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Facts about the federal debt limit

By: Raju Chebium – October 16, 2013

As Uncle Sam fast approaches the federal debt limit, Congress is working on last-minute deals to raise the ceiling and reopen the partially shuttered government.

The Obama administration has said the government wouldn't be able to borrow money after Thursday, but partisan differences over the health care law have delayed congressional action until the brink.

Here's a guide to understanding the debt limit and why it matters.

Question: What is the debt ceiling?

Answer: It's the legal limit on how much Uncle Sam can borrow to pay bills and make interest payments to U.S. and foreign investors who've loaned the country money.

Think of it as the borrowing limit on your credit card. Once you hit that ceiling, you can't borrow any more unless the card issuer raises your limit.

In the federal government's case, Congress has to raise the nation's credit limit before the U.S. Treasury can borrow more.

Q: What is the U.S. debt limit at the moment?

A: Nearly $17 trillion.

Q: What would happen if Congress doesn't raise the debt ceiling by Thursday?

A: Treasury Secretary Jacob Lew says the government will no longer be able to borrow money. That means Uncle Sam would be limited to spending the cash on hand – an estimated $30 billion – and revenue coming in through taxes and fees.

Between Oct. 22 and Oct. 31, the nonpartisan Congressional Budget Office says, the government would run out of cash and must slash spending by 32 percent over the next month. President Barack Obama would get to choose which bills to pay first and which programs and services to cut and by what extent.

By the end of this month, the government must make a $6 billion interest payment. If it lacks the money, the U.S. would be forced to default for the third time in history. Some analysts say a default is unlikely because creditors are likely to get paid first, but acknowledge that steep and sudden spending cuts will be a shock for many Americans.

Q: What could happen in the U.S. over the longer term if the debt ceiling isn't raised?

A: No one really knows because Congress has never refused to raise it. But conservative and liberal experts agree that the impact would be severe, if not catastrophic.

Domestically, experts say interest rates on mortgages, car and student loans and credit cards could rise. The economy is bound to slow down; some even predict a recession like the one in 2008.

Uncertainty about the government's ability to pay the bills could lead businesses to shrink payrolls. Social Security payments, Medicare and veteran's benefits, unemployment compensation and others would have to be slashed.

Q: What's the history of the federal debt ceiling?

A: Congress set the first debt limit in 1917 at $11.5 billion. It's been raised about 100 times since then. It exceeded $1 trillion in the 1980s and stood at more than $12 trillion last decade.

The U.S. has defaulted twice – during the War of 1812, when the Treasury was tapped out and couldn't pay its soldiers; and in 1979, due to what the government at that time described as a "back-office glitch."

Q: Why have a debt ceiling at all?

A: Experts say the point of capping the national debt was to rein in spending and make sure the nation lives within its means.

When the time comes to raise that limit, experts say Congress must use the opportunity to reexamine the budget and come up with ways to make spending cuts – even to cherished entitlement programs like Medicare and Social Security – and raise taxes.

Instead, the current debate has been dominated by the debate over the 2010 health-care reform law.

Q: So what's happening in Congress?

A: The House and Senate are trying to come up with ways to resolve two issues: How to reopen the entire federal government – the partial shutdown turned 15 days old on Tuesday – and how to raise the debt limit before Thursday.

Majority Leader Harry Reid, D-Nev., and Minority Leader Mitch McConnell, R-Ky., are hashing out a plan in the Democratic-majority Senate to accomplish both tasks.

In the GOP-controlled House – where the ultraconservative, tea party faction has insisted on amending the health care law in exchange for ending the shutdown and raising the debt limit – Speaker John Boehner and other Republican leaders were working on a rival deal though the prospects appeared dim Tuesday.

Democrats, meanwhile, want “Obamacare” language to be excluded from any shutdown and debt deal.

(**Sources:** Lee Ohanian and Edward Leamer, University of California-Los Angeles; The Associated Press; Cato Institute; Economic Policy Institute; Center for a Responsible Budget).