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, brinkmanship 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. In August 2019, spending levels were raised and the debt limit was suspended for two years. But on August 1, 2021, the debt limit will be reinstated at a level covering all borrowing that occurred during the suspension. 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 — increasing the debt limit more than 70 times 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 financial markets.

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Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

Key Facts

- Current Statutory Debt Limit (as of July 2021): **$28 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 July 2021, the total U.S. debt reached roughly $28.5 Trillion. This amounts roughly to:
  - Per Person **$85,421**
  - % of GDP **128.14%**

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. Global investor confidence in U.S. Treasury Bonds — which serve as an important safe-haven asset and risk-free benchmark — could be undermined and result in extremely adverse consequences for financial markets with negative consequences for the general economy, most particularly with respect to credit availability and cost. 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

What is happening now?

In 2019, Congresses enacted a bipartisan budget deal that raised spending levels and suspended the debt limit until July 31, 2021. If Congress does not suspend the debt ceiling before that date, the Treasury Department can use "extraordinary measures" – financial tools developed by the Treasury that allow the department to pay the bills while the government considers raising the debt ceiling. But, Treasury Secretary Janet Yellen said the Treasury may exhaust those measures as early as August during a month-long Congressional break. Speaking to the Senate Appropriations Committee on June 23, 2021, she warned that she "thinks defaulting on the national debt should be regarded as unthinkable," calling it "utterly unprecedented in American history for the US government to default on its legal obligations." Yellen also emphasized that a default would be "absolutely catastrophic" and hurt the nation's economic recovery from the COVID-19 pandemic.

Links to Other Resources

- Bipartisan Policy Center – Debt Limit Analysis
- Center on Budget and Policy Priorities – In Forthcoming Trump Budget, Rosy Forecasts of Economic Growth Likely to Produce Highly Unrealistic Budget Estimates
- Center for Budget & Policy Priorities – Separating the Debt Limit from the Deficit Problem
- Committee for a Responsible Federal Budget – Seven Resolutions for the Fiscal New Year
- Committee for a Responsible Federal Budget – 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
- Congressional Research Service – The Debt Limit

- The Hill – Yellen pleads with Congress to raise debt ceiling, avoid 'unthinkable' default
- Politico – Democrats hurtle toward debt deadline without a clear plan
- U.S. Department of the Treasury – Debt Limit
- The Wall Street Journal – Yellen Says U.S. Could Breach Debt Limit Deadline in August if Congress Doesn't Act