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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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Today's White House meeting between President Joe Biden and House Speaker Kevin McCarthy could determine whether passing a debt ceiling bill deal by June 1 (possibly the X-date) is doable or not. While Washington will raise the debt ceiling at some point, an apparent lack of urgency is increasing the probability that Congress and the White House will fail to raise it by the X-date. Depending on the outcome of today's meeting (time TBA as of this writing), market volatility could increase as this week progresses.

President Biden and House Speaker McCarthy are scheduled to meet at the White House today to discuss the debt ceiling. **Today's meeting could signal whether Congress will raise the debt ceiling before or after the X-date.** As of Monday morning, the exact time of the meeting had yet to be announced.

The Treasury Department has indicated that the X-date (the date on which Treasury lacks sufficient funds to pay all of the federal government's bills) could be as soon as June 1. **Due to the need to draft the legislation and allow time for review, the practical deadline is probably Friday, May 26.**

**If today's meeting fails to produce a pathway to an agreement, market volatility could increase on fears that Washington might not reach a deal before the X-date.**

If President Biden and Speaker McCarthy can close the gap between them, negotiators can work on the details during the week. It is unlikely that Congress would be able to pass a long-term debt ceiling bill by the end of the week, but if an agreement is in place by Friday, Congress could pass a short-term suspension of the debt ceiling. This would create the time to write the legislation and provide members of Congress several days to review the bill (which Republicans would insist on) before voting on it.

**The chances of reaching a deal by the end of the week are uncertain, given the apparent lack of urgency among significant blocks of lawmakers on both sides of the aisle.**

Congress is scheduled to be out of session next week (following the Memorial Day weekend) and would only come back to vote on a debt ceiling bill. **If no framework for a deal is in place by the end of the week, the chances of a short-term suspension would probably fall and the X-date could be reached without an agreement in place.** If Washington breaches the X-date without raising the debt ceiling, public pressure would determine how long the standoff lasts.

Federal revenues cover only 75 percent of outlays, so at some point, without an increase in the debt limit, Treasury will be unable to pay all of the government's bills. It seems clear that **Treasury will prioritize the payment of principal and interest on U.S. Treasuries, so the chances of a default on Treasuries is remote.** Also, it is unfathomable that the government would not pay Social Security recipients or meet payroll of the American military. On any given day, however, Treasury would likely have to delay payments of some obligations. Depending on who the creditor is (a government contractor, veterans' benefits, other social safety net payments, etc.), **delayed payments would likely increase political pressure which would, in turn, increase the chances of reaching a debt ceiling deal, but would also be accompanied by some economic disruption and possibly a downgrade in the credit rating of U.S. government debt.**

Although it is a low probability, there is a chance that if the standoff lasts to June 15, it might extend into July. Quarterly tax payments, due on June 15, could provide Treasury enough cash to meet all obligations into July and, in this case, Congress and the White House could conceivably use all of that time to negotiate a debt ceiling agreement. The amount of pressure brought to bear by the public and financial market's reaction will likely determine how long the standoff lasts.

Currently, many lawmakers in each party think the other party will bear the brunt of public anger if the debt ceiling is not raised which could mean the debt ceiling standoff lasts past this week. Today's White House meeting could signal which path Washington takes.

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