

A BRIEF GUIDE TO THE DEBT CEILING

The debt ceiling is a legal limit set by Congress on the total amount of money the federal government is allowed to borrow to meet its existing obligations. Importantly, raising the debt ceiling does not authorize new spending—it simply allows the government to pay bills that Congress has already approved, such as Social Security benefits, military salaries, federal contracts, interest on the national debt, and more.

Origins and History

The debt ceiling traces back to 1917, during World War I. Before then, Congress authorized each individual debt issuance. As war expenses grew, lawmakers created the first general borrowing limit through the Second Liberty Bond Act, giving the Treasury more flexibility to manage federal finances while keeping Congress in control of total borrowing. In 1939, Congress consolidated various limits into a single cap on total outstanding debt, creating the modern debt ceiling.

Since World War II, the U.S. debt—and the ceiling—have steadily risen as the federal government expanded, especially through programs like Social Security, Medicare, and defense initiatives. Congress has raised or suspended the debt ceiling more than 100 times, often without major conflict. In recent decades, however, it has become a more frequent source of political standoff.

Why the Debt Ceiling Matters

When the government reaches the borrowing limit, the Treasury cannot issue new debt. It can take “extraordinary measures” to keep paying bills temporarily, but once those options run out, the United States risks defaulting on its obligations. A default would mean the government fails to pay what it owes on time—an unprecedented event that could severely damage economic stability and credibility.

Reasons Why Some Support Raising the Debt Ceiling

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- Global markets lose trust in the U.S. as the world's most stable borrower which could cause stock market turmoil.
- Interest rates would surge for government, businesses, and individuals if it wasn't raised, resulting in higher borrowing costs for everyone.
- It is pay for spending Congress has already passed and the President has signed into law so we should honor commitments made by both parties over many years. Because the costs are already locked in, raising the ceiling is about following through, not spending more.
- It would cause damage to the U.S. dollar's role as the world's reserve currency
- Budget debates should happen during the normal appropriations process—not at the brink of default.

Reasons Why Some Oppose Raising the Debt Ceiling

Some people oppose raising the ceiling because they misunderstand its function. Common misconceptions include:

- Thinking it gives Congress license to spend more money which it does not.
- Believing it automatically increases the size of the government
- Politicians may want to force negotiations or extract concessions on unrelated policy issues and see this debate as a rare opportunity to highlight differences in fiscal philosophy, such as disagreeing with current federal programs or spending priorities (e.g., social programs, defense levels).
- High debt levels could eventually undermine the nation's long-term financial stability and excessive borrowing may weaken the U.S. dollar or raise borrowing costs for the government.
- Rising interest payments (which already consume a significant share of the federal budget) will crowd out funding for defense, social programs, and infrastructure.

In reality, the debt ceiling simply allows the government to pay for commitments already enacted into law.

Impact on the Economy

Failing to raise the debt ceiling would likely trigger significant consequences. Financial markets could lose confidence in U.S. creditworthiness, leading to higher borrowing costs for the government—and consequently, for consumers, including higher interest rates on mortgages, car loans, and credit cards. Stock markets could fall sharply, retirement savings could shrink, and global markets could face major disruptions, since U.S. Treasury bonds are considered among the safest assets in the world.

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Even approaching a default can be harmful. During the 2011 debt ceiling standoff, the United States received its first-ever credit downgrade, and financial markets reacted with volatility. The uncertainty alone can slow economic growth and cost taxpayers billions in higher interest payments.

Impact on Government and Citizens

If the Treasury exhausted its ability to pay bills, the government would be forced to prioritize payments—something it has never had to do. Social Security checks, veterans' benefits, federal salaries, tax refunds, and payments to contractors could be delayed. Essential programs could face disruptions, affecting millions of Americans and creating instability across the economy.

References

<https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/>
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