Economic Policy Program

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Extraordinary Measures
Simplified

On a number of occasions over the last four years, the U.S. government was operating at the debt limit (meaning additional debt could not be issued using normal operations). During these times, the Treasury Department used extraordinary measures to generate additional cash to meet financial obligations while still complying with the debt limit. On March 16, 2015, when the debt limit is scheduled to be reinstated from its current suspension, Treasury will again begin to deploy its extraordinary measures. (See p. 4 for BPC's estimates of their size and duration.) These measures, which have been used since their creation in the 1980s, are a source of confusion to many. What follows is a brief explanation of what they are, how they work, and the limits of the measures.

What Are They?

Existing statutes allow Treasury to change the normal operations of certain government accounts when the debt limit is reached. While there are a handful of extraordinary measures, most of the Treasury's flexibility derives from three measures that allow it to reduce the amount of intragovernmental debt. This is debt that is **not** sold to the public, but rather issued to government funds. The most well-known example of a government fund is the Social Security Trust Fund, which is composed of special Treasury securities. Notably, the Social Security Trust Fund is **not** part of the extraordinary measures.

The Big Three

#1

Thrift Savings Plan Government Securities Investment Fund (G FUND)

The Thrift Savings Plan for federal employees includes an option that is invested in Treasury debt. Known as the G Fund, it is invested in special securities that mature every day. When operating at the debt limit, Treasury can choose not to fully invest this fund from day to day.

Example. Even if federal employees have invested $100 billion in the fund, Treasury could choose to only issue $90 billion in securities to the fund, thereby creating $10 billion of room under the debt limit, which could then be used to auction more debt to the public, raising cash to pay government bills. Once the debt limit is increased or suspended, the G Fund would be restored to the full $100 billion, plus any interest that would otherwise have been earned under full investment of the fund.

#2

EXCHANGE STABILIZATION FUND (ESF)

This measure works similarly to the G Fund. The ESF is an account that Treasury uses for certain currency-related operations. It is composed of the same securities as the G Fund (one-day certificates). The ESF is much smaller than the G Fund and is usually only deployed as an extraordinary measure after the G Fund has been fully depleted of securities.

#3

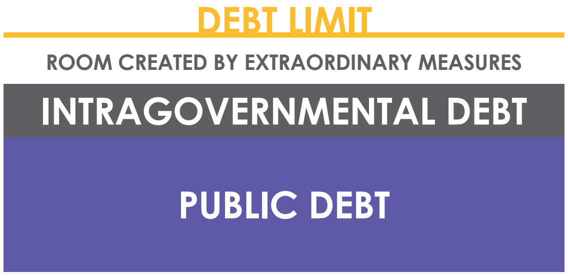
CIVIL SERVICE RETIREMENT AND DISABILITY FUND (CSRDF)

This measure, which utilizes the main pension fund for federal employees, has several features. Most important are: 1) the ability to avoid adding to the fund's intragovernmental debt by waiting to credit interest on the fund's securities and 2) delaying rollovers of its maturing securities until after the debt limit is increased.

Example. If $10 billion of debt in the fund is maturing, normally Treasury would issue new securities for the same amount. When up against the debt limit, Treasury can choose to wait to issue these new securities until after the debt limit is increased. The CSRDF measure is only valuable at certain times of the year, when interest is paid (semiannually) and when securities mature (once a year). For this reason, sometimes it is very useful, other times it is not, depending on when the debt limit is reached.

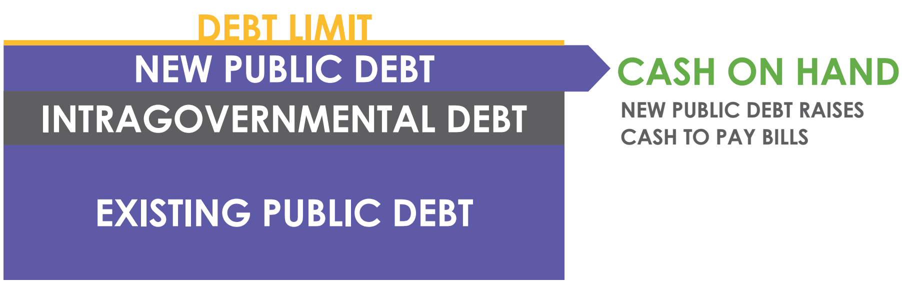
Step 1

When intragovernmental debt is reduced using extraordinary measures, it creates room under the debt limit.



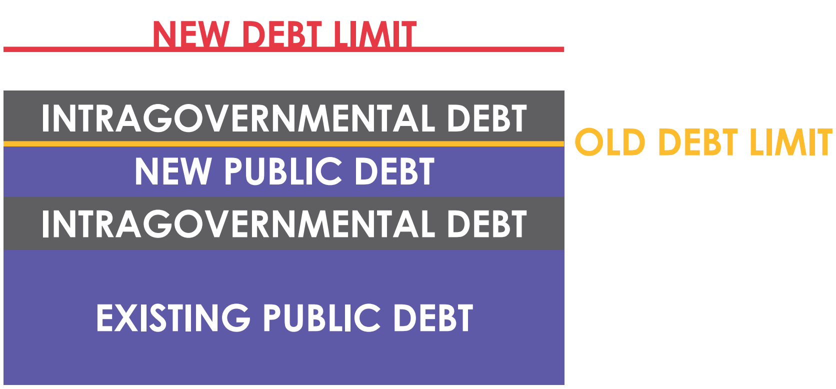
Step 2

This room can be used to sell additional debt to the public, which raises cash. That cash is then used to pay bills.



Step 3

After the debt limit is increased, the extraordinary measures are legally required to be unwound. This means that the intragovernmental debt that was reduced has to be restored.



There are Limits

Extraordinary measures are not unlimited. For example, once the G Fund is down to zero (because it has been completely disinvested), the measure is no longer useful. **At some point, if the debt limit is not increased or suspended, Treasury will run out of extraordinary measures and will only have cash-on-hand plus daily revenue collections to make payments.** Because the nation runs a deficit, eventually there will not be enough cash-on-hand to make all scheduled payments in full and on time.

More Facts

Treasury Cannot Create New Extraordinary Measures

All of these measures are authorized by law and have conditions on when and how they are used, along with how they must be unwound after the debt limit is increased or suspended. Only Congress has the authority to pass legislation to add new measures or change existing measures.

How Long They Last

The length of time that extraordinary measures will last depends on how many are available – which, among other factors, varies by time of year – and the size of the government's deficit. For instance, in early 2014, about $200 billion of measures were available and it was the height of tax-refund season, which caused the measures to be exhausted within a few weeks. In 2015, around $350 billion of measures will be available, most tax refunds have already been paid, and the government is projected to run a surplus in some months, meaning that the measures will likely last until the fall.

Extraordinary Measures Available	Early 2014	2015 (estimated)
Do not reinvest the Federal Employees' Retirement System G-Fund	$173 billion	$194 billion
Do not reinvest the Exchange Stabilization Fund	$23 billion	$23 billion
Do not make new investments to the civil service and postal retirement funds	$2 billion	$140 billion
Total	$198 billion	**$357 billion**

To learn more, visit bipartisanpolicy.org/debtlimit

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