

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.

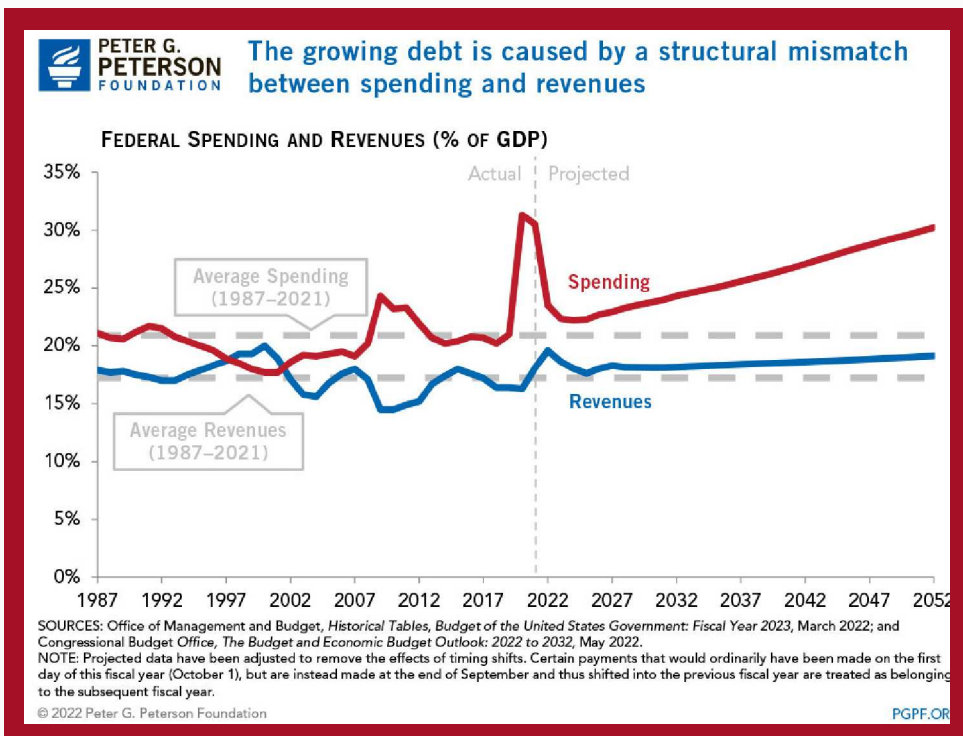
The United States government previously reached its debt limit in 2021, which resulted in Congress **passing a measure** to increase the limit. However, on January 19, 2023, the U.S. reached its new debt limit. The only way to correct this situation is through **another congressional act**. The Republican controlled House is willing to increase the debt limit, but wants to accompany this increase with deep spending cuts. Democrats in the House would prefer a clean debt ceiling increase. Both sides have **begun meeting** to discuss different approaches.

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 does not raise the debt limit, the United States will default on [that is, failed to pay] its financial obligations.

Treasury Secretary Janet Yellen has announced that her office will use **"extraordinary measures"** to prevent the U.S. from defaulting, but these actions will only provide Congress until June 5th to act. Consequently, this important debate begins, with looming potential for economic uncertainty if compromises cannot be reached.

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 a Debt Ceiling Standoff Could Devastate Your Finances](#), from Forbes
- [Federal Spending by Agency and Category](#), from Data Lab

