HOUSE COMMITTEE ON THE BUDGET
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DEBT CEILING EXPLAINER

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EXECUTIVE SUMMARY

Congress must responsibly address the debt ceiling so that Treasury can pay the nation's bills on time, but Republicans have historically used the debt ceiling as a weapon to force deep cuts and unpopular policy.

What is the debt ceiling?

The Constitution grants Congress the sole authority to borrow on behalf of the United States. It is the Executive Branch's responsibility to execute that borrowing. The Debt Ceiling is the limit Congress has set up to which Treasury can borrow. It is a limit up to which Treasury can pay the bills and honor commitments that Congress has already made.

Why do we have a debt ceiling?

The debt ceiling is an accident of history. Before World War I, Congress had to authorize Treasury every time it had to issue debt to meet obligations. In 1917 legislation was passed to create an early debt ceiling that allowed the Treasury Secretary to have more flexibility in debt issuance for spending Congress had already authorized. Amendments to the 1917 through 1941 created the modern debt ceiling as we know it today. It was never intended to be an implement for Congress to reduce future spending or gain leverage in the negotiation of other legislation.

THE BASICS

How high is the debt ceiling?

After being suspended by the Fiscal Responsibility Act through January 1, 2025 the debt ceiling has been reinstated. On January 2nd, it was set to the level of obligations accrued during the suspension, or $36.1 trillion. On January 17th, 2025, Treasury announced it would begin extraordinary measures on January 21st to avoid default

What happens when we reach the debt ceiling?

When the debt ceiling is reached, Congress must pass legislation to raise or suspend the limit. Failure to do so would lead to default and have catastrophic consequences for all Americans and the global economy.

After the debt ceiling is reached, the Treasury Secretary may use a series of so-called "extraordinary measures" to create some headroom under the debt ceiling to allow for continuation of normal operations without defaulting on the debt.

However, delays in raising the debt ceiling have real costs. In 2011, Republican brinkmanship led to the nation's first ever credit downgrade and an increase in borrowing costs of about $1.3 billion in 2011 and billions more over the decade. The impasse driven by Republicans in 2023 led to another credit downgrade of U.S. debt.

What are "Extraordinary Measures"?

"Extraordinary measures" are actions Treasury can take to delay default on the national debt by temporarily creating headroom under the debt ceiling. These measures include reducing cash balances held by the Treasury, temporarily suspending investment of federal employee retirement contributions, and disinvesting securities held by federal employee retirement accounts. How long these measures last depends on the rate of incoming revenues and outgoing spending, which can make it hard for Treasury to predict when they will run out. The date when extraordinary measures run out and the debt ceiling would be breached is called the "X-date."

Extraordinary measures are reversed after the debt ceiling is lifted or suspended, but these measures do come with costs. The Government Accountability Office found that the securities affected by extraordinary measures experienced a sharp increase in rates and a decline in liquidity in the secondary market. These costs had spillover effects into other markets, with the potential for future market reactions to become more severe.

What would happen if Congress failed to raise the debt ceiling?

In short, the consequences would be catastrophic.

According to Moody's Analytics, had a prolonged breach of the debt ceiling occurred in 2023 it would have sparked a recession, killed 7 million jobs, spiked the unemployment rate to almost 9 percent, erased trillions in household wealth and retirement savings, shrunk the U.S. economy by over 4 percent, and wounded our economy for years to come. This is in addition to delaying Social Security checks and Medicare payments, skyrocketing everyday borrowing costs, and endangering our national security. Defaulting on the debt is not the same as a government shutdown and would have consequences that echo for decades to come.

Does the debt ceiling constrain future spending?

No. The debt ceiling is a limit on funding that Congress has already authorized to be spent.

Despite the brinkmanship around the debt ceiling, there is little evidence to suggest that these crises lead to meaningful changes in future spending. However, these crises do have costs for American taxpayers and the global economy.

RECENT HISTORY

Though there have been occasional debt ceiling impasses since the 1950s, the major modern crises around the debt ceiling have occurred when one or more branches of Congress are controlled by Republicans and the president is a Democrat. The first major crisis came in 2011. At the start of the year, House Speaker John Boehner made it clear that the Republican-controlled House would only support a debt ceiling increase that was coupled with spending cuts. The Budget Control Act (BCA), which raised the debt ceiling, was passed at the very final moment on August 2, the X-date. The spending caps and sequestration included in the BCA were routinely bypassed by future congresses, meaning that ultimate improvement in the fiscal trajectory was minimal. However, Republican-led brinkmanship led to serious consequences for the U.S. economy, including a decline in equity prices leading to a $2.4 trillion reduction in household wealth, a credit downgrade of U.S. debt, and disruptions in the housing market.

During Donald Trump's first presidency the Republican House and Senate raised the debt ceiling along with a three-month continuing resolution. In 2018 another debt ceiling increase was passed as part of the Bipartisan Budget Act of 2018, which included a continuing resolution, emergency spending, and increased the spending caps set in the 2011 BCA. There was no brinkmanship during either of these increases.

In the spring of 2023 again with a Democratic president and Republican House, the debt ceiling was used to hold the U.S. economy hostage. House Republicans refused to pass a clean increase, and instead demanded the passage of the Limit, Save, Grow Act which passed the House but was never even considered in the Senate given its extreme nature. In the end, the Fiscal Responsibility Act was passed, which suspended the debt ceiling until January 1, 2025. Again, this brinkmanship was not without consequences, as the U.S. credit rating was again downgraded and borrowing rates on government debt increased.

How can we avoid default on the national debt?

There are several solutions that would remove the threat of default on the national debt and stop the hostage-taking around the debt ceiling. Some proposals would abolish the debt ceiling all together, arguing that the debt ceiling is outdated given the central role that Treasury debt plays in the global economy and that the regular Congressional budget process gives Congress ample opportunity for oversight. Other proposals would keep the debt ceiling but reform it to maintain congressional oversight while removing the risk of default. For example, the Debt Ceiling Reform Act would allow the Treasury Secretary to keep paying the nation's bills absent a disapproval resolution from Congress. This is the same mechanism that Senator Mitch McConnell proposed to resolve the 2011 debt ceiling impasse.