

The Debt Limit

Overview

The debt limit places a statutory constraint on the amount of money that Treasury may borrow to fund federal operations. Federal debt is projected to reach the current debt limit, set at \$31.385 trillion, sometime in 2023. Congress may debate the merits of various debt limit modifications in advance of reaching the limit, or later if Treasury implements “extraordinary measures” to prevent a binding debt limit before the limit is reached. This *In Focus* provides background information and discusses recent legislative activity.

More information on the debt limit can be found in CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*; CRS Report R43389, *The Debt Limit Since 2011*; CRS Report R45011, *Clearing the Air on the Debt Limit*; and CRS Report R44383, *Deficits, Debt, and the Economy: An Introduction*.

Rationale and Role of the Debt Limit

The Constitution grants Congress the “power of the purse,” which allows Congress to restrict the amount of federal debt. Under current law Congress exercises this power through the federal debt limit, which is codified at 31 U.S.C. §3101. Debt subject to limit is more than 99% of total federal debt, and includes debt held by the public (which is used to finance budget deficits) and debt issued to federal government accounts (which is used to meet federal obligations).

Federal debt increases when total expenditures exceed total receipts (producing a budget deficit). Expansion of the federal lending portfolio, through programs like college student loans, also increases federal debt levels. Periods of sustained debt increases bring debt levels near the debt limit. CBO’s May 2022 baseline projected that the debt subject to limit will be \$36.9 trillion at the end of FY2027 and \$45.4 trillion by the end of FY2032; debt held by the public is forecast to equal \$30.3 trillion and \$40.2 trillion in those respective years.

The federal debt limit acts as a check to ensure that recent revenue and expenditure trends meet the approval of Congress. However, the federal collection and spending decisions affecting debt levels may have been agreed to by Congress and the Administration well in advance of debt limit deliberations. Some past debt limit legislation has linked debt limit increases with fiscal policy proposals such as budget enforcement measures.

Options for Congress

When debt levels approach the statutory debt limit, Congress can choose to (1) leave the debt limit in place; (2) increase the debt limit to allow for further federal borrowing; or (3) temporarily suspend or abolish the debt

limit. Maintaining the current debt limit could lead Treasury to implement “extraordinary measures” to postpone a binding debt limit, but such measures do not prevent a binding debt limit indefinitely. Some have suggested that the Fourteenth Amendment may grant the President authority to ignore the statutory debt limit. Previous Administrations and many representatives of the legal community have rejected that argument as an alternative to debt limit legislation.

Inaction or Delayed Action: Potential Consequences

The combination of a binding debt limit and continued budget deficits would leave Treasury with conflicting directives. As with any borrower, the government is obliged to pay its bills, and yet a binding debt limit would prevent Treasury from doing so in a timely fashion. Possible consequences of a binding debt limit include, but are not limited to, the following:

- reduced ability of Treasury to borrow funds on advantageous terms, thereby further increasing federal debt;
- substantial negative outcomes in global economies and financial markets caused by anticipated default on Treasury securities or failure to meet other legal obligations;
- acquisition of interest penalties from delay on certain federal payments and transfers; and
- downgrades of U.S. credit ratings, which could negatively impact capital markets.

Possible economic and fiscal consequences of the debt limit are not confined to scenarios where the debt limit is binding. Protracted deliberation over raising the debt limit may also affect the U.S. financial outlook if it changes household and business behavior. Some research suggests that debate over the debt limit in August 2011 reduced economic expansion in the second half of that year.

“Because the debt ceiling impasse contributed to the financial market disruptions, reduced confidence and increased uncertainty, the economic expansion [in 2011] was no doubt weaker than it otherwise would have been.”—U.S. Treasury, *The Potential Macroeconomic Effect of Debt Ceiling Brinkmanship*, October 2013.

Increasing the Debt Limit

Increasing the debt limit to accommodate further borrowing allows federal operations to continue as they otherwise would have. Increasing the debt limit reduces the likelihood

of experiencing potential consequences associated with a binding and near-binding debt limit.

Larger increases in the debt limit allow more time to enact changes that adjust budgetary trends, but could reduce the effect of the debt limit on budgetary discussions if policymakers feel less constrained by the new debt limit level. Smaller debt limit increases potentially offer a greater role for the debt limit legislation in budgetary policy discussions, but may lead to more frequent debt limit activity.

“Extraordinary Measures” and Debt Limit Suspension

Invoking Treasury’s authority to use “extraordinary measures” to stay under the debt limit and temporarily suspending the debt limit both postpone when Congress must act on debt limit legislation. The authority for using such “extraordinary measures,” which include suspensions and delays of some debt sales and auctions, underinvestment and disinvestment of certain government funds, and exchange of debt securities for debt not subject to the debt limit, rests with the Treasury Secretary.

Invocation of “extraordinary measures” has delayed required action on the debt limit by periods ranging from a few weeks to several months. Temporary suspensions delay the restrictions imposed by the debt limit for a period determined by corresponding legislation, and have been used in lieu of increasing the debt limit to a specific dollar value in recent years.

Past Debt Limit Activity

In December 2021, Congress approved a joint resolution (P.L. 117-73) that increased the debt limit by \$2.5 trillion, to \$31.385 trillion. If action is not taken to prevent a binding debt limit as federal debt approaches the debt limit, the Treasury Secretary may elect to exercise “extraordinary measures” to stay beneath the debt limit.

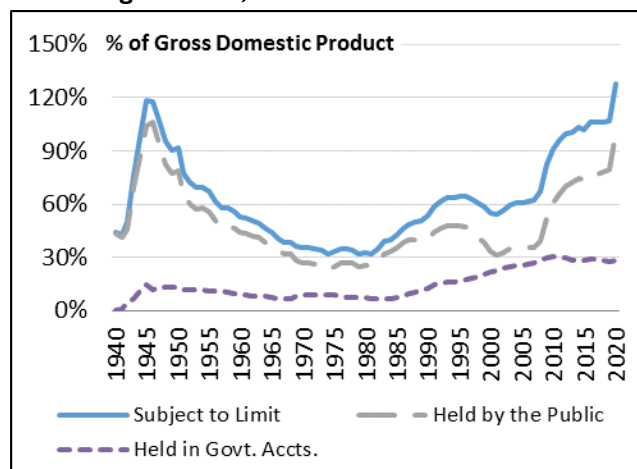
Regular legislative modifications to the debt limit have been enacted since the aggregate debt limit was first created in 1917. Congress has approved 102 separate debt limit modifications between the end of World War II and the present to accommodate the changes in federal debt levels. Debt held by the public has consistently increased in that time period, except in the period immediately following World War II and between 1998 and 2001 when debt declined due to federal budget surpluses.

Congress has approved 20 distinct changes to the debt limit since 2001. Much of the recent increase in the debt is attributable to a rise in debt held by the public. Increases in spending on old-age and retirement programs, lower tax receipts, and federal activities related to the Great Recession and in response to the COVID-19 pandemic have all contributed to rising debt levels. Debt held in government accounts has also increased since 2001, as Social Security payroll tax receipts exceeded payments to beneficiaries for much of that period.

Figure 1 shows the debt subject to the limit as a percentage of GDP from 1940 to 2022, along with how that debt was divided between debt held by the public and intragovernmental debt. Although nominal debt levels have

steadily risen in the postwar period, debt measured as a percentage of GDP (real debt) declined precipitously for several decades following its peak at 118% in 1946, reaching 32% in 1981. Real debt has increased in the recent decades. At the end of FY2022, total debt subject to the limit was 125% of GDP and publicly held debt was 98% of GDP. The remaining 27% of GDP in debt took the form of intragovernmental debt.

Figure 1. Federal Debt Subject to Limit as a Percentage of GDP, FY 1940-FY2022



Source: Office of Management and Budget, Department of the Treasury and Congressional Budget Office. Figure created by CRS.

Note: Values taken at the end of the fiscal year. FY2022 values represent CRS estimates based on preliminary Treasury data and CBO economic projections.

Timing Uncertainties with a Binding Debt Limit

Short-term fluctuations in federal debt levels mean there is substantial uncertainty as to when debt levels will meet or exceed the statutory debt ceiling. Federal debt levels change in response to variation in the timing of payments and collection of receipts. This fluctuation is influenced by changes in the size and timing of incoming and outgoing Treasury payments, and is relatively insensitive to long-term deficit outcomes. Examples include lower debt levels that follow large income tax receipt collections in March and April and higher debt levels caused by interest payments and the issuance of Treasury securities in the middle and end of a given month. Short-term surpluses could extend the amount of time “extraordinary measures” taken by Treasury would delay a binding debt limit, while short-term deficits would have the opposite effect.

As of November 2022, budget experts project that, should the Treasury Secretary invoke extraordinary measures in anticipation of a binding debt limit, debt limit activity would not be required until the third quarter of calendar year 2023. Those estimates are subject to considerable uncertainty, however, as small fluctuations in economic output could significantly shift the month or quarter in which such action would be needed.

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