



The Debt Limit: A Repetitive Congressional Dance

Center Forward Basics

January 2023

Overview

In recent years, Washington has increasingly focused 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 July 2021, the debt limit was suspended when a part of the 2019 Bipartisan Budget Act lapsed. After this brief suspension, the debt limit was raised to \$28.9 trillion in October 2021. The current debt limit is just under \$31.4 trillion, set in December 2021. 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. Raising the debt ceiling is not a vote to spend more money but rather to increase the amount of money the government can borrow to fund its existing financial obligations.

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 the 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 of 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 December 2021): **\$31.381 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 mid-November 2022, the total U.S. debt reached roughly **\$31.3 trillion**. This amounts roughly to:
 - Per person **\$93,785**
 - % of GDP **122.1%**

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. However, 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 to 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?

Congress and President Biden prevented a government default in December 2021 by passing a bill that increased the debt ceiling by \$2.5 trillion. The U.S. is expected to reach and exceed that debt ceiling this month unless lawmakers reach an agreement to raise the limit or agree to suspend the debt limit for a set period of time. The new rules package passed by the House in early January requires an explicit vote to increase the federal government's borrowing authority.

House Republicans are willing to raise the debt ceiling if House Democrats and President Biden agree to certain terms, including major spending cuts to help balance the budget. The administration has already stated that it wants no negotiations and no policy strings attached to the effort to raise the debt ceiling. However, with a divided government, any action to raise the debt ceiling requires bipartisan cooperation.

Janet Yellen, the Secretary of the Treasury, sent a letter to Congress warning that “the Treasury will need to start taking certain extraordinary measures” to prevent a default. She adds that these extraordinary measures are temporary, and the “period of time that [they] may last is subject to considerable uncertainty.” A failure to raise the debt ceiling and a subsequent default would harm the economy, the livelihood of Americans, and the financial stability of the rest of the world.

Links to Other Resources

- Bipartisan Policy Center – [Debt Limit Analysis](#)
- Center on Budget & 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 – [Federal Debt and the Debt Limit in 2022](#)
- Congressional Research Service – [Reaching the Debt Limit: Background & Potential Effects on Government Operations](#)
- Congressional Research Service – [The Debt Limit](#)
- Department of the Treasury – [Debt Limit](#)
- NBCNews – [House Republicans gear up for a debt ceiling fight with the White House and Senate Democrats](#)