9 questions about the debt ceiling, answered

What is the debt ceiling? What happens if the US breaches it? And other questions you were too embarrassed to ask.

By Li Zhou and Dylan Matthews | Updated May 23, 2023, 11:15am EDT

President Joe Biden shakes hands as he presents a copy of his speech to House Speaker Kevin McCarthy before he delivers his State of the Union address on February 7, 2023 in Washington, DC. | Jacquelyn Martin-Pool/Getty Images

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This spring, **Congress finds itself standing at a familiar precipice**. Once again, if lawmakers don't agree to **suspend or raise the debt ceiling,** the federal government risks defaulting on its loans, which would **likely cause a massive economic crisis**. To add to this urgency, Treasury Secretary Janet Yellen has repeatedly emphasized that without a deal, the US will default on June 1.

At issue is not whether the debt ceiling — a legal cap on how much the US can borrow — should be raised, but how. Currently, Democrats and Republicans are in the process of trying to work out an agreement that both of them can live with. Previously, Democrats called for a "clean" debt ceiling increase that was not attached to any spending cuts. Republicans, however, have refused to back down on demands that the US cut government spending, and are continuing to push for reductions that could significantly pare back funds for programs like housing assistance and nutrition services.

With roughly a week to go until Yellen's projected default date, leaders in both parties are still negotiating on an agreement that incorporates spending caps and an increase to the debt ceiling. On Monday, President Joe Biden sat down with House Speaker Kevin McCarthy for the latest round of talks, which both of them described as "productive." Following the meeting, Biden reiterated a mutual commitment to avoiding default, a sign that a compromise of some kind could still be on the table.

As much as lawmakers are taking hardline stances on talks, the country has never intentionally defaulted before. Given how little time there is before a potential default, it's possible the outcome of this standoff is similar to that of 2011, when negotiators came **within 72 hours of the deadline before making a deal**.

The reason Congress continues to come down to the wire on raising or suspending the debt ceiling, is that much like funding the government, lawmakers must address the debt on a regular basis. Because it's must-pass legislation and requires the backing of both chambers, the party that's out of power in the White House or in the minority in Congress has often used this measure as leverage to extract policy concessions or send a political message.

For years, the US has been in a dangerous cycle in which the minority party tries to squeeze every concession it can out of the process, debt ceiling negotiations continue until the last possible moment, and any miscalculation on the part of lawmakers could tip the US toward default. Thus far, this year doesn't look to be any different.

1) What is the debt ceiling?

The first thing to know about the debt ceiling is that, as the name implies, it has something to do with the national debt.

One of Congress's jobs is passing spending bills and tax laws, with the revenues from those taxes paying for the spending. Often, however, there's not enough revenue — and the US Treasury has to borrow money to make up the difference.

Year after year of doing this has brought us the **national debt**, currently at more than $31 trillion. This debt has been accrued under both parties: During the Trump administration, the national debt rose roughly **$7.8 trillion**, and under the Biden administration so far, it's gone up about $3.7 trillion.

The debt ceiling is simply the cap on how much the US can borrow — from banks, investors, foreign countries, etc. — to help pay for the spending Congress has enacted.

As **Vox's Dylan Matthews has explained**, the United States is unique in having a debt limit that lawmakers need to suspend or raise every few years. Were the US to "hit" its debt ceiling, it would effectively mean that it couldn't pay any of its bills.

A debt limit was first established in 1917 in order to "make it easier to finance mobilization efforts in World War I," per the **Brookings Institution**. Before that, Congress had to issue bonds every time it needed to borrow money, which proved unwieldy. Setting a debt ceiling enabled the **US government to take on debt** to more quickly and efficiently finance the military.

But the debt ceiling doesn't automatically adjust for inflation or a growing economy, so it has needed to be raised over time. Since the 1960s, Congress has raised the debt limit more than 70 times; 20 of those times have been in the last 23 years. And as the present situation suggests, it has become increasingly used as leverage in budget negotiations during periods when government is split between Republicans and Democrats. *—Li Zhou*

2) When is the US expected to breach the debt ceiling?

Technically, the US **already hit the debt ceiling in January,** and the Treasury Department has been employing accounting tactics known as "extraordinary measures" to buy some more time. That's basically a fancy term for accounting gymnastics that buy the government more time before it truly runs out of money.

But as Yellen said in her letter, the Treasury Department is running out of such moves —

and the so-called “X-date” **is** June 1. —*LZ*

Treasury Secretary Janet Yellen listens during an open session of a Financial Stability Oversight Council meeting at the Department of the Treasury on April 21, 2023 in Washington, DC. | Alex Wong/Getty Images

3) Has the US ever breached the debt ceiling before?

The US has never knowingly and purposefully breached the debt ceiling before. Depending on how you define “default,” **it may have defaulted in the past**, but in bizarre situations that bear no resemblance to the current moment (one was the aftermath of the War of 1812). —*Dylan Matthews*

4) What would happen if we do breach the debt ceiling?

Once we breach the debt ceiling, the federal government will **not be able to pay its bills**, or cover things like Social Security checks, payroll for service members and other federal employees, and Medicare reimbursements. Interest payments on past debt could go unpaid, which would mean the US government would default on its debts. In 2011, the Federal Reserve and Treasury Department **planned on prioritizing interest**

payments, acknowledging that they would miss payments of other things like Social Security checks, veterans' benefits, etc.

The US would almost certainly enter a recession, probably a quite severe one, and the whole world could face a massive financial crisis. **Beth Ann Bovino, chief US economist at Standard and Poor's**, was hardly alone in 2017 when she predicted that "the impact of a default by the U.S. government on its debts would be worse than the collapse of Lehman Brothers in 2008."

This time around, Mark Zandi, the chief economist at Moody's Analytics, has predicted that the impact of a default could be wide-ranging even if the country defaulted for no more than a week. Doing so for just that short timeframe could lead to the country losing approximately 1.5 million jobs, **as well as significant market volatility**. *—DM + LZ*

5) Has raising the debt ceiling always generated this much drama?

While there are concerns that this year's standoff could be the most dangerous yet, political threats about the debt ceiling have been around for a long time.

In the 1950s, Republican President Dwight D. Eisenhower navigated standoffs with Democratic members of Congress about increasing the debt ceiling. Much as Republicans do today, Senate Democrats argued that the federal government should focus on reducing its expenditures rather than raising the debt cap. By withholding their support for a higher ceiling, lawmakers forced the administration to consider serious spending cuts.

Since then, the debt ceiling has been weaponized by members of both parties. Republicans, for instance, like to point out that **Biden** was among the senators who opposed raising the debt limit in 2006 when Republicans had congressional control. (Then-Sen. Barack Obama **also voted no** on raising the debt ceiling.)

But the US was never actually in danger of default in that instance — Democrats didn't filibuster the final vote on the debt limit year.

Experts say the debt ceiling fight in 2011 was a turning point in that regard, with some lawmakers actually seeming open to a possible default. That year, Republicans balked on increasing the debt limit and refused to do so until President Obama agreed to key spending cuts, some of which they ultimately secured. The US got so close to default that year that it led Standard & Poor's to downgrade the country's credit rating, a move that **prompted stocks** to drop at the time.

"I'd definitely say 2011 was a step forward in how aggressively the debt ceiling was weaponized to secure partisan policy goals," Josh Bivens, the director of research at the Economic Policy Institute, previously told Vox. "I'd say 1995 was also important; [House Speaker Newt] Gingrich threatened this but didn't take it as far as the GOP did in 2011."

In the years since, Republicans have become more aggressive in holding debt ceiling increases hostage to either elicit a policy demand or send a message. According to **data analysis Aaron Blake did for the Washington Post,** that pattern is noticeable across administrations, with Republicans much more likely to rail against the debt ceiling increase if a Democrat president is in charge, and Democrats doing the same to a lesser degree:

> In the 10 debt ceiling votes under a Republican administration, an average of 65 percent of House Republicans and 74 percent of Senate Republicans voted in favor of adjusting or suspending it. But in Democratic administrations, those numbers decline to 24 percent and 20 percent, respectively.
>
> Under Democratic presidents, an average of 86 percent of House Democrats and 98 percent of Senate Democrats voted for debt ceiling increases. Under Republican presidents, those numbers drop to 51 percent and 58 percent, respectively.

The willingness to filibuster the debt ceiling, experts say, is also a sign of how partisan many legislative fights have become — even ones where the entire US economy hangs in the balance. *—LZ*

6) Can Joe Biden raise the debt ceiling by himself?

A president acting on his own to unilaterally raise the debt ceiling is untested and would be controversial. That said, a few ideas have been floated on how the Biden administration can act if Congress won't.

Mint the coin

It’s strange but true: As blogger **Carlos Mucha pointed out** back in 2010, an existing law gives the US treasury secretary the power to issue platinum coins of any value she wishes.

How beautiful a $1 trillion coin could be. | DonkeyHotey via Flickr

The **intention** of the original 1997 law was about making it easier to produce platinum coins for the international coin collector market, but in 2011, Mucha **revived** the idea in the context of that year’s debt ceiling standoff. The treasury secretary could issue, say, a platinum coin worth $2 trillion, deposit it into the Treasury's account at the Fed, and use those funds to sustain the government until the debt ceiling is raised.

The Obama administration found the idea **too unserious** there to use, but the legal case for minting the coin is **as solid as platinum**. Just ask debt ceiling hardliner **Sen. Mike Lee (R-UT)**, who was sufficiently concerned about the option to introduce legislation to close the platinum coin loophole. The plain text of the 1997 law clearly allows the treasury secretary to do this, and Jerome Powell, the Fed chair who in a past career was **an expert on the debt ceiling and its dangers**, is arguably **legally required to accept the coin** as a deposit. (For what it's worth, Powell has all but **thrown cold water on this idea**.)

Invoke the 14th Amendment

Some legal scholars have argued that Section 4 of the **14th Amendment**, which specifies that "the validity of the public debt of the United States, authorized by law ... shall not be questioned," renders the debt ceiling unconstitutional, as it threatens the validity of the US's public debts by creating the possibility of default. The White House has been seriously debating the idea in recent weeks.

"I'm looking at the 14th Amendment as to whether or not we have the authority — I think we have the authority," **Biden said recently at a press briefing in Japan**. "The question is, could it be done and invoked in time that it would not be appealed, and as a consequence pass the date in question and still default on the debt. That is a question that I think is unresolved."

This is hardly a consensus position among constitutional law experts, but if Biden were to declare he was ignoring the debt ceiling because it's unconstitutional, it's not clear that anyone would have **legal standing to sue him** and challenge the decision.

That helped encourage a number of political actors, from then-House Minority Leader **Nancy Pelosi** to former President **Bill Clinton**, to urge Obama to invoke the 14th Amendment during his debt ceiling showdowns. Obama declined repeatedly, **arguing** in 2013 that "if you start having a situation in which there's legal controversy about the US Treasury's authority to issue debt, the damage will have been done, even if that were constitutional, because people wouldn't be sure."

Declare ignoring the debt ceiling to be the "least unconstitutional" option

University of Florida law professor Neil Buchanan and Cornell law professor Michael Dorf **have**, in a **series** of **papers**, proposed a way out of the debt ceiling that's related to but distinct from the 14th Amendment option.

Buchanan and Dorf note that Congress, by setting spending and tax policy as well as a debt limit, has given the president three mandates: to spend the amount Congress authorizes, to tax the amount Congress authorizes, and to issue as much debt as Congress authorizes. When the debt ceiling is breached, it becomes impossible for the president to obey all three of these legal requirements.

Prioritizing spending on certain activities and cutting it elsewhere (as the Treasury planned to do in 2011) usurps Congress's spending power by cutting spending unilaterally. Raising taxes without congressional authority would usurp Congress's taxing power. And ignoring the debt ceiling would usurp Congress's power to set debt limits.

The last option — respecting Congress's taxing and spending powers while ignoring its debt limit — is the "least unconstitutional" option, Buchanan and Dorf argue. This judgment would no doubt be challenged in court, but it's arguably less dramatic than the president unilaterally declaring the debt ceiling a violation of the 14th Amendment. (This may be my favorite of the options here.)

Issuing quasi-debt while the crisis plays out

Steven Schwarcz, a professor at Duke Law and an expert on capital markets, has proposed getting around the debt ceiling by having the Treasury Department **create a "special-purpose entity" to issue new securities**, distinct from traditional Treasury bonds, that can pay for government expenditures. Because they're not Treasury bonds, these securities would not be subject to the debt limit.

This may seem bizarre, but Schwarcz got the idea from **state and municipal finance in the US**; many states raise most of their debt with special-purpose entities, rather than by directly issuing bonds, often so they can get around their own state debt limits. —*DM*

7) Biden, as Obama's vice president, negotiated the debt ceiling standoff in 2011. How did that play out?

The 2011 Budget Control Act was the result of that year's debt ceiling standoff.

It included **$917 billion in direct spending cuts**, mostly implemented by capping “discretionary” spending, which includes defense programs and everything else the government does that isn’t a mandatory entitlement program like Social Security, food stamps, or veterans’ benefits.

Speaker of the House Rep. John Boehner (R-OH) gives a thumbs up as he passes by members of the media after a vote on the Budget Control Act on July 29, 2011. | Alex Wong/Getty Images

The bill then mandated another $1.2 trillion in deficit reduction to be determined through a congressional committee (colloquially called “the supercommittee”). If the supercommittee failed to put together a package slashing $1.2 trillion through tax hikes or spending cuts, indiscriminate spending cuts would ensue through forced decreases in the caps on defense and non-defense discretionary spending.

The across-the-board cuts included as a backup were never meant to take effect. But the **supercommittee failed**, forcing those spending cuts.

According to the Committee for a Responsible Federal Budget’s Marc Goldwein, the

Budget Control Act resulted in $1.2 trillion or so in overall deficit reduction.

What did this all mean?

The **Center on Budget and Policy Priorities' David Reich** co-authored a category-by-category report and found that, between 2010 and 2021, every single category of non-defense discretionary spending besides veterans' programs saw declines after adjusting for inflation and population growth.

Economic security, health care, and scientific research programs were close to stagnant, falling by 4 percent or less. But funding for environmental protection and parks fell by 15 percent; general government operations by 26 percent; education and job training by 14 percent; and diplomacy and foreign aid by 19 percent.

A **study from the American Association for the Advancement of Science** found that aggregate research and development spending from the federal government was $200 billion lower due to the Budget Control Act; health research from the National Institutes of Health and the VA fell by over $7 billion a year relative to previous historical trends, while the National Science Foundation got almost $2 billion a year less.

This was all bad news for people interacting with government programs. The two biggest social assistance agencies in the US are the Social Security Administration (which administers old-age and disability payments) and the IRS, which administers tax credits that are crucial for reducing poverty. Adjusted for inflation, funding for the agencies **fell by 13 and 19 percent** between 2010 and 2021, respectively. *—DM*

8) Can't Congress just get rid of the debt ceiling?

The US government doesn't have to work this way.

Congress could pass legislation doing away with the debt ceiling, and the president has options to ignore it as well, though they'd likely prompt legal challenges. As mentioned above, the president could invoke the 14th Amendment and ignore the debt limit, or Congress could approve an increase to the debt cap that's so high it basically nullifies the ceiling.

Abolishing the debt limit altogether would prevent either party from using this process as political leverage. Doing so would greatly reduce the uncertainty that comes around every time there's a deadline like this and prevent significant market volatility that results.

"There are zero downsides to getting rid of the debt ceiling," said Bivens from the Economic Policy Institute.

Other economic experts note that eliminating the debt ceiling could take away an opportunity for Congress to debate fiscal policy. But many feel like that's a moot point, given debt ceiling standoffs are rarely about any specific spending anymore, but rather about weakening the party in power.

Instead of doing away with the debt limit altogether, some experts have proposed options like giving the president the ability to propose a suspension that Congress would need to override if it disagreed, making it tougher for legislators to jam up that process. A proposal that Shai Akabas of the Bipartisan Policy Center supports would pair this proposal with a mandatory debate on fiscal policy to force Congress to confront spending issues.

It's unlikely there's enough political will to make any of these changes happen. Instead, it seems as though lawmakers are comfortable getting right up to the brink — and running the risk of a default again and again. —*LZ*

9) Where do things go from here?

There's still significant uncertainty in how things could play out from here.

Although Biden and McCarthy have both expressed commitment to avoiding a default, distance remains between the two parties' positions.

Previously, House Republicans laid out a number of their demands in the Limit, Save, Grow Act, which capped discretionary spending at fiscal year 2022 levels, imposed work requirements for social programs, and attempted to roll back Democratic proposals to fund clean energy tax credits and the IRS. Many of these are nonstarters for Democrats, though the White House has countered with offers that would put spending caps on both military and other domestic spending, a proposal **Republicans have reportedly rejected**.

Both Democrats and Republicans have said that talks will be ongoing with the hopes of securing a deal ahead of a fast-approaching deadline. “We reiterated once again that default is off the table and the only way to move forward is in good faith toward a bipartisan agreement,” Biden said after the latest White House meeting.

There are some other off-ramps that lawmakers are eyeing as well — though they are unlikely to come to fruition. In one case, **House Democrats are preparing to force a vote** on a measure raising the debt ceiling by using a tool known as a **discharge petition**, which requires a simple majority — or 218 House members — to support it. To do so, the 213-member Democratic caucus would need the backing of five moderate Republicans — support that’s unlikely at the moment.

Additionally, lawmakers could try to approve a short-term suspension that gives both sides more time to wrangle negotiations, though Senate Majority Leader Chuck Schumer has **suggested he favors a longer-term two-year solution**. Progressives have also urged Biden **to consider invoking the 14th Amendment,** which could enable him to address the debt ceiling unilaterally, though he’s said he’s concerned about the legal challenges such a move would face. —*LZ*

Update, May 23, 11:15 am ET: *This story was originally published on May 6 and has been updated to reflect the results of a recent White House meeting.*