The Debt Limit: A Repetitive Congressional Dance

Center Forward Basics
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Overview

In recent years, Washington has focused increasingly on avoiding impending deadlines that require more immediate legislative action. The federal government reaching the statutory debt limit—often called "the debt ceiling"—has become one of these simultaneously dramatic and routine action-forcing events. Unfortunately, brinksmanship related to a federal government default has unusually far-reaching consequences, including worsening our federal debt problem while also raising borrowing costs for American households. Following a deal made between President Trump and Democratic leaders in Congress, the debt limit was raised until December 8th, after which the Treasury Department can use "extraordinary measures" – financial tools developed by Treasury that allow the department to pay the bills while the government considers raising the debt ceiling. Extraordinary measures are projected to be exhausted in the Spring of 2018. This Basic reviews the nuts and bolts of the debt ceiling and how the fight ahead may play out.

What is the debt ceiling?

Since 1939, Congress has limited the federal government's ability to borrow from the public or from other government accounts by setting an overall limit on the total debt the Treasury can incur. As borrowing approaches this legal limit, Congress has regularly passed legislation to raise the limit—passing 92 debt limit bills since 1940.

What's the difference between a default and a shutdown?

While temporary government "shutdowns" have occurred several times in the last 30 years, Congress has never failed to increase the debt ceiling. A shutdown of the federal government occurs when Congress fails to approve annual spending required to fund normal government operations. But, in a shutdown, the government is allowed to make payments to meet all legal obligations. In contrast, preventing new borrowing eliminates the government's ability to make payments *already approved* by Congress, known as "default." Without the ability to borrow money, the Treasury cannot finance the day-to-day payments necessary to send Social Security benefit checks, reimburse doctors for Medicare patient visits, pay federal employee salaries, or make required payments to previous lenders.

Even debating whether to raise the limit causes instability in global financial markets and threatens the United States government's status as the safest currency investment in the world. In 2011, following a Congressional debate on whether or not to let the Treasury default on its obligations, credit rating agency Standard & Poor's downgraded the U.S. government's credit rating, raising concerns about increased borrowing costs related to perceptions on increased lending risks. This rating downgrade created a domino effect of instability in global

Key Facts

- Current Statutory Debt Limit (as of September 2017): **$19.8 trillion**
- Cost of Temporary, Accidental Partial Default (occurred in May 1979): **$12 billion/year**
- Times Congress has Failed to Increase the Debt Limit since 1940: **0**
- As of early August 2017, the total U.S. debt reached roughly $19.8 Trillion. This amounts roughly to:
  - Per Person **$60,956**
  - Per Household **$157,727**
  - % of GDP **103%**

Other Resources

- Bipartisan Policy Center
  - [Treasury Bill Rate Spike Signals Cost of Approaching Debt Limit "X Date"]
- Center on Budget and Policy Priorities
  - [In Forthcoming Trump Budget, Rosy Forecasts of Economic Growth Likely to Produce Highly Unrealistic Budget Estimates]
  - [Separating the Debt Limit from the Deficit Problem]
- Columbia Law Review
  - [How to Choose the Least Unconstitutional Option: Lessons for the President (and Others) from the Debt Ceiling Standoff]

financial markets.

What happens if Congress doesn't raise the debt limit?

Once the debt ceiling is reached without an increase, the U.S. government no longer has the ability to pay its obligations with borrowed money. It must, therefore, rely on incoming tax and other forms of revenue to pay ongoing federal government expenses. Though the Treasury Department, acting in compliance with federal regulations, has the authority to decide which bills to pay and which bills to postpone.

If the debt ceiling were reached and Congress failed to act, federal employees would be furloughed and nearly 1 million federal employees would be sent home, without pay, while the work they would regularly be doing would go undone until a solution was reached. Many, though not all, federal buildings and all national parks and monuments would be closed. An impasse like this can also lead to higher consumer interest rates making it more expensive or nearly impossible for many Americans to buy a home or car, or obtain a small business loan. These are just a few of the possible outcomes:

- Hundreds of thousands of federal employees could be furloughed
- Pension payments may be halted
- Social Security, Medicare and Medicaid payments may be halted
- Federal buildings and national monuments could be closed
- Consumer interest rates could rise
- The value of the dollar could sharply decline

Why is paying our federal debts a political issue?

As additional debt is typically politically unpopular, some Congresses have at times attached policies to debt limit legislation aimed at addressing the federal debt. For instance, in August 2011, Congress included over $2 trillion in future spending cuts in legislation increasing the debt ceiling from $14.3 trillion to $16.4 trillion.

In November 2015, Congress passed the Bipartisan Budget Act of 2015, suspending the debt limit until March of 2017. March came and went and in April, Congress passed an extension and the Treasury Department invoked some emergency measures to create a new deadline of late September.

When congressional leaders huddled with the President on September 7, 2017 to work out a deal, Democrats sought a three-month debt limit increase packaged with disaster relief for Hurricane Harvey and to then revisit the issue in December to negotiate a long-term government funding deal that could also include immigration or health care legislation. Republican leaders, under pressure from the Freedom Caucus to include spending cuts and an increase of no more than $1.5 trillion, proposed an 18-month "clean" deal to raise the debt limit with no restrictions attached. This would have taken the fight to just after the 2018 midterms. The President agreed to the Democrats' 3 month terms and, days later, Congress approved a package of nearly $15 billion in disaster aid and Treasury was granted an extension of government spending without raising the debt ceiling until December, 8 2017. In the days following the deal, the Trump Administration

Other Resources (cont.)

- Committee for a Responsible Federal Budget
  - Seven Resolutions for the Fiscal New Year
  - The Better Budget Process Initiative: Setting the Benchmark: Reforms to Budget Baseline Rules
- Congressional Research Service
  - Reaching the Debt Limit: Background & Potential Effects on Government Operations
  - The Debt Limit: History & Recent Increases
  - The Debt Limit Since 2011
- Fidelity Investments
  - The $16 Trillion Question: The U.S. Debt Ceiling
- Government Accountability Office
  - Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market
- The Policy Uncertainty Project
  - Measuring Economic Policy Uncertainty

did not release their strategy for the negotiations to come, though President Trump himself has raised the prospect of eliminating the federal debt limit all together.

Links to Other Resources

- Bipartisan Policy Center – Treasury Bill Rate Spike Signals Cost of Approaching Debt Limit "X Date"
  https://bipartisanpolicy.org/blog/cost-of-approaching-debt-limit-x-date/

- Center on Budget and Policy Priorities – In Forthcoming Trump Budget, Rosy Forecasts of Economic Growth Likely to Produce Highly Unrealistic Budget Estimates
  https://www.cbpp.org/research/federal-budget/in-forthcoming-trump-budget-rosy-forecasts-of-economic-growth-likely-to

- Center for Budget & Policy Priorities – Separating the Debt Limit from the Deficit Problem
  http://www.cbpp.org/cms/index.cfm?fa=view&id=3888

- Columbia Law Review – How to Choose the Least Unconstitutional Option: Lessons for the President (and Others) from the Debt Ceiling Standoff
  http://www.columbialawreview.org/wp-content/uploads/2012/10/Buchanan-Dorf.pdf

- Committee for a Responsible Federal Budget – Seven Resolutions for the Fiscal New Year
  http://www.crfb.org/blogs/seven-resolutions-fiscal-new-year

- Committee for a Responsible Federal Budget – The Better Budget Process Initiative: Setting the Benchmark: Reforms to Budget Baseline Rules
  http://www.crfb.org/papers/better-budget-process-initiative-setting-benchmark-reforms-budget-baseline-rules

- Congressional Research Service – Reaching the Debt Limit: Background & Potential Effects on Government Operations
  http://www.fas.org/sgp/crs/misc/R41633.pdf

- Congressional Research Service – The Debt Limit: History & Recent Increases
  http://www.fas.org/sgp/crs/misc/RL31967.pdf

- Congressional Research Service – The Debt Limit Since 2011
  https://www.everycrsreport.com/files/20170605_R43389_21bfcdb3227f8c7ba3ceff4097e4608257c02bb1.pdf

- Fidelity Investments – The $16 Trillion Question: The U.S. Debt Ceiling
  https://communications.fidelity.com/wi/2012/postelection/file/FF_The-16-Trillion-Question-The-US-Debt-Ceiling.pdf

- Government Accountability Office – Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market
  http://www.gao.gov/new.items/d11203.pdf

- The Policy Uncertainty Project – Measuring Economic Policy Uncertainty
  http://www.policyuncertainty.com/media/BakerBloomDavis.pdf