



Understanding the Scope of the US Debt Ceiling

By: Mil Arcega - December 05, 2012

WASHINGTON — No discussion on the fiscal cliff would be complete without first taking a look at the U.S. debt. But for many - talk of U.S. debt and the debt ceiling is often abstract because it lacks scale.

It's not some architectural feature unique to Washington. The debt ceiling is a borrowing limit - passed by Congress in 1917 to fund the war effort. Back then, the ceiling was slightly more than \$11 billion.

Economist Richard Rahn, a senior fellow at the CATO Institute, said the idea was to enforce discipline on government spending.

"It's really redundant when you have a budget, but ironically it has turned out to be somewhat useful because it forces the debate occasionally about how much we're spending and how we're spending," he said.

Until recently, Congress routinely approved higher limits. But that changed in 2011 when a Republican-led Congress stalled on extending the ceiling, resulting in the first ratings downgrade of U.S. debt.

Today the ceiling is \$16.4 trillion - a limit the U.S. is likely to exceed by February.

"I think it's beyond the human mind to be able to grasp numbers that big," said Rahn.

Just how big is the U.S. debt? It's easier to visualize if we start with a hundred dollars. A hundred of these makes ten thousand.

If we multiply that ten thousand by one hundred - now you have a million dollars. Enough to fit in a shopping bag. A hundred million - looks more impressive - shown here on top of a shipping pallet. Make that 10 pallets - and you have a billion.

But now it gets interesting.

Multiply these 10 pallets - one thousand times and you have a trillion - one, followed by 12 zeroes. Enough money to cover an entire soccer field - two pallets high.

So to imagine the size of the U.S. debt - multiply that double-stacked football field 16 times.

"We owe money to everybody. Of course foreigners have about 40 percent of our federal debt, not Americans. The biggest single holder are the Chinese," said Rahn.

Japan also owns a sizeable amount, as does Europe, along with private investors around the world.

Many conservative politicians want to cut the debt sharply, and some say the debt limit should not be raised without more spending cuts.

The Congressional Budget Office said the so-called fiscal cliff - automatic tax increases on January 1, along with spending cuts mandated by Congress to force negotiations on the debt ceiling - would cut next year's deficit in half.

But doing so all at once poses serious risks, said fiscal responsibility advocate, Robert Bixby.

"They've been pretty clear, the non-partisan Congressional Budget Office, that if we go over the fiscal cliff, their projection is that it would cause a recession and I've seen private sector forecasts that are even more adamant," said Bixby.

Some in Congress would like to see a higher debt ceiling as part of negotiations. For now, many economists say avoiding the shock that could come from higher taxes and government cutbacks is far more critical to the world's largest economy. Experts say any missteps could have big ramifications domestically and abroad, just when the global recovery appears to be losing momentum.