

# The Debt Limit

Imagine you have a credit card. This card would allow you to purchase things without using physical currency to do so. In essence you are borrowing money from a bank so you can buy what you want. Because you want so many things, you use this card often. It gets to the point where you have maximized its use and no longer have available funds with which to purchase items. You have reached your debt limit.



Similarly, the federal government also **borrow money**, but the amount it is able to borrow to meet its **financial obligations** is determined by Congress. If Congress fails to act on its debt limit it could cause an **economic disaster**. The federal government would be unable to pay its bills and it would potentially lead to a crash of the economy.

Fortunately, any potential economic disaster was averted when the Senate **passed a measure** on October 7, 2021 to increase the country's debt limit by a vote of 50-48. This bill now heads to the House for its approval. Once secured, it will head to President Biden's desk for his signature.

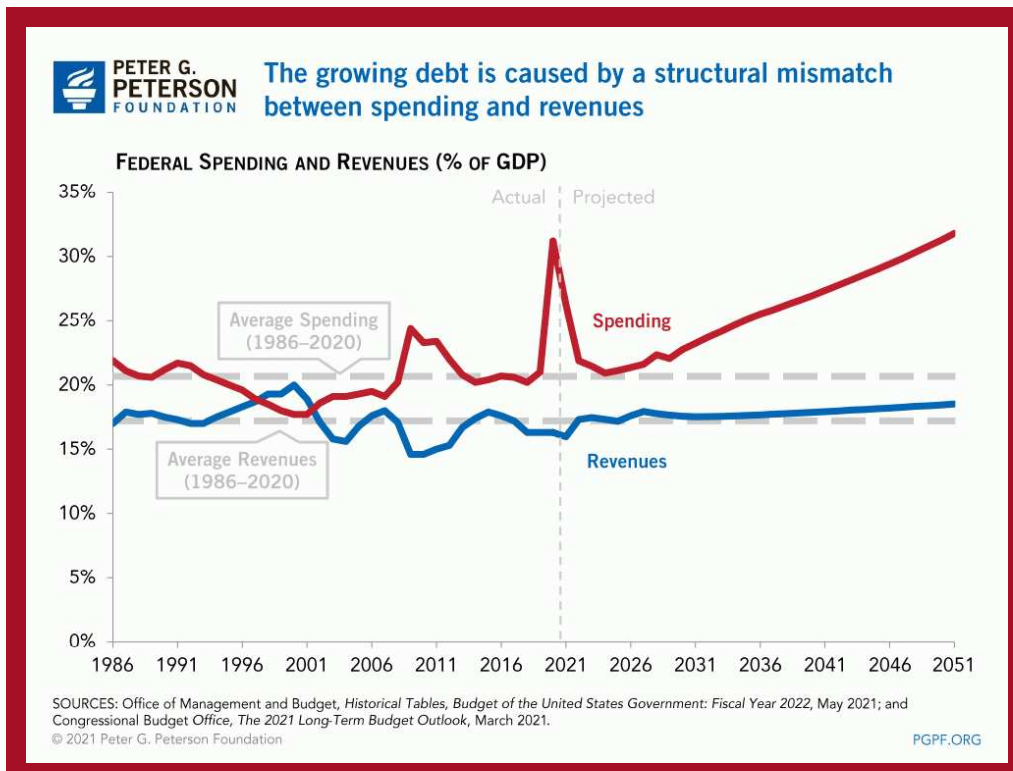
Debate surrounding the debt ceiling is an important one, and here is why. According to the **Department of the Treasury**, **"the debt limit is the total amount of money that the United States government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments."**

Keep in mind, the government continues to collect its **tax revenue**, but the **financial obligations** of the United States are greater than the income it collects in taxes. So, the United States government must

borrow additional money so it can pay its bills. If Congress did not raise the debt limit, the United States would have defaulted on [that is, failed to pay] its financial obligations.

Even with this latest debt limit increase, Congress only authorized for additional borrowing to continue through December 2021. Consequently, this debate will begin anew, with the same looming potential for economic uncertainty.

**To Think and To Do:** Examine the chart. What does it suggest about government spending and taxation?



**Learn More:**

- [Debt Limit](#), from the U.S. Department of the Treasury
- [How The Debt Ceiling Debate Impacts The Average American](#), from Forbes
- [Federal Spending by Agency and Category](#), from Data Lab



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