POLITICS

What Is the U.S. Debt Ceiling and What Happens If It Isn't Raised?

GOP wants spending cuts, but lack of action by Congress could rattle markets

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The Treasury Department has begun implementing measures to manage the government's cash flow through the spring. PHOTO: ANNA MONEYMAKER/GETTY IMAGES

The federal government could run out of money to pay all its bills as soon as June, putting Congress on the clock to again raise or suspend the federal borrowing limit.

The Treasury Department said on Thursday, Jan. 19, that the U.S. was bumping up against the current $31.4 trillion borrowing limit, prompting it to begin implementing so-called extraordinary measures to manage the government's cash flow through the spring.

There are deep partisan disagreements in Congress over the debt ceiling and federal spending, prompting worries that lawmakers might not be able to raise the limit in time to avoid a possible default on debt payments. Democrats want the debt ceiling to be raised without any conditions attached. Republicans are demanding spending cuts as a condition for raising the limit and want to start negotiations with the White House.

What is the debt ceiling?

Congress limits how much money the government can borrow, and once the limit is reached, lawmakers must raise or suspend the ceiling before the Treasury Department can issue more debt. Because the U.S. consistently runs large annual deficits, the debt limit must regularly be addressed.

What would happen if the debt limit isn't raised?

If the government can't borrow to help pay for all of its bills that come due, it would have to suspend certain pension payments, withhold or cut the pay of soldiers and federal workers, or delay interest payments, which would constitute default.

Lawmakers of both parties, business groups and Wall Street firms have all raised alarms over the prospect of a government default, which they say would be disastrous for financial markets and the U.S. economy. A loss of investor confidence could spur a deep selloff in Treasurys, which could in turn cause broader financial chaos. Missed payments on other U.S. obligations, including Social Security benefits, could also cause economic pain.

In 2011, Standard & Poor's stripped the U.S. of its triple-A credit rating for the first time after the Treasury came within days of being unable to pay certain benefits.

Could the Treasury give priority to certain payments to avoid default or limit the impact on seniors?

Republicans have floated the idea of legislation forcing the Treasury to give priority to certain outlays, such as payments to bondholders and benefits to Social Security recipients, over other government obligations. Past Treasury officials have called such a plan unworkable, and it has been rejected by Democrats. In August 2011, Federal Reserve and Treasury officials had privately formalized a plan to make on-time payments on Treasury debt and delay paying other government bills if no deal was reached on the debt ceiling, according to transcripts of a Fed meeting.

Treasury Secretary Janet Yellen cautioned that Treasury's systems weren't designed to give priority to payments to bondholders, and that the failure to pay any obligation would effectively constitute default. She also dismissed the idea of minting a $1 platinum trillion coin to stave off default, an idea that has been floated for years as a way to bypass Congress.

Why is this debt-limit fight happening now?

The most recent debt-ceiling fight was resolved in 2021 with a deal between Senate Democrats and Republicans to effectively let Democrats raise the debt ceiling with a simple majority vote, rather than the 60 votes typically required to advance legislation in the Senate. After passage by both chambers, President Biden signed legislation raising the debt limit by $2.5 trillion to about $31.4 trillion.

This time, Democrats continue to control the Senate, while Republicans control the House, complicating efforts to raise the ceiling.

Does raising the debt ceiling approve new spending?

No. A vote to raise the debt limit doesn't authorize new spending, but it essentially allows the Treasury to raise money to pay for expenses the government has already authorized. About one-third of federal spending is discretionary, which Congress approves through annual appropriations bills. The rest is automatic spending on programs such as Medicare, Medicaid and Social Security.

How does the debt ceiling relate to a government shutdown?

The terms refer to two separate issues, but both affect the ability of the federal government to function. Hitting the debt ceiling stops the government from issuing new debt to pay its bills and could ultimately lead to default. A partial government shutdown occurs when Congress hasn't appropriated new funds to pay for keeping the government fully open, typically leading to temporary furloughs for some government workers and contractors until a new spending bill is passed. During shutdowns, the government has continued to make its regular payments to debtholders, retirees and others.

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