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**DEPARTMENT OF THE TREASURY**

# Debt Limit: Myth v. Fact

*The debt limit is the total amount of money that the United States government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments. The debt limit does not authorize new spending commitments. It simply allows the government to finance existing legal obligations that Congresses and presidents of both parties have made in the past.*

*Failing to increase the debt limit would have catastrophic economic consequences. It would cause the government to default on its legal obligations – an unprecedented event in American history. That would precipitate another financial crisis and threaten the jobs and savings of everyday Americans – putting the United States right back in a deep economic hole, just as the country is recovering from the recent recession.*

*Congress has always acted when called upon to raise the debt limit. Since 1960, Congress has acted 78 separate times to permanently raise, temporarily extend, or revise the definition of the debt limit – 49 times under Republican presidents and 29 times under Democratic presidents. In the coming weeks, Congress must act to increase the debt limit. Congressional leaders in both parties have recognized that this is necessary. Recently, however, a number of myths about this issue have begun to surface. The facts about the debt limit are set forth below.*

**MYTH:** If Congress fails to increase the debt limit, the consequences would not be any worse than the effects of a government shutdown.

**FACT:** If Congress fails to increase the debt limit, the government would default on its legal obligations – an event unprecedented in American history. This would cause investors here and around the world to doubt, for the first time, whether the United States will meet its commitments. That would precipitate a self-inflicted financial crisis potentially more severe than the one from which we are now recovering.

If Congress fails to increase the debt limit, the government would have to stop, limit, or delay payments on a broad range of legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and many other commitments. Defaulting on those legal obligations would cause severe hardship for American families. Additionally, it would call into question the full faith and credit of the United States government – a pillar of the global financial system. The ensuing financial crisis from a default would have catastrophic economic consequences, potentially including the loss of millions of American jobs. And it would lead to higher borrowing costs, reduced retirement savings, and lower home values for families across the nation.

By contrast, a government shutdown caused by a temporary failure to enact appropriations bills, while unwise and highly disruptive, would not have the same long-term negative impact on the creditworthiness of the United States. Federal government shutdowns have occurred a number of times over the last 30 years, whereas a default on the legal obligations of the United States government is unprecedented in American history

**MYTH:** Raising the debt limit increases the federal government's obligations.

**FACT:** Raising the debt limit simply allows the government to meet its existing legal obligations.

The amount of debt that the government must issue to meet its existing legal obligations is determined based on previous spending and revenue decisions made over many years by Congresses and presidents of both parties. Raising the debt limit simply allows the government to meet those existing legal commitments to investors, seniors, soldiers, and millions of other Americans. Refusing to raise the debt limit does nothing to reduce those existing obligations or cut the deficit.

**MYTH:** If Congress simply enacted the House Republican Budget Resolution that Representative Paul Ryan proposed, there would be no need to increase the debt limit.

**FACT:** The House Republican Budget Resolution would require multi-trillion dollar increases in the debt limit for the next several decades.

Even if the House Republican Budget were made law immediately, the debt limit would still have to be increased within the next several weeks. Additionally, according to Congressional Budget Office and House Budget Committee estimates, the spending included in the House Republican Budget Resolution would necessitate a nearly $2 trillion increase in the debt limit by the end of FY2012. Moreover, it would require trillions of dollars in additional debt limit increases beyond that amount for the next several decades

**MYTH:** If Congress and the Administration would just cut spending then they wouldn't need to increase the debt limit.

**FACT:** There is no credible budget plan that would allow the government to avoid a debt limit increase.

As William Kristol, Fox News commentator and editor of the conservative Weekly Standard Magazine, has noted, there is "[N]o plausible plan that would enable us to . . . reduce the deficit to zero in a few months – which is what would be required if Congress were not to authorize an increase in the debt ceiling." In February 2011, the non-partisan Congressional Research Service wrote that, in order to avoid having to increase the debt limit, the federal government would need to "eliminate all spending on discretionary programs, cut nearly 70% of outlays for mandatory programs [such as Medicaid, Medicare, and Social Security], increase revenue collection by nearly two-thirds, or take some combination of those actions in the second half of FY2011." Immediate tax increases and benefit cuts of that magnitude would cause severe harm to American families and derail our nation's economic recovery.

**MYTH:** Passing legislation to "prioritize" payments on the national debt above other legal obligations would allow the government to avoid a default without increasing the debt limit

**FACT:** Legislation to "prioritize" payments would simply represent default by another name.

Suggestions that Congress could somehow evade responsibility for raising the debt limit by passing legislation to "prioritize" payments on the national debt above other legal obligations of the United States are simply not true. This would not prevent default, since it would seek to protect only principal and interest payments and not other legal obligations of the United States from non-payment. Adopting a policy that payments to investors should take precedence over other U.S. legal obligations would merely be default by another name, since the world would recognize it as a failure by the United States to stand behind its commitments. It would therefore bring about the same catastrophic economic consequences

**MYTH:** The Treasury Department can simply continually push back the date it hits the debt limit.

**FACT:** The government will reach the debt limit in mid-May and extraordinary measures to buy additional time will be exhausted by about August 2, 2011.

The Treasury Department currently forecasts that the government will reach the debt limit on May 16, 2011. Because it does not appear that Congress will act by May 16, Treasury is employing extraordinary measures to create additional headroom under the debt limit. Those measures are limited and would be exhausted by about August 2, 2011. This is a projection and is subject to change based on government receipts and other factors during the next three months. But, ultimately, unless Congress acts to increase the debt limit, the government would begin to default on its legal obligations.

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