Manufactured Crisis: Understanding the Debt Limit
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Introduction

For over 80 years, Congress has placed a cap on the total debt the federal government can take on, which is known as the “debt ceiling.” Since the debt ceiling’s genesis in 1939, Congress has altered that limit hundreds of times to ensure the United States does not “default” on—that is, fail to pay—its debts. A default would prompt a global economic crisis, the effects of which would be devastating for American families. Congress last raised the debt ceiling in December 2021 when, after lengthy negotiations, lawmakers raised the limit by $2.5 trillion to just under $31.4 trillion, where it currently sits.

It is unclear exactly when the government will reach the new debt limit. Some economists expect the December 2021 raise to cover federal borrowing needs until the early part of 2023, while others expect the government to reach the limit by the third quarter of 2023. What is clear, however, is that the government will inevitably hit the debt limit again, necessitating another increase or suspension.

While Congress has always prevented a default, some deficit-hawk lawmakers have historically used the threat of one to extract concessions from their colleagues, usually at the expense of programs that help vulnerable communities. In 2011, for example, the standoff between then-President Barack Obama and the Republican-controlled House of Representatives over raising the debt limit ended in spending cuts to K-12 schools, rental assistance vouchers, environmental protection,

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1 Public Law No: 117-73.
and more. On top of that, the showdown resulted in the Budget Control Act of 2011, which placed budget limits on discretionary spending for the next ten years.\(^6\)

The draconian cuts that the 2011 showdown brought illustrate the tremendous long-term damage that protracted debt ceiling fights can cause. As 2023 approaches, lawmakers are examining ways to avoid a high-stakes confrontation over the debt ceiling once Republicans gain control of the House in the new year. One option under discussion is to raise the debt limit via the budget reconciliation process, which would allow the current Democratically-controlled House and Senate to raise the debt limit by a party-line vote. However, with limited time before Congress is scheduled to recess for the year, the window for reconciliation may be closing.

This explainer breaks down the debt ceiling’s history, its threats, and options for dealing with it—immediately and for good. Understanding these issues is important to navigating the crisis looming in 2023 and avoiding harmful concessions that keep vital resources away from U.S. communities.

**The Debt Limit’s Origins**

Before 1917, Congress passed specific bills stipulating when and how the Treasury Department could borrow money and issue debt—a process even more cumbersome than the current one. Around the U.S. entry into World War I in 1917, Congress gave the Treasury more leeway, setting a topline limit on federal debt and loosening limits on specific debt issues. In 1939, Congress further simplified debt issuance by establishing one aggregate debt limit covering nearly all public debt.\(^7\) This framework remains in place today.

Under the 1939 framework, Congress allows the Treasury Department to manage the federal debt as long as total debt stays below a statutory debt limit that Congress sets. This statutory limit is what we know as the “debt ceiling.” Congress usually votes on that limit separately from the policies that necessitate issuing more federal debt. This allows Members of Congress to vote against “increasing the debt” while voting for record military spending and deficit-financed tax cuts for the wealthy. That means the debt ceiling does not prevent the government from enacting policies that increase U.S. debt.

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\(^6\) Public Law No: 112-25.

The Threat of Default

Approaching the Debt Limit

Economists can predict roughly when the U.S. will exceed the debt limit. Nonetheless, Congress sometimes lets the Treasury hit the debt limit before voting to raise it. When the Treasury Department hits the statutory limit, it resorts to accounting schemes it refers to as “extraordinary measures” to finance the federal government’s obligations. These might include cashing in on existing government investments early. How long the Treasury can keep up these tactics depends on the daily inflow and outflow of spending and revenue, but typically the Treasury can buy Congress weeks or months to raise the ceiling.

In August 2019, Congress passed the Bipartisan Budget Act (BBA), which among other things, suspended the debt limit—that is, got rid of it entirely—for two years. After that suspension lapsed on July 31, 2021, Treasury Secretary Janet Yellen notified House Speaker Nancy Pelosi that the Treasury Department began using extraordinary measures to keep the government afloat. This included suspending additional investments to the Civil Service Retirement and Disability Fund, the Postal Service Retiree Health Benefits Fund, the sale of State and Local Government Series securities, and limiting contributions to the Thrift Savings Plan Government Securities Investment Fund.

Before lawmakers raised the debt ceiling in December 2021, deficit-hawk lawmakers repeatedly blocked legislation to increase the limit. Republican Senators blocked a measure that would have funded the government and suspended the debt limit for over a year, as well as a unanimous consent request that would have allowed Senate Democrats to pass a debt limit suspension on a simple majority vote.

What Would Happen if Congress Failed to Raise the Debt Limit?

If Congress failed to raise the debt limit before the Treasury Department exhausted its extraordinary measures, the federal government would default on its debt. This would prevent the Treasury from fulfilling the government’s financial obligations. The U.S. has never had a full-scale default since the statutory debt limit began, but Congress has come perilously close.

A default could immediately trigger a worldwide financial crisis because the global financial system relies on Treasury securities as a safe asset. It would also do long-term damage by permanently increasing the cost of borrowing for the federal

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government. This means the U.S. would have to pay more over the long term to provide the same government services that families depend on now.

Households nationwide would feel a default’s economic impact. According to an analysis by Moody’s Analytics, a default would force the government to dramatically reduce spending, including delaying billions of dollars in Social Security payments. A debt default could also wipe out $15 trillion of household wealth. The scenario would be comparable to the 2008 financial crisis, resulting in the loss of nearly 6 million jobs and a spike in unemployment to 9 percent.\(^\text{10}\)

Despite the economic chaos that would ensue, congressional Republicans have used the threat of default as leverage multiple times in the past decade. In 2011, for example, former House Speaker John Boehner insisted that federal spending be cut by one dollar for every dollar increase in the debt limit. President Obama and congressional Democrats ultimately agreed to the Budget Control Act (BCA) of 2011, which raised the debt limit and capped federal spending for the next decade.\(^\text{11}\) In 2013, Congress came within days of debt default amidst a 16-day government shutdown as congressional Republicans pushed for the repeal of the Affordable Care Act.\(^\text{12}\) Subsequent debt limit negotiations have been relatively less dramatic. Most were part of budget agreements that relaxed the discretionary spending caps that the BCA of 2011 put in place.\(^\text{13}\)

**Legislative Options to Raise the Debt Limit**

*Regular Order*

Congress can consider a debt limit increase or suspension on its own or as part of another bill. Under regular order, a debt limit adjustment would require 60 votes to avoid a filibuster in the Senate. Under the Senate’s current makeup in the 117th Congress, 10 Republican Senators would have to join all 50 Democratic Senators to end the debate on the bill. The bill itself only takes a simple majority to pass. Alternatively, Senate Republicans could agree to a unanimous consent request for the bill to pass by a simple majority vote, in which Vice President Kamala Harris would cast the tie-breaking vote. The Senate had used this method before, most recently when they passed a short-term debt limit increase in October 2021.

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\(^\text{13}\) Austin 2021
Over the past decade, Congress has gotten creative about adjusting the debt limit through regular order. In 2013, for instance, Congress let the Treasury Department suspend the debt limit but then allowed Members to vote disapproving of that suspension—without actually stopping it.\textsuperscript{14} The vote gave Members who have prioritized deficit reduction the chance to save face without threatening a default.

**Reconciliation through the FY2023 Budget Resolution**

Congress could raise the debt limit through the budget reconciliation process. This would enable Congress to pass an increase with a simple majority vote in the Senate, thereby letting the current Democratically-controlled House and Senate raise the debt limit by a party-line vote. Congress has increased the debt limit through the reconciliation process four times in the past.\textsuperscript{15}

Reconciliation is procedurally onerous. In the limited time before the 118th Congress begins in January, Congress would first have to pass the Fiscal Year 2023 budget resolution with instructions to raise the debt limit. This would kick off a time-consuming, multi-step process that would likely require at least two weeks and lengthy vote series in the Senate. For a more detailed breakdown of the reconciliation process, see the Congressional Progressive Caucus Center’s explainer, *Overcoming the Filibuster Through Budget Reconciliation*.

Importantly, reconciliation likely only allows Congress to increase the debt limit—not suspend it. The Congressional Budget Act of 1974, which established the congressional budget process, enables the reconciliation directives in a budget resolution to “specify the amounts by which the statutory limit on the public debt is to be changed.”\textsuperscript{16} In the four times that Congress has used the reconciliation process to tackle the debt limit, the directives have always included a specific number, never a debt limit suspension. Without any precedent, it is impossible to say whether the Senate’s Parliamentarian—who advises on what can be included in a reconciliation bill—would deem a debt limit suspension suitable for inclusion.

**Changing Senate Rules**

Without Republican cooperation to raise or suspend the debt limit, Senate Democrats could change Senate rules with a simple majority vote to exempt debt limit increases or suspensions from the filibuster. However, while it would set a precedent allowing the Senate to sidestep the filibuster to deal with the debt ceiling in the future, it would not necessarily change the filibuster for other types of legislation.

\textsuperscript{14} Roll Call 570 | Bill Number: H. J. Res. 99. Office of the Clerk.  
[https://clerk.house.gov/Votes/2013570?Page=1&Title=disapproval](https://clerk.house.gov/Votes/2013570?Page=1&Title=disapproval)  
\textsuperscript{15} Heniff 2016.  
\textsuperscript{16} Sec. 310(a) of The Congressional Budget Act of 1974.
Options for Executive Action

In the extraordinary event that a debt default is imminent, the Administration may pursue executive action. However, these actions have little precedent and could be subject to legal challenges.

Trillion Dollar Coin

If Congress fails to raise or suspend the debt limit, President Biden could hypothetically direct the Department of the Treasury to mint a coin worth $1 trillion (or another large amount), deposit it with the Federal Reserve, and use the funds to keep the government running.

Invoking the 14th Amendment

Section 4 of the 14th Amendment reads: “The validity of the public debt of the United States ... shall not be questioned.” Some legal and constitutional scholars have argued that the debt limit is unconstitutional, as the threat of default questions the government’s public debts’ validity. The Administration could adopt this interpretation, ignore the debt limit, and continue issuing debt. However, the legal uncertainty around this theory could still cause significant economic damage.

Ending the Cycle of Debt Ceiling Crises

While increasing the debt limit to a certain amount or suspending it until a specific date addresses the immediate crisis, it sets up a similar situation whenever the government inevitably reaches the debt ceiling or when the suspension expires. Although Congress has never failed to raise or suspend the debt limit and has protected the full faith and credit of the United States, the government has come close to default too many times. Unfortunately, Congress will continue to put the country in these difficult situations unless debt limit crises are eradicated.

The most obvious way to prevent a future crisis is to eliminate the debt limit altogether, a move that Treasury Secretary Janet Yellen supports.17 Some lawmakers have introduced legislation that would do just that. Rep. Bill Foster (D-IL-11) introduced H.R. 3305, the End the Threat of Default Act, and Rep. Brendan Boyle (D-PA-2) introduced H.R. 1041, To Repeal the Debt Ceiling. Both bills would repeal the debt limit and remove the threat of default for good. Rep. Boyle also introduced H.R. 5415, the Debt Ceiling Reform Act, which would transfer the duty to raise the debt limit from Congress to the Treasury Department.

Another way to prevent future threats of default is to raise the debt limit to an amount the Treasury would never conceivably hit. House Budget Committee

Chairman John Yarmuth (D-KY-3) endorses raising the debt limit to a "gazillion dollars," rendering the debt limit effectively inoperative. In addition, enacting a long or even permanent suspension could avoid similar crises years into the future.

**Conclusion**

There is ample reason to suspect a debt ceiling showdown in 2023. Republicans will control the House and have been vocal about their intent to use the threat of default as leverage to force cuts to programs like Social Security and Medicare. While the Democratic Senate and White House are unlikely to agree to such cuts, the House could force an agreement similar to the draconian 2011 BCA. If Congress acts now to address the debt limit via reconciliation, it can avoid this crisis next year. However, families will only be safe from debt limit crises for good when Congress stops manufacturing them. Eliminating the debt ceiling would break the cycle of showdowns and painful compromises, offering families certainty that the services they depend on will not be held hostage.

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