

ABOLISHING THE DEBT LIMIT IS AN ACT OF FISCAL RESPONSIBILITY

March 2, 2022

The [debt limit](#) was established in 1917 to make it easier for Treasury to issue debt obligations – instead of going to Congress for approval of each debt issuance needed to cover payments owed, Treasury could make all payments up to a specified total ceiling on outstanding debt. It was never intended as a measure to control deficit spending, rather as a practical tool to allow Treasury to manage the government’s financial operations more smoothly. The debt limit does not control spending levels, nor does it prevent Congress from adding to the debt to cover new investments and appropriations. All it does is create a recurring disconnect between Congressional spending decisions and Treasury’s ability to pay the bills resulting from those decisions, requiring repeated Congressional action to raise the debt limit just to avoid serious negative economic consequences.

While the debt limit law does not provide any fiscal policy benefit, its existence does threaten our national well-being. The inclination of some politicians to force crises around the debt limit to extract concessions from the opposing party has endangered our economy more than once and has already threatened our economic recovery by creating the potential for default. The House Budget Committee held a hearing on February 16, 2022 to explore the ways in which the existence of the federal debt limit threatens our nation’s economic security and future prosperity. In the words of **Chairman John Yarmuth**, “I cannot think of another provision of budget law that has been as misused, misunderstood, and misrepresented as much as the debt limit.” As the only major industrialized nation with a debt limit, the United States is also the only major economy that routinely puts itself at risk of defaulting on our own debt and manifesting a self-inflicted economic collapse.

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- House Budget Chairman John Yarmuth (D-KY)

THE EXISTENCE OF THE DEBT LIMIT HAS NEVER CONSTRAINED SPENDING

As **Dr. Laura Blessing**, Senior Fellow at The Government Affairs Institute at Georgetown University explained, “There is little evidence that the debt ceiling provides fiscal restraint.” In her testimony she outlined how debt limit crises have not led to meaningful reforms, and at times have led to policies that make the budgeting and appropriations process less functional.

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- Dr. Laura Blessing

As such, arguments that the debt limit must exist to help Congress focus on meaningful deficit reduction do not hold up. While Congress should focus on solving our long-term challenges like increasing inequality, exploding health care and college costs, Social Security insolvency, and lack of quality childcare, the constant crises surrounding the debt limit will not make that happen. Instead, the existence of the debt limit creates a dangerous situation that could lead to a self-inflicted meltdown of the U.S. economic system.

Dr. Louise Sheiner, Robert S. Kerr Senior Fellow in Economic Studies and Policy Director for the Hutchins Center on Fiscal and Monetary Policy at The Brookings Institution, put it best when she said, “if you look at the history of the debt ceiling, you will find that it has not had any material effect on deficits.”

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THE DEBT LIMIT CREATES A CONVENIENT VEHICLE FOR POLITICAL BRINKSMANSHIP

The debt limit is not a harmless policy. As Congress becomes more polarized, the debt limit has become a tool for increased political mischief. As **Majority Leader Steny Hoyer** said, “Those consequences are what make the debt limit so dangerous and such a tempting hostage...The weaponization of the debt limit puts

our country at risk.” But every threat of default comes with the risk of *actually* defaulting. And as **Chairman Yarmuth** stated, “in a closely divided Congress, with Members who have openly called for destroying the full faith and credit of the United States, that is a real risk we can no longer afford.” A breach of the debt limit would mean stopping payments to programs like Social Security, Medicare, Medicaid, veterans’ benefits, child nutrition programs, and others. It would cause financial market disruptions that could ripple around the globe, spurring another financial crisis and threatening the standing of the U.S. economy in the world. These human, economic, and political costs are not worth scoring a few political points. Abolishing the debt limit will neutralize this threat all together.

THE DEBT LIMIT CAUSES UNNECESSARY STRESS

As **Dr. Sheiner** explained, “[the debt limit] also creates completely unnecessary economic stress for people, as federal employees, contractors, Social Security beneficiaries, and the like have to worry about whether the government will pay them what they are owed on a timely basis.” For a policy that has no real benefits, it does have huge costs.

These costs would not be contained to just those who rely on federal payments. The painful impacts of a breach would reverberate throughout our entire economy, including small businesses. “I want to reiterate the importance of stability from the small business perspective...when you look at the impact of small businesses across the country, we are really making the most difference in the most areas, and especially in our communities.” said **Ms. LaJuanna Russell**, Founder and President of Business Management Associates, Inc., and Chair of the Small Business Majority. In her testimony she explained that a breach of the debt limit would be catastrophic for small businesses, hurting their access to capital and in many cases making it impossible for them to operate.

This would ripple through the economy as workers and those who depend on those businesses would be adversely affected.

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IT IS TIME TO ABOLISH THE DEBT LIMIT

The U.S. government is projected to reach the debt ceiling sometime in early 2023. The debt limit stalemate in the fall of 2021 provided another example of the unnecessary stress and uncertainty that is created when we approach the limit. In the weeks that Treasury was forced to use extraordinary measures to avoid default markets saw increased volatility and higher interest rates.

As **Leader Hoyer** explained, “Over the years, Democrats, Republicans, labor unions, business leaders, and economists have endorsed the notion that at the end of the day default should not be an option. That is why this hearing is so important and why I am joining you today to make clear that eliminating the threat of default would be an act of fiscal responsibility.” The time to abolish is now, before another crisis occurs and reckless gamesmanship creates another chance of a self-inflicted economic collapse.

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- House Majority Leader Steny Hoyer (D-MD)

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.