

ECONOMIC UPDATE

September 24, 2021

Economic Issue in Focus – Failing to Raise the Debt Limit Would Create an Economic Catastrophe

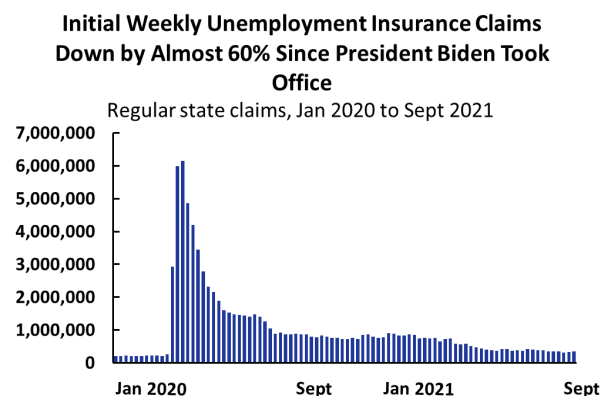
The U.S. economy currently faces the threat of a debt limit breach, which would cause the government to default on its existing financial obligations and would have catastrophic economic consequences. Past debt limit brinkmanship drove huge declines in the stock market, led to higher borrowing costs and resulted in the first-ever downgrade of the U.S. credit rating. Breaching the debt limit would jeopardize the economic recovery and result in millions of jobs lost and significant, widespread harm that would be felt in American households across the country. Interest rates for mortgages, student loans, credit card payments and other borrowing would spike, leading to higher costs for borrowers, taxpayers and consumers.

Moody’s economist Mark Zandi [predicts](#) that a default on U.S. debt obligations would trigger a global market panic on the scale of the 2008 financial crisis, resulting in the loss of 6 million U.S. jobs, an unemployment rate of nearly 9%, a decline in real GDP of 4% and the elimination in \$15 trillion in household wealth.

In the event of a debt limit breach, the federal government would be forced to slash or delay billions of dollars in payments to Social Security recipients, hospitals and health providers reimbursed by Medicare or Medicaid, veterans and federal workers, like U.S. Postal Service employees and active military service members.

Key Economic Indicators to Track

- Unemployment Insurance Claims:** [Data](#) released by the Department of Labor show that despite increasing slightly to 351,000, new unemployment claims remain almost 60% lower than when President Biden took office and 94% lower than during the peak of the pandemic. The four-week moving average, which is used to smooth week-to-week volatility in the data, declined for the sixth consecutive week to 335,750, a pandemic-era low.



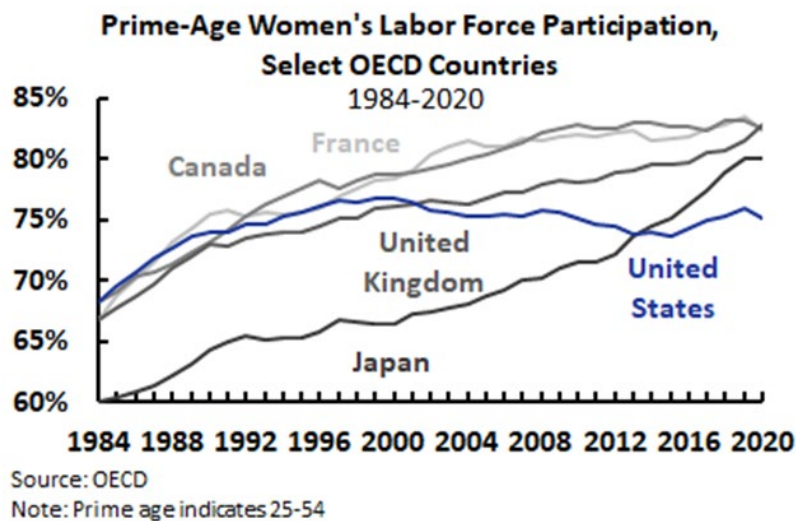
Source: Department of Labor
Note: Data are seasonally adjusted.

- **Federal Reserve:** The Federal Reserve’s latest economic [estimates](#) project U.S. GDP will grow 5.9% in 2021 and 3.8% in 2022, while inflation will moderate to 2.2% in 2022 and 2023. During the Federal Open Market Committee’s (FOMC) September meeting, the Federal Reserve signaled that the continuing economic recovery could lead to scaling back asset purchases and more FOMC members predicted interest rates could be raised next year. The Fed’s forecasts indicate that the central bank expects that the U.S. economy will continue to grow and inflationary pressures will be short-lived.

JEC Spotlight – Policies That Support Families’ and Women’s Full Participation in the Workforce Are Crucial for Strong and Stable U.S. Economic Growth

A new [JEC issue brief](#) highlights how inadequate care infrastructure hampers labor force participation, especially for women. Policies such as paid leave and child care will help families both meet their care needs and engage more fully in the economy. The coronavirus pandemic has shed new light on the need for strong care infrastructure, as the closure of daycares and shift to online school combined with labor market losses pushed women’s labor force participation rate to its lowest level in 35 years, to 54.6% in April 2020.

Even before the coronavirus pandemic, U.S. women’s labor force participation had stalled out and begun to decline while it continued to grow in peer economies such as Canada, France, the UK and Japan. Economic research has found that [29%](#) of the decrease in U.S. women’s labor force participation relative to other advanced economies is due to the lack of policies such as paid leave. This is just one example of why policies like paid leave and child care in the Build Back Better Act are crucial to boost women’s labor force participation, a key driver of future economic growth.



Selected JEC Resources

- [National and State Level Data on the Economic Situation of Hispanic Americans](#)
- [Expanding the Housing Choice Voucher Program to Improve Housing Affordability and Economic Security for the Lowest-Income Families](#)

More information for Members and staff: www.jec.senate.gov/resources

Sign up to receive JEC publications at bit.ly/JointEconMailingList

Contact: nita_somasundaram@jec.senate.gov

- [*Updated SNAP Benefit Levels Will Help 42 Million People and Add \\$31.8 Billion in Local Economic Activity Every Year*](#)
- [*Hispanic Workers Kept the U.S. Economy Moving During the Coronavirus Pandemic but Face Lower Wages and Poor Working Conditions*](#)