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R SHEET ON

THE DEBT CEILING

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BACKGROUND

The debt limit (often referred to as the debt ceiling) is a law that permits issuance of U.S. federal debt up to a dollar value set by statute; beyond that limit, additional debt issuance would be illegal. Since the 1930s, Congress has used a government-wide debt limit and thus relieved itself of the burden of passing a law to authorize each individual bond issue.

Choosing the level at which the debt limit is set is quite different from choosing how much debt the federal government ultimately accumulates, which causes a fair bit of confusion. Our actual levels of debt are a function of the expenditure decisions we make through the appropriations process and the revenue decisions we make through our tax law. The necessity of periodically raising the debt limit forces Congress to take stock of the consequences that their tax and spending choices have on federal debt. Historically, this has provided fiscal conservatives with a recurring opportunity to call for restraint. It is debatable whether this has had any significant effect, however.[1]

At various times, raising the debt limit has become acutely controversial, and there have been stand-offs between Congress (which demands spending cuts in exchange for raising the limit) and the President (who wants a "clean" raise, unencumbered by any other demands). At times, including 1996 and 2011, these have brought the U.S. Treasury close to a position where it would be unable to raise sufficient funds to make all payments due, which most market observers agree would have disastrous economic effects. The desire to prevent such a crisis is a major motivator for reforming current debt ceiling practices.[2]

SUMMARY

- In its current form, the debt limit does little to restrain America's national debt, while creating a serious chance for crises in which the U.S. Treasury would be unable to meet all of the country's obligations.
- The real decisions about debt are made when Congress decides on spending and taxes. The debt ceiling functions as a confusing afterthought. A reformed process could improve accountability.
- Congress should act to reform debt limit processes so as to minimize the chance of crises, while considering substitute mechanisms to promote fiscal discipline.

CURRENT DEBATE

Our periodic debates over the debt limit do little to restrain spending (or encourage increased revenues), but have the potential to create destabilizing conflicts. Since the fights of 2011, Democrats have hoped to steer away from debt limit confrontations. Congressional Republicans turned away from using the debt limit for bargaining leverage after an attempt to do so proved counterproductive in October 2013, and they are unlikely to force a confrontation with a president of their own party.

The moment is ripe, then, for major reform. "Repealing" the debt limit is not logistically or politically feasible—and, in any case, Congress is Constitutionally responsible for controlling the debt. But Congress could take steps to link debt limit increases to budgeted deficit spending, such that when they plan on deficit spending, they automatically authorize a corresponding increase in the national debt. This would effectively minimize the danger of a debt ceiling crisis, while still leaving it entirely in Congress's power to control the debt (through its tax and spending choices).

ACTION ITEMS

The 16-member Joint Select Committee on Budget and Appropriations Process Reform, created by the Bipartisan Budget Act of 2018, has an ideal opportunity to organize thinking on debt limit reform.

Avoid a crisis

From 1979 until the mid-1990s, the House operated under what was known as the "Gephardt Rule," which provided for the automatic passage of debt limit raising-legislation upon passage of a budget by the chamber.[3] The Senate often chose to adopt this automatically-passed legislation from the House, though it had no comparable mechanism of its own. Given the uncertainty of passing budgets in the contemporary Congress, the Gephardt Rule itself might no longer be sufficient. But some modified version that automatically attached debt-limit-raising legislation to annual appropriations would likely help avoid crises, while sensibly linking the authorization of debt to the actual decision-making process used to agree on deficit spending.

A major alternative discussed frequently is to return to the "McConnell Rule" devised in 2011, by which Congress authorized the president to make pre-specified increases of the debt limit, subject to expedited votes of congressional disapproval. In practice, this creates opportunities for Congress to embarrass the president (by voting against the increase) without actually jeopardizing a necessary raise (since the president would presumably veto the bill). Because of the misdirection at the heart of this maneuver, which obscures congressional responsibility for increasing the debt, it is inferior to some version of the Gephardt Rule.

Finally, Congress can also try to lessen the impact of a crisis by prescribing priorities for payment in the event that the U.S. Treasury is constrained by the limit and short of funds necessary to make all payments due. By legislating a commitment to servicing outstanding debt, Congress could try to take the worst threat (of debt default) off the table, though there are some technical difficulties in doing so with certainty.

Find a substitute mechanism for fiscal discipline

A number of alternative mechanisms designed to focus attention on the problem of the national debt could be suitable substitutes for the debt ceiling. For example, New Zealand requires its treasury minister to offer a formal public explanation whenever debt deviates from "prudent" levels; Congress might do well to require the same of itself, with leaders of both parties required to give an explanation for high debt and a plan for addressing it. Such reporting requirements would improve accountability to the public on debt issues.

More ambitiously, one might emulate Switzerland's "debt brake," which effects automatic spending cuts whenever the budget becomes unbalanced (with business cycle corrections). Or, in a similar spirit, one might create a change in the default spending levels should Congress fail to pass annual appropriations, by creating a presumption of a modest sequester. This would put inertia on the side of spending restraint—and for that reason might be very difficult to find majority support for.

CONTACT US

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ENDNOTES

1. For more detail, see Philip Wallach, "Mr. Boehner, Tear Down This Ceiling!" *Brookings Governance Studies*, January 2013. http://bit.ly/debtwall.

2. For more detail, see Philip Wallach, "Minimizing debt ceiling crises: Principles and practical advice," *Center for Effective Public Management at Brookings*, October 2015. http://bit.ly/mindebt.

3. For more detail, see Bill Heniff Jr., "Debt Limit Legislation: The House "Gephardt Rule,'" Congressional Research Service, July 27, 2015. http://bit.ly/gephardt.