JOINT ECONOMIC COMMITTEE
RANKING DEMOCRAT CAROLYN B. MALONEY
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# Ten Key Facts about the Debt Ceiling

1. **Refusing to raise the debt ceiling is political posturing—not a principled stand.** Contrary to claims, raising the debt ceiling does not give anyone a "blank check." It simply allows the government to pay for spending that Congress has already authorized. It is deeply irresponsible for Congress to approve tax cuts and spending programs that increase the debt—and then force Treasury to default on these commitments.

2. **The U.S. government has never deliberately defaulted in the modern era.** Should Congress fail to raise the debt ceiling prior to November 3, it would risk a virtually unprecedented default, with potentially catastrophic implications. Even the small, unintentional, technical default in 1979—due in part to a computer glitch—led to an increase in government borrowing costs that lasted for nearly a year.

3. **A default would severely disrupt financial markets.** U.S. Treasuries are "the foundation of the world financial system," according to American Action Forum President Douglas Holtz-Eakin. A default could throw financial markets into disarray and raise borrowing costs for consumers and businesses. According to former Federal Reserve Chairman Bernanke, it would be "a calamitous outcome."

4. **A default would hurt millions of Americans.** The federal government makes about 80 million separate payments each month to creditors, program beneficiaries and others. If Congress does not raise the debt ceiling, the federal government may be forced to limit, delay or suspend these payments. Delays in Social Security, Medicare, Medicaid, veterans' benefits and other essential programs would have a direct impact on millions of Americans and harm the economy by lowering consumer spending.

> *"Unfortunately, Congress consistently brings the government to the edge of default before facing its responsibility. This brinkmanship threatens the holders of government bonds and those who rely on Social Security and veterans benefits. Interest rates would skyrocket, instability would occur in financial markets, and the Federal deficit would soar. The United States has a special responsibility to itself and the world to meet its obligations. It means we have a well-earned reputation for reliability and credibility—two things that set us apart from much of the world."*
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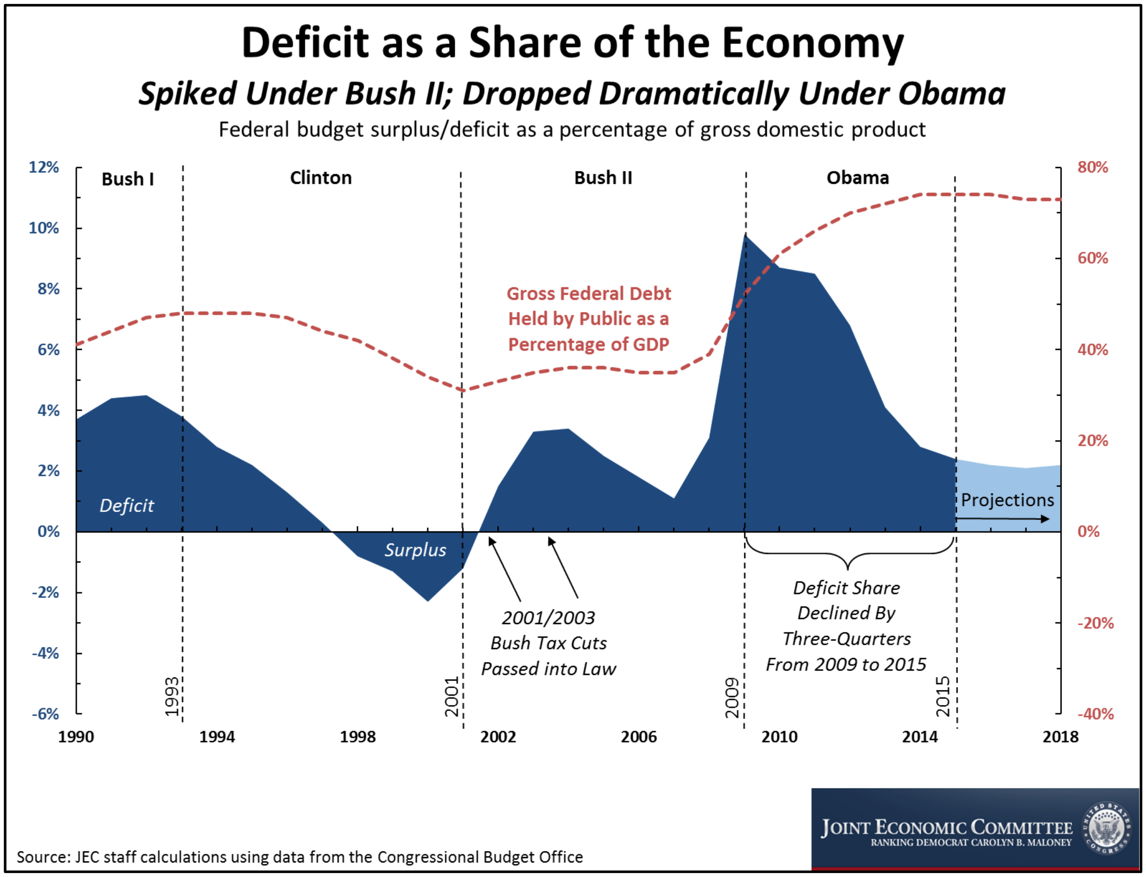
> ***- President Ronald Reagan, 1987***

5. **Even threatening default could have significant economic costs.** A serious threat that the debt ceiling will not be raised in time would push up interest rates, as investors demand a premium to hold U.S. debt. Higher interest rates would raise borrowing costs for businesses and make it harder for consumers to get credit. In 2011, as a result of the prolonged debate over the debt ceiling, consumer confidence fell sharply, mortgage rates climbed and Standard & Poor's downgraded the U.S. credit rating for the first time in history.

6. **Threatening not to raise the debt ceiling *can actually raise the debt.*** Studies have found that debt-ceiling brinksmanship raises Treasury yields, resulting in the government having to pay more. According to the GAO, the 2011 showdown resulted in an increase in government borrowing costs of $1.3 billion that year. The yields on short-term Treasury bills that mature around the deadline this year have already begun to rise.

7. **The policies of President George W. Bush contributed substantially to the current debt problem.** When President Clinton left office, the government had run a budget surplus for several years in a row. Federal debt held by the public as a share of GDP fell from nearly 50 percent to less than 35 percent during his eight years in office. The Bush Administration squandered this budget surplus and put the debt back on




an upward trajectory. One study found that the Bush-era tax cuts—which disproportionately benefited wealthier families—along with the wars in Iraq and Afghanistan together will account for nearly half of our nation's projected debt in 2019.

8. **The Bush-era recession led to a sharp increase in deficits.** During recessions, tax revenues fall and spending on programs designed to support Americans during tough economic times (such as unemployment insurance benefits) automatically increases. In addition, history has shown that the appropriate policy response to a recession is for the government to temporarily increase its spending and/or cut taxes to mitigate the economic damage. The Great Recession and the ensuing policy response led to a significant but temporary increase in annual deficits.

9. **Discretionary spending is not the source of growth in deficits.** The spike in deficits as a result of the Great Recession has given way to a decline in deficits as the economy has recovered. In FY 2015, the deficit was at its lowest level since 2007. While longer-term challenges remain, the temporary spike in the deficit resulting from the Bush-era recession led to a misguided effort to slash short-term spending. These cuts have focused largely on discretionary spending, which is not a driver of growth in deficits, and includes items such as early childhood education and scientific research.

10. **Faster growth is the key to reducing deficits—*and austerity undermines growth*.** A core lesson of the surpluses of the Clinton years and the deficits in the wake of the Great Recession is that a strong economy is critical to fiscal health. Unfortunately, austerity measures advanced by Republicans have already slowed economic growth. Sequestration reduced GDP growth by 0.6 percentage point and employment by 750,000 in 2013, according to estimates by CBO. Continuing down this path would further limit growth and job creation. CBO estimates that lifting the automatic spending reductions for FY 2016 and FY 2017 would increase GDP by 0.4 percent and increase employment by 500,000 in 2016. The best way to grow the economy and reduce deficits is to invest—in infrastructure, education, and research and development.