Bipartisan Policy Center

Prioritization Offers Risks, Not Solutions

March 2023

Unparalleled and Untested: The U.S. federal government has repeatedly run up against its debt limit, nearing the point of being unable to fund its commitments. There is, however, no established playbook for the Treasury Department if Congress fails to act. While some have asserted that Treasury could prioritize certain payments or delay all bills and pay them in full once enough revenue has come in, crossing the X Date would be an event unparalleled in our nation's history, so economic, operational, and legal uncertainty and risk abound.

#1: Prioritizing Some Bills Over Others

Treasury might attempt to prioritize some types of payments (e.g., interest payments) over others—sorting through and choosing from among hundreds of millions of monthly payments.

Specific Risks:

• Lumpy revenues (i.e., daily fluctuations) mean that fulfilling all payments for important and popular programs could quickly become chaotic and unsustainable.

• Widespread uncertainty would only grow as decisions are made day-by-day.

#2: Delaying All Bills to Pay in Full

With the exception of interest and principal payments on the debt, Treasury might wait until enough revenue is deposited to cover an entire day's payments, and then make all those delayed payments at once.

Specific Risk:

• Current budget deficit means that delayed payments would quickly pile up day after day.

Risks Under Any Prioritization Scenario

Economic:

- Payments to individuals, business owners, and service providers would be delayed or remain entirely unpaid.
- Immediate cuts in federal spending and failure to meet obligations would ripple across the U.S. economy, possibly spooking investors.
- Potential for credit rating agency downgrade, leading markets to deem U.S. debt riskier, increasing interest rates.

Operational:

- Massive—and potentially impossible—overhaul and reprogramming of Treasury's payment systems could lead to an unintended debt default.
- The federal government would have to conduct this exercise seamlessly and untested in an unprecedented environment where financial markets and the economy may be melting down.

Legal:

- The federal government would still be failing to meet some of its obligations (and be legally required to repay them, plus 4.6% interest).
- There is no legal precedent for choosing to pay certain bills before others.
- Immediate court battles could mount, e.g., overpaying foreign bondholders before American citizens.

Price of Political Brinkmanship: Voters and investors are unlikely to view prioritization as a practical way for the government to manage an economic crisis. Rather, they would see and feel its impacts for what it is—the first time in modern history that the U.S. fails to pay its bills, driven solely by politics. The least risky path forward—congressional action well before the X Date—would obviate the need for speculation about the outcome of prioritization. Members of Congress should therefore weigh the potential costs of a default, even one managed through prioritization, against any perceived benefits from extending their negotiations beyond the X Date.