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→ Purposefully annotate the article (1-2 mature, thoughtful responses per page to what the author is saying)
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US Debt Ceiling and Its Current Status - *What Happens When the Debt Exceeds the Ceiling*

By Kimberly Amadeo for *The Balance*, 6-25-19

The debt ceiling is a limit that Congress imposes on how much debt the federal government can carry at any given time. When the ceiling is reached, the U.S. Treasury Department cannot issue any more Treasury bills, bonds, or notes. It can only pay bills as it receives tax revenues. If the revenue isn't enough, the Treasury Secretary must choose between paying federal employee salaries, Social Security benefits, or the interest on the national debt.

The nation's debt limit is similar to the limit your credit card company places on your spending. But there's one significant difference. Congress is in charge of both its spending and the debt limit. It already knows how much it will add to the debt when it approves each year's budget deficit. When it refuses to increase the debt limit, it's saying it wants to spend but not pay its bills. That's like your credit card company allowing you to spend above its limit and then refusing to pay the stores for your purchases.

Congress imposes the debt ceiling on the statutory debt limit. That's the outstanding debt in U.S. Treasury notes after adjustments. The adjustments include unamortized discounts, old debt, and guaranteed debt. It also includes debt held by the Federal Financing Bank. The statutory debt limit is a little less than the total outstanding U.S. debt recorded by the national debt clock.

There are two types of U.S. debt. The first is what the government owes to itself. Most of that is the Social Security Trust Fund and federal employee retirement funds. The debt that's owed to everyone else is the public debt. It's 70% of the total debt.

Why the Debt Ceiling Matters

Congress must raise the debt ceiling so the United States doesn't default on its debt. During the last 10 years, Congress increased the debt ceiling 10 times. It raised it four times in 2008 and 2009 alone. If you look at the debt ceiling history, you'll see that Congress usually thinks nothing of raising it.

The debt ceiling only matters when the president and Congress can't agree on fiscal policy. That occurred in 1985, 1995 to 1996, 2002, 2003, 2011, and 2013. It's a last resort to get attention by the non-majority in Congress. They might have felt slighted by the budget process. As a result, they create a debt ceiling crisis.

Current Status

On February 9, 2018, President Trump signed a bill suspending the debt ceiling until March 1, 2019. As a result, the limit is $22,028,945,980,301.65, which is the level the debt was on that day. The U.S. Treasury estimates it will run out of money in September 2019.

In January 2019, House Democrats agreed to reinstate the Gephardt Rule. It was created by former Democratic Congressman Dick Gephardt. It automatically increases the debt ceiling whenever Congress passes a budget that exceeds it. The Senate or the president could still refuse to raise the debt ceiling.

What Happens When the Debt Ceiling Isn't Raised

As the debt approaches the ceiling, Treasury can stop issuing notes and borrow from its retirement funds. These funds exclude Social Security and Medicare. It can withdraw around $800 billion it keeps at the Federal Reserve bank.

Once the debt ceiling is reached, Treasury cannot auction new notes. It must rely on incoming revenue to pay ongoing federal government expenses. That happened in 1996 when Treasury announced it could not send out Social Security checks. Competing federal regulations make it unclear how Treasury should decide which bills to pay and which to delay. Foreign owners would get concerned that they may not get paid. The U.S. debt to China is the largest, followed by that of Japan.

If Treasury did default on its interest payments, three things would happen. First, the federal government could no longer make its monthly payments. Employees would be furloughed and pension payments wouldn't go out. All those receiving Social Security, Medicare, and Medicaid payments would go without. Federal buildings and services would close.

Second, the yields of Treasury notes sold on the secondary market would rise. That would create higher interest rates. This would increase the cost of doing business and buying a home. It would slow down economic growth.

Third, owners of U.S. Treasurys would dump their holdings. That would cause the dollar to plummet. The dollar's drastic decline could eliminate its status as the world's reserve currency. Over time, the standard of living in America would decline. In this situation, the United States would find itself unable to repay its debt.

For all these reasons, Congress shouldn't monkey around with raising the debt ceiling. If members are concerned about government spending, they should get serious about adopting a more conservative fiscal policy long before the debt ceiling needs to be raised.

What Happens When the Debt Ceiling Is Raised

Continuing to raise the debt ceiling is how America wound up with a $22 trillion debt. The debt ceiling has become a joke. It has become more like a speed limit sign that is never enforced. In the short-term, there are positive consequences to raising the debt ceiling. America continues to pay its bills. Consequently, it has avoided a total debt default.

The long-term consequences are severe. The paper-thin debt ceiling is apparently the only restraint on out-of-control government spending. A 2017 survey found that 57% of Americans said Congress should not raise the debt ceiling. Only 20% said it should be raised. But they don't want their taxes raised or their services cut.

"Many people seem to want to cut down the forest but to keep the trees," according to Humphrey Taylor, Chairman of Pollster Harris Interactive. The majority of those interviewed don't want to see cuts to health care, Social Security, or education. Health care and Social Security are two of the largest budget items. They do want to see cuts in foreign aid which is one of the smallest budget items. They also want to see cuts to overseas defense spending which is one of the largest budget areas. They are saying, "Cut programs that send my tax dollars overseas, and keep programs that help me personally."

The debt ceiling is good in that it creates a crisis that focuses national attention on the debt. Raising it is a necessary consequence of management by crisis.

The debt ceiling and government spending can also become a concern if the debt-to-gross domestic product ratio gets too high. According to the International Monetary Fund, that level is 77% for developed countries. When debt-to-GDP ratio rises too high, debt owners become concerned that a country can't generate enough revenue to pay the debt back.

Debt Ceiling Crisis 2017

On September 8, 2017, President Trump signed a bill increasing the debt ceiling to December 8, 2017. Later that day, the debt exceeded $20 trillion for the first time in U.S. history. Congress did not vote on the debt ceiling, focusing instead on Trump's tax bill. As a result, the debt ceiling was $20.455 trillion, the level it was on that day.

Trump's bill also approved $15.25 billion in relief funds for the victims of Hurricane Harvey and Hurricane Irma. Without a debt ceiling increase, the U.S. Treasury would not have had enough to disburse the funds to the Federal Emergency Management Agency. The bill also allowed the government to keep spending without a budget until December 8.

Debt Ceiling Crisis 2015

On February 11, 2014, House Speaker John Boehner passed a bill to suspend the debt ceiling until March 15, 2015. The debt ceiling would automatically become the level of the debt at that point in time. The bill approved without any attachments, riders, or insistence that Obamacare be defunded.

On March 15, 2015, the nation reached the debt ceiling of $18.113 trillion. In response, the Treasury Secretary stopped issuing new debt. He took extraordinary measures to keep the debt from exceeding the limit. For example, he stopped payments to federal employee retirement funds. He also sold investments held by those funds. He kept the debt under the limit until Congress passed the Bipartisan Budget Act of 2015 on November 15. The ceiling remained suspended until March 15, 2017. The Treasury Department could not allow the statutory debt limit to go one penny higher than the $19.808 trillion it was on that day.

Treasury kept the debt under that ceiling until September 8, 2017.

Debt Ceiling Crisis 2013

In January 2013, Congress threatened not to raise the debt ceiling. It wanted to force the federal government to cut spending in the Fiscal Year 2013 budget. Fortunately, better-than-expected revenues meant the debt ceiling debate was postponed until the fall.

On September 25, 2013, the Treasury Secretary warned that the nation would reach the debt ceiling on October 17. Many Republicans said they would only raise the ceiling if funding for Obamacare were taken out of the FY 2014 budget.

On October 1, 2013, the government shut down because Congress hadn't approved the funding bill. The Senate wouldn't approve a bill that defunded Obamacare. The House wouldn't approve a bill that funded it. At the last minute, the Senate and House agreed upon a deal to reopen the government and raise the debt ceiling. The Obama administration reported that this government shutdown cost 120,000 jobs and slowed economic growth by as much as 0.6%.

On October 17, 2013, Congress agreed to a deal that would let Treasury issue debt until February 7, 2014.

Debt Ceiling History

Congress created the debt ceiling in the Second Liberty Bond Act of 1917. It allowed the Treasury Department to issue Liberty bonds so the United States could finance its World War I military expenses. These longer-term bonds had lower interest payments than the short-term bills Treasury used before the Act. Congress now had the ability to control overall government spending for the first time. Before that, it had only issued authorization for specific debt, such as the Panama Canal loan or other short-term notes.

This is no longer necessary. In 1974, Congress created the budget process that allows it to control spending. That's why Congress raises the debt ceiling. When the budget process works smoothly, both houses of Congress and the president have already agreed on how much the government will spend. There's no need for a debt ceiling. It merely allows the government to borrow money to pay the bills it has already approved.

Elected officials have a lot of pressure to increase the annual U.S. budget deficit. Increases in the budget push the national debt higher and higher. There is not much incentive for politicians to curb government spending. They get re-elected for creating programs that benefit their constituency and their donors. They also stay in office if they cut taxes. Deficit spending does, in general, create economic growth.

Response option(s):

- In your own words, what is the debt ceiling and why does it keep getting raised?
- Should Congress refuse to raise the debt ceiling as a method of getting control of the national debt? Why or why not?
- Pick any passage and respond to it.