Why Do Only US and Denmark Have a Debt Ceiling?

Debt ceiling is not a political weapon in Denmark

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The debate over the debt ceiling in Congress is so unique in part because the United States and Denmark are the only democratic countries with a debt ceiling written into their laws. Denmark, however, avoided shutting down its government when it raised its debt ceiling in 2010.

Denmark's debt ceiling law is treated as a constitutional protocol rather than a chance for political brinkmanship, says Jacob Kirkegaard, senior fellow at the Peterson Institute for International Economics.

"Most governments do not have this law since they assume that legislators have to take responsibility for their debt and run a smaller deficit," Kirkegaard says.

Denmark added a debt ceiling to its laws in the 1990s as a constitutional waiver to allow the transfer of the day-to-day responsibilities for the national debt from the Ministry of Finance to Denmark's independent central bank, Kirkegaard says.

"They created the debt so high that they never got close to it, so writing it into law had no political impact," Kirkegaard says.

Denmark's politicians created a fixed number that was too high to result in constant debate, but they forgot to link that limit to inflation, so as inflation increased the debt limit inched closer to the ceiling, he says.

"When the recession of 2008 hit, Denmark got close to the debt ceiling. So the parliament decided in 2010, 'we are going to raise it but raise it to such a high level that it has no political impact.' There was broad consensus about it in the parliament."

The debt ceiling in the U.S. was created in 1917 "as a political quid pro quo for introducing the first federal income tax," Kirkegaard says.

"There was a feeling that in order to prevent future Congresses from raising too much debt or raising taxes too high this needed to be a safeguard," he explains.

The Danish experience shows that a debt ceiling can be a sensible constitutional provision, but politicians in the U.S. have turned the debt ceiling into "a political hot potato," Kirkegaard says.

"Removal of the debt ceiling is possible, but I don't think it could be done unless one party controlled both houses of Congress and the White House," Kierkegaard says. "The party that did not control the White House would always feel that they could extract some political capital from it."

President Barack Obama is negotiating with congressional leadership on a solution to avoid a default on the government's debt should the ceiling not be raised as it has in the past; the ceiling will reportedly be reached Oct. 17 unless a solution is reached. Senate Minority Leader Mitch McConnell, R-Ky., on Thursday said in a press release that Congress should address reforms to decrease the national debt when it addresses whether to extend the debt ceiling.

"We've now got a debt close to $17 trillion, nearly double what it was in 2007. We're borrowing nearly $2 billion — a day," McConnell said.

Fear about defaulting on the debt ceiling caused market confidence and stocks to drop since the start of the government shutdown, and also in 2011 the last time there was a debt crisis. If there were no debt ceiling there might be a short-term benefit because markets and politicians would not be reminded as often about rising debt, but the debt ceiling debate offers a long-term benefit that reminds people to address the rising national debt, says Tad DeHaven, a budget analyst at the Cato Institute think tank.

"It is not a perfect instrument but if we didn't have it would we be talking about the need to rein in our long term fiscal situation?" DeHaven asks.