



# ADDRESSING THE DEBT CEILING — HOW IS THE US PREPARING?

The debt ceiling has received plenty of media attention in previous years, and rightly so. It is an issue that has a trickle-down impact on everything from the financial well-being of everyday Americans to the overall economy. Despite being an issue of considerable significance, it is not one that many people understand. This article offers background on the debt ceiling and helps to answer questions surrounding the issue, including why it is so important and where things stand as of 2022.

## What is the debt ceiling?

Many countries, including the United States, operate in a deficit as federal spending exceeds government revenue. When this occurs, the government, in this case, the US Treasury Department, finances the deficit through debt. The debt ceiling represents a limit on how much the Treasury can legally borrow, with the cap set by Congress and signed into law by the President.

An increase may be temporary or permanent, and we sometimes see a suspension in the limit altogether. At the expiration of the suspension, a new ceiling is placed at the current level of debt. Since [2013](#), we have seen a total of seven suspensions.

Boosting the debt ceiling does not mean lawmakers are authorizing new spending. Rather, they are agreeing to fund the country's existing financial obligations. [US Secretary of the Treasury, Janet Yellen](#), explained, "when we raise the debt ceiling, we're effectively agreeing to raise the county's credit card balance.... 97% of that balance was incurred by past congresses and presidential administrations."

## Why is the debt ceiling important?

Increasing a country's ability to borrow money is essential for the federal government to operate and honor its debts. Failing to raise the limit when needed can cause the government to default on its debt and impede the Treasury's ability to pay the government's bills. This impacts federal spending because the government can spend only what it earns in revenue instead of meeting all its obligations through financing. This means that the wages of federal employees, including those of the armed forces, would be compromised. It also threatens Social Security payments and Medicare coverage.

## Has the US ever defaulted on its debt?

As of mid-2022, the United States has never defaulted on its debt. If that were to change, it could mean a catastrophe for the economy and financial markets. While the effects of default are not set in stone, economists predict it could lead to a recession, causing a significant decline in the country's employment rate.

Furthermore, defaulting would damage the reputation of the US Treasury and could lead to a drop in the country's credit rating. In the words of the [US Secretary of the Treasury](#), "default could trigger a spike in interest rates, a steep drop in stock prices and other financial turmoil." This could potentially jeopardize the country's ability to sell Treasury bonds and ultimately impact international demand for US currency.

In [2011](#), the United States came close to default, and though it never actually occurred, there were still serious implications. While the US Treasury had previously received a AAA rating, Standard & Poor's downgraded US debt to AA+. Unsurprisingly, the move impacted investors who witnessed the US equity market lose 18% of its value. Though the stock market has since rebounded, the event was a lesson for lawmakers and the American public on just how profound the consequences of default could be.

## When was the last time the debt ceiling was raised?

Fall of 2021 brought heightened attention to the debt ceiling as the Treasury Department predicted funding would run out by [mid-October](#). Instead of addressing the issue thoroughly, there was an interim hike in the ceiling providing funding for approximately two additional months. This was after a similar short-term measure was made earlier that [summer](#) when a temporary suspension expired. At that time, the ceiling was placed close to \$28.5 trillion.

In mid-December, just days before the Treasury was set to run out of funds, lawmakers voted to approve a \$2.5 trillion increase in the ceiling. Congressional approval marked a significant milestone by ensuring funding through the midterm elections in fall 2022. After being signed into law by President Biden on [December 16, 2021](#), the debt ceiling increased to \$31.4 trillion.

## What is happening with the debt ceiling in 2022?

While the nation's bills will continue being paid for now, it is expected that in early 2023 funds will run out again. It is widely anticipated that Congress will vote to raise the ceiling to ensure the government can meet its legal obligations. This could be a permanent increase or a temporary one. Either way, we will likely see another short-term band-aid rather than a serious long-term solution that tables the issue for longer than a few years.

Though it is unrealistic to believe that Congress would implement a significant increase in the debt ceiling, there is no reason to think they would not increase it at all. Lawmakers have hiked the ceiling 89 times since the start of 1959. And this has happened under both Republican and Democratic leadership.

There should be another increase to the cap in the coming months, though we may see another hold out until the eleventh hour. In the meantime, we expect widespread news coverage on the debt ceiling before we see another hike signed into law.

## Takeaway

As we move through the mid-term elections and into the new year, there will be a bigger spotlight on the issue of raising the debt ceiling to fund the government and prevent the United States from defaulting on its debt. We have yet to see the US default due to inaction from Congress, and we expect this time to be no different.



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