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As Congress approaches the X-date by which it needs to raise the debt limit to avoid a default, some in Congress are floating proposals on how to circumvent the House Republican leadership and pass a clean increase in the debt ceiling as well as proposals on how to prioritize payments to creditors in the event Congress fails to increase the debt ceiling on time. Both ideas have key flaws, and investors should avoid looking at these proposals as magic bullets to avoid a messy political fight and market volatility that might result from it.

On Friday, Treasury Secretary Janet Yellen send a letter to Congress which stated that the U.S. will reach its debt limit on Thursday, January 19. Once the limit is reached, Treasury will start using "extraordinary measures" to prevent the United States from defaulting on its obligations. Secretary Yellen's letter also indicated that "it is unlikely that cash and extraordinary measures will be exhausted before early June." According to a Bipartisan Policy Center (BPC) estimate, the Treasury will exhaust its extraordinary measures some time in third quarter 2023 – the so-called X-date. For now, the Treasury announcement will generate some headlines regarding the debt ceiling, but Washington is probably several months away from when the situation will reach a boiling point and Congress has to get serious about increasing the debt ceiling. **In the meantime, some in Congress will float ideas about how to circumvent the situation in the House to increase the debt ceiling, and others will propose ways to prioritize government payments in case Congress fails to raise the debt ceiling in a timely fashion. Both proposals have flaws and investors should view them with suspicion.**

Recently, some observers have floated the idea of **a discharge petition** in the House in order to pass a clean debit limit increase. A discharge petition is a tool in the House whereby 218 members (a simple majority) sign a petition to force a House vote on legislation such as a clean debt ceiling increase. While this might sound like a straightforward way to circumvent House Republicans (who will push for concessions in return for supporting an increase in the debt limit) and avoid a potentially volatile standoff, **the use of a discharge petition can be time consuming and faces political hurdles. It is probably not the magic bullet that some think it is which is something investors should keep in mind in the coming months.**

In order to use a discharge petition, a bill (in this case a clean debt ceiling increase) must have been referred to a House committee for 30 legislative days. Thus, legislation to raise the debt limit without concessions must be introduced in advance of the X-date. Also, 218 House members must sign the petition in order to force a vote on the House floor. There are currently 212 House Democrats, so assuming that all 212 sign a discharge petition, six House Republicans would also need to sign the petition in order to force a vote. While the debt limit is a serious matter, there will be significant political pressure on House Republicans not to sign the petition, and it is doubtful that any Republican (and certainly not the six that are required to proceed) will sign a discharge petition until the absolute last minute. Furthermore, even after the 218th member signs a discharge petition, a vote would be scheduled for a "Discharge Day," which occurs on every second or fourth Monday of the month. Without getting further into the weeds, the House leadership could further delay a vote on a discharge petition by not scheduling a session on a Monday when discharge petitions are considered.

Beyond the House's procedural considerations, a discharge petition is not binding on the Senate, where 60 votes will be necessary to raise the debt limit. If only a handful of House Republicans support a discharge petition to vote on a clean debt ceiling increase, then it is reasonable to expect that it will be difficult to find nine Senate Republicans to vote for a clean debt ceiling increase.

In sum, discharge petitions are not useful tools in time sensitive situations. Investors should not take solace from discharge petition headlines.

In addition to headlines about discharge petitions, investors should expect to see headlines about **proposals to prioritize government payments in the event that Congress fails to raise the debt ceiling.** Under these proposals, Congress could direct the Treasury Department to prioritize payments to bondholders, which would avoid a technical default. However, prioritization raises hazardous political questions about how to order key government payments, such as for defense, as well as social safety net programs such as Social Security and Medicare. **Prospects are not good for passing legislation under which Congress would choose between paying Grandma and Wall Street bondholders. In addition, it stretches the imagination to think that the federal government has the level of sophistication and precision to accurately prioritize payments to creditors, vendors, government agencies, and citizens. Take the recent computer problems at the FAA which grounded flights across the U.S. on a recent morning and apply that across the entire government trying to prioritize who to pay and when.** It should not make any creditor or vendor feel confident that the government could pull off prioritization. Investors should discount headlines regarding prioritization proposals.

With neither discharge petitions nor payment prioritization seen as viable options, investors will be subject to the vagaries of the political process and the bouts of volatility that will accompany it (especially as we approach the X-date).

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