setting off forced selling of securities. Dealers and principal trading firms could pull back on market-making activity in the presence of heightened volatility and uncertainty.

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It is always difficult to anticipate the full chain of events that could arise during periods of market stress. However, as we saw in March 2020, stress in the Treasury market can unfold in a cascading, self-reinforcing manner and reverberate throughout financial markets, tightening financial conditions and likely damaging a still-fragile economic recovery.

Further, we are concerned that prolonged debt ceiling uncertainty could cause long-lasting reputational and economic impacts on Treasury securities. Today, Treasuries are seen as a deeply liquid investment that is free of default risk, and as such, they command a premium for their money-like status. This status affords the government the ability to fund in large capacity and at attractive terms. However, legislative debate that brings the federal government perilously close to defaulting erodes investor confidence, raises the prospect of a downgrade in the U.S.'s credit rating, and could have damaging effects on demand for Treasuries right as our nation's debt rises to new peaks (now $28 trillion).

It is our considered judgment that near-term action by Congress is required to preserve the tremendous benefits that the U.S. Treasury market provides to taxpayers and to avoid the immense damage a missed payment could have on the Treasury market and U.S. economy. We encourage you to continue working with Congress to raise, suspend, or eliminate the debt ceiling immediately. To default would be unthinkable, but even to risk that outcome would be reckless and irresponsible.

Respectfully,

Elizabeth Ha

Beth Hammack
Chair, Treasury Borrowing Advisory Committee

Brian Sack

Brian Sack
Vice Chair, Treasury Borrowing Advisory Committee