

The Christian Science Monitor - CSMonitor.com

# National debt ceiling 101: Is a crisis looming?

In a year of high drama over federal budgets, the nation's so-called national debt ceiling is becoming a prominent part of the political debate. The Treasury is close to hitting this borrowing limit, yet many in Congress say the ceiling shouldn't be raised without new commitments to put America on a path of fiscal prudence. Here's a guide to how the ceiling works and what's at stake for the economy.



Federal Reserve Chairman Ben Bernanke testified before the Senate Committee on Banking, Housing, and Urban Affairs on March 1.

(Jim Young/Reuters)

By Mark Trumbull, Staff writer

posted March 8, 2011 at 2:42 pm EST

## 1. What is the debt ceiling, and why does it exist?



Federal Reserve Chairman Ben Bernanke testified before the Senate Committee on Banking, Housing, and Urban Affairs on March 1.

(Jim Young/Reuters)

The debt ceiling is Congress's way of controlling how much the Treasury can borrow. The current debt limit is \$14.29 trillion.

The Constitution gives Congress the job of managing federal spending and borrowing, and Congress then taps the US Treasury to carry out its directives. When spending plans aren't matched by tax revenues, the government generally must borrow.

In the nation's early years, borrowing was authorized case by case, with parameters set by Congress. But for more than 70 years, the House and Senate have agreed on an overall debt limit. The ceiling has been adjusted upward frequently, more than 40 times just since 1980.

Some budget experts say the cap isn't necessary and mainly provides for periodic grandstanding by lawmakers about a debt problem of their own creating. To date, the imposition of caps has done little to check the rise of the nation's debt.

But others say that, as messy as the periodic votes on the ceiling can be, the process can prod lawmakers to focus on the long-term consequences of their spending decisions.

## 2. Are we close to hitting the limit?



This February 2010 file photo shows the National Debt Clock in New York.

(Mark Lennihan/AP/File)

Yes. As of Feb. 28, the debt total was about \$100 billion short of the \$14.29 trillion ceiling. Just during February, the Treasury added \$63 billion in debt.

"The debt limit will be reached as early as March 31, 2011, and most likely sometime between that date and May 16, 2011," Treasury Secretary Timothy Geithner said in a January letter to Senate and House leaders.

He urged Congress to raise the ceiling, saying the alternative is a default on public debts, with "catastrophic economic consequences" as investor faith is shaken.

Many private-sector budget experts take a similar view.

"It would be a disaster for the United States if we were to default on our debt, which is an almost-certainty if the debt limit is not increased," says economic historian Bruce Bartlett.

## 3. Will Congress raise the limit? What happens if the ceiling is not raised?



In this 2009 file photo, a bank clerk counts U.S. 100 dollar bills near bundles of Chinese notes at a bank in central China. US national debt has reached \$13 trillion.

(AP Photo/File)

Most budget experts see a move to raise the ceiling as inevitable. That has always occurred in the past, although sometimes with delays from political brinkmanship that push the Treasury to the edge of its ability to stay under the limit.

This time, many Republicans in Congress see withholding approval of a debt-cap hike as a tactical weapon to win new curbs on federal spending.

An outright refusal to raise the ceiling could have serious consequences in financial markets and the economy. It would raise the risk of an upward spike in interest rates, as bond investors would come to have less confidence in America's creditworthiness.

When and if the Treasury would have to default on public debts is a more complicated question. Some deficit hawks say fears of a default are overblown. They argue that after a refusal to raise the ceiling, amid deep cuts in federal spending, the Treasury could continue to pay interest and principal on its debts.

As it now stands, once the ceiling is reached the Treasury would be in a severe bind. It would have a legal mandate to spend money on a range of federal programs (from salaries to tax refunds), a mandate not to borrow any more, and thus not enough money to go around.

#### 4. Back up a step: Is the national debt's growing size behind this "ceiling" controversy?



Erskine Bowles (D), left, accompanied by Alan Simpson (R), cochair of President Obama's debt commission, gestures while speaking on Capitol Hill in Washington on Nov. 10, 2010.

(Alex Brandon/AP)

In a word, yes. In general, the national debt grows when spending outstrips tax revenues, and it has doubled since 2004, surging for reasons that include health-care costs, two wars, and efforts to revive the economy after its 2008 crash. If unchecked, the debt is on track to become a significant drag on economic growth. For the government, the trend means that interest costs will become an ever-larger fiscal burden.

So Federal Reserve Chairman Ben Bernanke and others are right when they say the current fiscal course is unsustainable. He recently called it a "near and present danger" to the economy, while also saying budget deficits don't need to be fixed in a single year.

In that context, the ceiling debate is just a side effect of the real issue, the debt itself. Since it's rising faster than economic growth, the US can't just "grow its way" out of the problem.

Making matters worse, the national debt is poised to keep rising primarily because of programs that are both politically sensitive and driven by long-term trends. Medicare, to name one of them, is seeing higher costs as the population ages and as expensive new technology is developed.

For now, Treasury debts still enjoy top-tier safety ratings from credit risk analyzers such as Standard & Poor's. But as European nations have been finding, those ratings do change with circumstances.

## 5. What would fiscal hawks like to achieve, in return for raising the ceiling?



The US Capitol Dome is seen on Capitol Hill in Washington January 14. The question still remains, will the debt ceiling be raised?.

(Larry Downing / Reuters)

One option is for Congress to agree to a cap on federal spending as a share of gross domestic product or to set a target for holding the public debt below a certain share of GDP. President Obama's bipartisan fiscal commission, for example, outlined a long-term plan to cut federal spending below 22 percent of GDP by 2013 and debt to 60 percent of GDP by 2023. Spending totaled 24 percent of GDP last year, and the public debt now stands at 64 percent of GDP.

That approach would be similar to what some other countries do, linking debt-limit decisions to their budget planning, notes a new report by Congress's nonpartisan Government Accountability Office (GAO).

Some in Congress would like to link a debt-limit decision to a deal on tax reform, Social Security reform, or perhaps even a balanced-budget amendment to the Constitution. But none of those initiatives is easy to put on a fast track.

## 6. Could the tea party spirit spark an outright refusal to raise the debt limit?



Republican Sen. Rand Paul (l.) enjoys a light moment with his father, Rep. Ron Paul (R) of Texas, during a campaign event in Erlanger, Ky., on Oct. 2, 2010. The Pauls have opposed raising the national debt limit.

(Ed Reinke/AP/file)

Some deficit hawks are urging precisely that course – saying it will force Congress to rein in spending.

Michael Tanner of the libertarian Cato Institute recently argued that Republicans lose any hoped-for leverage if they concede



up front – as some GOP leaders have – that they'll ultimately vote to raise the debt ceiling.

But most budget experts don't see "no" as a plausible final answer. The government is now spending basically \$3 for every \$2 it takes in, says Eugene Steuerle, a fiscal-policy expert at the Urban Institute. For all the concern voters express about the national debt, Republicans could face a political backlash if their attempts to rein in spending result in cuts that the public perceives as too painful.

For context, consider the recent Republican push to carve \$100 billion out of federal spending this year. That's a big number, but at present it buys only about a one-month reprieve in federal borrowing.

## 7.If this bogs down in a game of political chicken, how can the nation keep paying its bills?



Erskine Bowles (l.) watches former Wyoming Sen. Alan Simpson speak at a news conference on Capitol Hill in Washington Nov. 10, 2010. They are co-chairs of President Obama's bipartisan deficit commission.

(Alex Brandon/AP/file)

The Treasury has some wiggle room. Private-sector analysts at Goldman Sachs and Morgan Stanley have estimated that short-term maneuvers could gain several months of running room, perhaps through the end of summer.

But the GAO report takes a different view.

"Once debt reaches the limit," it says, "Congress will likely have less time than in prior years to debate raising the debt limit before there are disruptions to government programs and services."

## 8.What's the public's view on the national debt and raising the ceiling?



Senator Alan Simpson (l.) and Erskine Bowles (r.), at the St. Regis Hotel in Washington, DC on Nov. 19. Bowles and Simpson made a recommendation to President Obama's fiscal commission on the best way to slash federal deficits.

(Michael Bonfigli/The Christian Science Monitor)

In a recent Ipsos/Reuters poll, 71 percent of Americans said Congress should not raise the ceiling.

That poll result hints at the heightened anxiety surrounding federal debt and deficits in the wake of the Great Recession. But other polls show little public willingness to bear the kind of spending cuts implied in a no-more-borrowing future.

## 9. What's the solution to the problem of rising national debt?



A man dressed as a panhandling Uncle Sam stood in New York's Times Square in 2009, one of a dozen who did so to protest the scope of US national debt.

(Brendan McDermid/Reuters/File)

The answer is serious moves to cut federal deficits in the long term, say budget experts in both major parties. Entitlement and tax-system reforms are expected to be centerpieces of any solution, but progress could come in small steps as well as big ones. With or without help from the debt-ceiling debate, the question is whether the needed political statesmanship will arrive before a debt crisis – a spike in interest rates or a credit-rating downgrade – forces the issue.

© The Christian Science Monitor. All Rights Reserved. **Terms** under which this service is provided to you. **Privacy Policy**.