



The Debt Limit: The Congressional Default Mechanism

Overview

As Congress has engaged less in proactive policymaking 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.

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. 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, and 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 letting 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.

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.

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Key Facts

- Current Statutory Debt Limit (as of January 2013): **\$16.4 trillion**
- Borrowing level necessary to meet all obligations: **\$118 billion/month**
- 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**

Other Resources

- Congressional Research Service (CRS)
 - [Reaching the Debt Limit: Background & Potential Effects on Government Operations \(R41633\)](#)
 - [The Debt Limit: History & Recent Increases \(RL31967\)](#)
- Government Accountability Office (GAO) - [Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market](#)
- Center for Budget & Policy Priorities (CBPP) — [Separating the Debt Limit from the Deficit Problem](#)
- Fidelity Investments — [The \\$16 Trillion Question: The U.S. Debt Ceiling](#)
- *Columbia Law Review* — [How to Choose the Least Unconstitutional Option](#)
- The Policy Uncertainty Project — [Measuring Economic Policy Uncertainty](#)

Links to Other Resources

- Congressional Research Service (CRS) – Reaching the Debt Limit: Background & Potential Effects on Government Operations (R41633)
<http://www.fas.org/sgp/crs/misc/R41633.pdf>
- Congressional Research Service (CRS) – The Debt Limit: History & Recent Increases (RL31967)
<http://www.fas.org/sgp/crs/misc/RL31967.pdf>
- Government Accountability Office (GAO) – Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market
<http://www.gao.gov/new.items/d11203.pdf>
- Center for Budget & Policy Priorities – Separating the Debt Limit from the Deficit Problem
<http://www.cbpp.org/cms/index.cfm?fa=view&id=3888>
- 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
- 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>
- The Policy Uncertainty Project – Measuring Economic Policy Uncertainty
<http://www.policyuncertainty.com/media/BakerBloomDavis.pdf>