

Memorandum

DATE: July 18, 2011

TO: State Directors and their staff

SUBJECT: Questions & Answers on the Debt Ceiling

Dear Directors:

At the request of members, NASUAD has prepared the following Question and Answer document that describes the debt ceiling and the possible implications for not increasing it. We have attempted to provide the information in a simple and intuitive manner so that you can find what you want quickly and easily.

Please feel free to share this material with your staff. NASUAD will continue to monitor developments regarding the debt ceiling and provide members with ongoing updates.

What is the debt ceiling?

The debt ceiling, also known as the debt limit, is the maximum amount of money the federal government can borrow.¹

Before 1917, Congress had to give approval each time the government wanted to borrow money. In order to allow for more flexibility as the nation entered World War I, lawmakers agreed to give the federal government blanket approval for most types of borrowing – as long as the total was less than an established limit. The debt limit is also a form of fiscal accountability that forces Congress and the President to take deliberate action to allow further federal borrowing if necessary.

The current federal debt limit is \$14,294 trillion.²

¹Department of Treasury, “Debt Limit: Myth v. Fact,” July 19.

² 31 U.S.C. §3101 (b) (2008).

What are the reasons for raising the debt ceiling?

The debt ceiling is raised to ensure the U.S. Treasury can pay the federal government's obligations and remain within the debt ceiling.³ Other reasons for raising the debt ceiling include avoiding default on federal legal obligations such as payment of Social Security and Medicare benefits, interest on the national debt, and tax refunds.⁴

Since 1960, Congress has raised the debt ceiling 78 separate times in order for the U.S. Government to have enough money to pay its bills.⁵

Why does the U.S. government borrow money?

Currently, the U.S. government is operating under a deficit, meaning it spends more money than it makes; the Treasury borrows money to cover the gap and fully pay the government's obligations.

Under current estimates, the federal government will have to issue an additional \$738 billion to cover the remainder of Fiscal Year 2011.⁶ To put this into context, if the debt limit were not raised and all discretionary spending in the second half of the fiscal year were eliminated, the federal government would still have to find further savings to cover its borrowing needs.⁷ In contrast, the federal government would be able to cover its borrowing needs by cutting nearly 70 percent of spending for mandatory programs in the second half of FY2011.⁸

What happens if the debt ceiling is reached and not increased?

No one knows for sure. There's no precedent for this situation. Congress has always agreed to raise the debt ceiling in time for the U.S. Treasury to pay the U.S. government's obligations. If Congress does not increase the debt ceiling, the government will not be able to borrow additional money to pay its bills; the government would be forced to rely solely on incoming revenues to finance obligations.

³ Congressional Research Service, "Reaching the Debt Limit: Background and Potential Effects on Government Operations," June 28, 2011.

⁴ Department of Treasury, "Debt Limit: Myth v. Fact," July 19, 2011.

⁵ Department of Treasury, "Debt Limit: Myth v. Fact," July 19, 2011.

<http://www.treasury.gov/initiatives/Documents/Debt%20Limit%20Myth%20v%20Fact%20FINAL.pdf>.

⁶ U.S. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, Tables 1-4 and C-2.

⁷ Discretionary spending consists of U.S. government expenditures that are set on a yearly basis. This is money that members of Congress can adjust on a yearly basis.

⁸ Mandatory spending is spending that is automatically obligated due to previously-enacted laws. This would include things such as Social Security and the interest on the national debt.

Can the U.S. Treasury prioritize which bills to pay first?

Several individuals, including personnel from the Government Accountability Office (GAO), have argued that prioritization of payments can be used by the Treasury to avoid a default on federal obligations by paying interest on outstanding debt before other obligations.⁹ However, officials from the Treasury have maintained that the department lacks formal legal authority to establish priorities to pay obligations.¹⁰ In other words, the Treasury would have to make payments on obligations as they come due.

In any case, if the Treasury were to prioritize, it is not clear what priorities might be among the different types of spending, such as discretionary or mandatory programs.

Will reaching the debt ceiling cause a government shutdown?

Not technically. A government shutdown occurs if lawmakers fail to appropriate money for federal agencies and programs, meaning the agency does not have authority to spend money and must shut down non-excepted activities.¹¹ By contrast, if the debt ceiling is reached, the Treasury will be short on cash, but will still have incoming revenue that could be used to fund the government.

Will people receive their social security check at the usual time, in the same amount if the debt ceiling is reached?

It is unclear at this time what the effects of reaching the debt ceiling would be; however, for the foreseeable future, Social Security beneficiaries will most likely continue to receive their checks at the usual time and at the same amount.

On July 13, 2011, Senator Bill Nelson (D-FL) filed a bill that would temporarily allow officials not to have to count Social Security obligations against the national debt. Secretary Geithner responded to Senator Nelson's legislation saying Congress could give the federal government special authority to borrow money to meet Social Security obligations even if it doesn't otherwise raise the debt ceiling.¹²

⁹ U.S. Congress, Senate Committee on Finance, *Increase of Permanent Public Debt Limit*, S.Rpt. 99-144, September 26, 1985.

¹⁰ "Treasury: Proposals to 'Prioritize' Payments on U.S. Debt Not Workable: Would Not Prevent Default," Neal Wolin, Deputy Secretary of the Treasury, January 21, 2011.

¹¹ Activities which are not authorized to continue in the absences of available funds; no obligations can be incurred for these activities and they will be discontinued until an appropriation is made.

¹² July 15, 2011, U.S. Treasury Press Release and July 15, 2011, Wall Street Journal Report.

Will beneficiaries coverage for Medicaid and Medicare remain the same if the debt ceiling is reached?

Reaching the debt ceiling is unprecedented in U.S. history; therefore, the implications for this event on Medicare and Medicaid coverage are unclear.