**United States debt ceiling**

**Introduction**

In the United States, the debt ceiling or debt limit is a legislative limit on the amount of national debt that can be incurred by the U.S. Treasury, thus limiting how much money the federal government may pay by borrowing more money, on the debt it already borrowed. The debt ceiling is an aggregate figure that applies to gross debt, which includes debt in the hands of the public and intra-government accounts. About 0.5 percent of the debt is not covered by the ceiling (as of 10/2013).[1] Because expenditures are authorized by separate legislation, the debt ceiling does not directly limit government deficits. In effect, it can only restrain the Treasury from paying for expenditures and other financial obligations after the limit has been reached, but which have already been approved (in the budget) and appropriated.

There is a debate among legal scholars regarding the constitutionality of the debt ceiling.[2][3] Some scholars argue that the debt ceiling does not provide the legal authority for the United States to default on its debt.[4][5][6] Some also argue that the debt ceiling itself is unconstitutional since it does not provide a clear mechanism for the government to meet its constitutional obligation to repay its debts once it meets the borrowing limit.[2][3]

When the debt ceiling is reached without an increase in the limit having been enacted, Treasury will need to resort to "extraordinary measures" to temporarily finance government expenditures and obligations until a resolution can be reached. The Treasury has never reached the point of exhausting extraordinary measures, resulting in a constitutionally questionable default, although, on some occasions, it appeared that Congress might allow a default to take place. If this situation were to occur, it is unclear whether the Treasury would be able to prioritize debt payments to avoid a default on its bond obligations. A protracted default could trigger a variety of economic problems including a financial crisis, and a decline in output that would put the country into an economic recession.[7]

Management of the United States public debt is an important part of the macroeconomics of the United States economy and finance system, and the debt ceiling is designed to be a constraint on the executive's ability to manage the U.S. economy. There is debate, however, on how the U.S. economy should be managed, and whether a debt ceiling is an appropriate or constitutional mechanism for restraining government spending.[citation needed]

Currently, the debt ceiling has been suspended altogether as of June 3, 2023, when U.S. president Joe Biden signed the Fiscal Responsibility Act of 2023 into law.[8] This ended the 2023 United States debt-ceiling crisis that began on January 19, 2023, and the suspension will remain in effect until January 1, 2025. Previously, in December 2021, the debt ceiling was raised when it was increased by $2.5 trillion,[9] to $31.381463 trillion, which lasted until January 2023.[10][11]

**Background**

Under Article I Section 8 of the United States Constitution, only Congress can authorize the borrowing of money on the credit of the United States. From the founding of the U.S. until 1917, Congress directly authorized each debt issued. To provide more flexibility to finance the United States' involvement in World War I, Congress modified the method by which it authorized debt in the Second Liberty Bond Act of 1917.[12] Under this Act, Congress established an aggregate limit, or "ceiling," on the total amount of new bonds that could be issued.

The present debt ceiling is an aggregate limit applied to nearly all federal debt, which was substantially established by the Public Debt Acts[13][14] of 1939 and 1941. These acts have been amended subsequently to change the ceiling amount.

From time to time, political disputes arise when the Treasury advises Congress that the debt ceiling is about to be reached and indicates that a default is imminent. When the debt ceiling is reached, and pending an increase in the limit, Treasury may resort to "extraordinary measures" to buy more time before the ceiling can be raised by Congress. The U.S. has never reached the point of default where the Treasury was incapable of paying U.S. debt obligations, though it has been close on several occasions. The only exception was during the War of 1812 when parts of Washington D.C. including the Treasury were burned.[15]

In 2011, the U.S. reached a crisis point of near default on public debt. The delay in raising the debt ceiling resulted in the first downgrade in the United States credit rating, a sharp drop in the stock market, and an increase in borrowing costs. Congress raised the debt limit with the Budget Control Act of 2011, which added to the fiscal cliff when the new ceiling was reached on December 31, 2012.

**Relationship to federal budget**

The process of setting the debt ceiling is separate and distinct from the United States budget process, and raising the debt ceiling neither directly increases nor decreases the budget deficit, and vice versa. The Government Accountability Office explains, "the debt limit does not control or limit the ability of the federal government to run deficits or incur obligations. Rather, it is a limit on the ability to pay obligations already incurred."[16]

The President formulates a federal budget every year, which Congress must pass, sometimes with amendments, in a concurrent resolution, which does not require the President's signature and is not binding. The budget details projected tax collections and expenditures and, therefore, specifies the estimated amount of borrowing the government would have to do in that fiscal year.Congressional Budget Act of 1974, Pub. L. No. 93-344, 88 Stat. 297 (1974)

**Debt not covered by ceiling**

In December 2012, the Treasury calculated that $239 million in United States Notes were in circulation, which in accordance with the debt ceiling legislation, are excluded from the statutory debt limit. The $239 million excludes $25 million in U.S. Notes issued prior to July 1, 1929, determined pursuant to Act of June 30, 1961, 31 U.S.C. 5119, to have been destroyed or irretrievably lost.[17]

Debts of the Federal Financing Bank are not debts of the government per se and therefore are also not subject to the ceiling, but have a separate limit of $15 billion.[18]

**Extraordinary measures**

The Treasury Department is permitted to borrow funds needed to fund government operations, as had been authorized by congressional appropriations, up to the debt ceiling, with some small exceptions. In a letter to Congress on April 4, 2011, Treasury Secretary Timothy Geithner explained that when the debt ceiling is reached, the Treasury can declare a "debt issuance suspension period" during which it can take "extraordinary measures" to continue meeting federal obligations provided that it does not involve the issue of new debt.[62] These measures are taken to avoid, as far as resources permit, a partial government shutdown or a default on the debt. These methods have been used on several previous occasions in which federal debt neared its statutory limit.[63]

Extraordinary measures can include suspending investments in the G Fund of the Thrift Savings Plan of individual retirement funds of federal employees. In 2011, extraordinary measures included suspending investments in the Civil Service Retirement and Disability Fund (CSRDF), the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), and the Exchange Stabilization Fund (ESF). In addition, certain CSRDF investments were also redeemed early.[64] In 1985, the Treasury had also exchanged Treasury securities for non-Treasury securities held by the Federal Financing Bank.[65]

However, these amounts are not sufficient to cover government operations for extended periods.[62] Treasury first implemented these measures on December 16, 2009, to avoid a government shutdown.[66] These measures were implemented again on May 16, 2011, when Treasury Secretary Geithner declared a "debt issuance suspension period". According to his letter to Congress, this period could "last until August 2, 2011, when the Department of the Treasury projects that the borrowing authority of the United States will be exhausted".[67]

The measures were again implemented on December 31, 2012, the start of the debt ceiling crisis of 2013 with the default trigger date ticking to February 2013. The crisis was deferred with the suspension of the limit on February 4, and the cancellation of the extraordinary measures. The measures were again invoked at the end of the ceiling's suspension on May 19, 2013, with the date of exhaustion of the resources and the default trigger date being estimated by the Treasury as October 17.[47] The ceiling was again suspended by legislation on that date until February 4, 2014.

**Default on financial obligations**

According to the text of the debt ceiling law, if the debt ceiling is not raised and extraordinary measures are exhausted, the U.S. government is legally unable to borrow money to pay its financial obligations. At that point, the law indicates that the government must cease making payments unless the treasury has cash on hand to cover them. In addition, the law indicates that the government would not have the resources to pay the interest on (and some time redeem) government securities when due, which would be characterized as a default. A default may affect the United States' sovereign risk rating and the interest rate that it will be required to pay on future debt. As of 2012, the U.S. defaulted on its financial obligations once in 1979, due to a computer backlog, but the periodic crises relating to the debt ceiling have led several rating agencies to United States federal government credit-rating downgrades. As of 2012, the GAO estimated that the delay in raising the debt ceiling during the debt ceiling crisis of 2011 raised borrowing costs for the government by $1.3 billion in the fiscal year 2011 and noted that the delay would also raise costs in later years.[68] The Bipartisan Policy Center extended the GAO's estimates and found that the delay raised borrowing costs by $18.9 billion over ten years.[69][31 U.S. Code]

As of 2012, some writers expressed the view that if extraordinary measures are exhausted, the executive branch has the authority to determine which obligations are paid and which are not,[70] though the Treasury has argued that all obligations are on equal footing under the law. The writers have argued that the executive branch can choose to prioritize interest payments on bonds, which would avoid an immediate, direct default on sovereign debt. During the debt ceiling crisis of 2011, Treasury Secretary Timothy Geitner argued that prioritization of interest payments would not help since government expenditures would have needed to be cut by an unrealistic 40% if the debt ceiling is not raised. Also, a default on non-debt obligations would still undermine American creditworthiness according to at least one rating agency.[71] In 2011, the Treasury suggested that it could not prioritize certain types of expenditures because all expenditures are on equal footing under the law. In this view, when extraordinary measures are exhausted, no payments could be made except when money (such as tax receipts) is in the treasury, at all and the U.S. would be in default on all of its obligations.[72] The CBO notes, that prioritization would not avoid the technical definition found in Black's Law Dictionary where default is defined as “the failure to make a payment when due.”[73]

Many scholars argue that debt ceiling law is unconstitutional and there is no legal basis by which the U.S. government may default on any of its debt.[4][5][6] They point to Section Four of the 14th Amendment of the United States Constitution, which states that "the validity of the public debt of the United States...shall not be questioned." They argue that it was unconstitutional for the U.S. Congress to pass the debt ceiling law in the first place, since the law does not provide a clear way for the U.S. to pay its debts and implicitly requires a default. Harvard University legal scholar Laurence Tribe argues that "using the ceiling to make us default on our debts clearly would be unconstitutional."[2] This argument has also been endorsed by various politicians, including President Bill Clinton, former labor secretary Robert Reich,[74] Representative Jerry Nadler, and Representative James Clyburn.[75] In 2023, a group of lawmakers from the Senate and House of Representatives sent a letter to President Biden encouraging him to consider invoking the 14th Amendment to pay government debts.[76] However, there are scholars who argue that even if the law itself is unconstitutional, that determination must be made by the courts and the President does not have the authority to unilaterally ignore the debt ceiling law.[75] In practice, the administrations of Presidents Barack Obama and Joe Biden have rejected relying on legal arguments against the constitutionality of the debt ceiling. Obama said in 2011 that his lawyers "were not persuaded that that is a winning argument."[77] In 2023, Biden's Treasury Secretary Janet Yellen called this strategy "legally questionable."[77] Biden himself said "I think we have the authority" to invoke the 14th Amendment to pay government debts, suggesting that he would explore this question in the future, but he questioned the practicality of relying on this approach to defuse a debt ceiling standoff.[78][79] In May 2023, the National Association of Government Employees filed a lawsuit in federal court alleging that the debt ceiling law is unconstitutional.[80]

**Debate on debt ceiling**

Reports to Congress from the OMB and other sources in the 1990s have repeatedly stated that the debt limit is an ineffective means to restrain the growth of debt.[23]

In 2011, James Surowiecki argued that the debt ceiling originally served a useful purpose. When introduced, presidents had stronger authority to borrow and spend as they pleased. However, after 1974 the Congress began passing comprehensive budget resolutions which specified exactly how much money the government could spend.[24]

The apparent redundancy of the debt ceiling has led to suggestions that it should be abolished altogether.[81][82] Several Democratic House members, including Peter Welch, proposed abolishing the debt ceiling. The proposal found support from some economists such as Jacob Funk Kirkegaard, a senior fellow at the Peterson Institute for International Economics.

In January 2013, a survey of 38 highly regarded economists found that 84 percent agreed that, since Congress already approves spending and taxation, "a separate debt ceiling that has to be increased periodically creates unneeded uncertainty and can potentially lead to worse fiscal outcomes." Only one member of the panel, Luigi Zingales, disagreed with the statement.[83] Rating agency Moody's has stated that "the debt limit creates a high level of uncertainty" and that the government should change "its framework for managing government debt to lessen or eliminate that uncertainty".[82]

In 2021, the U.S. debt ceiling has been described as "anachronistic", with the two major parties criticized for utilizing the debt ceiling to play a dangerous game of chicken for purely partisan political purposes.[84]

**Modern Monetary Theory**

Proponents of Modern Monetary Theory (MMT), a heterodox, post-Keynesian economic theory which arose in the late 20th century,[85] have critiqued the concept of the debt ceiling and its theoretical and practical uses. A core tenet of MMT is that currency arose from and is wholly controlled as fiat money by governments, the latter claim is dependent on the government as the sovereign issuer of the given currency. As of 2019, MMT theorists believed that governments have the power to create and spend money within a limit of reason without creating hyperinflation, as well as the ability to forgive its debt or repay itself;[86] in contrast, as of 2020, orthodox economic theorists tended to focus on national deficit as a debt that needs to be repaid eventually. As a result, MMT theorists argue the debt ceiling is largely a symbolic limit on government spending; in 2020 Stephanie Kelton, a prominent supporter of MMT, wrote that "there are no constraints on the federal budget."[87]

After the turn of the 20th century, and particularly during and since the Great Recession (2007-2009) political landscape, MMT has been the subject of political debate between post-Keynsian, mainstream, and free-market economic theorists and politicians alike. As of 2019, MMT debates on the debt ceiling have pervaded Congress, with progressive representatives, prominently Alexandria Ocasio-Cortez, boosting the theory to the mainstream,[88][89] while conservative representatives have been critiquing MMT's potential impacts on government spending and inflation.[90]

As of January 2023 Treasury Secretary Janet Yellen supported legislation to abolish the debt limit, which President Biden has ruled out.[91]

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