Hitting the Debt Ceiling

Webinar and Resource Material
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Summary Fact Sheet

- ✔ The **federal debt** is the accumulation of past deficits. The debt is not new. The earliest U.S. debt records reach back to the Revolutionary War.
- ✔ **Deficits** occur when government spending is greater than receipts in a given year.
- ✔ **Deficits** arise from a decline in revenues and an increase in spending on government programs and funding for war costs.
- ✔ **The debt ceiling** is a legal limit on the amount that the government can borrow. It has been raised 74 times since 1962, including 10 times since 2001. The current debt ceiling is $14.3 trillion.
- ✔ The only way to reduce our debt is through a government **surplus**. A surplus occurs when receipts are greater than spending in a given year.
- ✔ There is no **legal requirement** that raising the debt ceiling be linked to changes in federal fiscal policy, such as deficit reduction. In fact, the existence of the debt ceiling does not prevent the government from running deficits.
- ✔ While **budget proposals** currently being considered in Congress reduce next year's deficit by differing amounts, none of them propose a surplus for FY2012.
- ✔ If the **debt ceiling** is not raised, in the short term, the Treasury Department can pay the interest on the debt in order to avoid default. Monthly government receipts are greater than the monthly interest owed so there is enough cash to cover interest payments. However, this means that other government programs, such as Social Security checks or soldiers' paychecks, could lose funding.
- ✔ The **other option** is for the Treasury Department to default or not pay the interest on the debt. This will have consequences for the U.S. economy because Americans own part of the debt through private investments and pension funds. The global economy will also be affected since 47% of the public debt is held by international investors, including the central banks of other countries. If Treasury defaults on the debt, Treasury securities, which is what investors hold, will be downgraded and devalued.