

July 25, 2011

Dear Reader:

## **The Debt Ceiling—Why All the Fuss?**

Over the last couple of months the debt ceiling has become the face of political debate in America. The issue is front and center of political pundit and news related shows. As the debate rages on Capitol Hill, I thought I would provide some basic information about this important debate.

### **What is the debt limit?**

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. The debt limit does not authorize new spending commitments. It simply allows the government to finance existing legal obligations that Congresses and Presidents of both parties have made in the past. Since 1960, Congress has acted 78 separate times to permanently raise, temporarily extend, or revise the definition of the debt limit.<sup>(1)</sup>

The current debt limit sits at \$14.294 trillion dollars.<sup>(2)</sup>

### **When did the U.S. Government reach the debt limit?**

The U.S. reached the debt limit on May 16, 2011, but the Treasury Department has employed measures to temporarily extend our ability to meet the nation's obligations.

These measures allow the Treasury to extend borrowing authority until August 2, 2011.<sup>(3)</sup>

### **What happens if Congress fails to increase the debt limit?**


It would cause the government to default on its legal obligations. It would call into question the full faith and credit of the United States government—a pillar of the global financial system. It would cause investors here and around the world to doubt, for the first time, whether the United States will meet its commitments. Federal government shutdowns have occurred a number of times over the last 30 years, whereas a default on the legal obligations of the United States government is unprecedented in American history.<sup>(4)</sup> Treasury Secretary Timothy Geithner said "Failure to enact a timely increase in the limit would have the perverse effect of increasing the government's borrowing costs and worsening our fiscal challenges. Default, or even perception that default is likely, could increase rates on treasury securities, which would significantly increase the cost of paying interest on the nation debt."<sup>(5)</sup>

**If Congress and the Administration would just cut spending would they still need to increase the debt limit?**

In February 2011, the non-partisan Congressional Research Service wrote that, in order to avoid having to increase the debt limit, the federal government would need to “eliminate all spending on discretionary programs, cut nearly 70% of outlays for mandatory programs (such as Medicaid, Medicare, and Social Security), increase revenue collection by nearly two-thirds, or take some combination of those actions in the second half of FY2011.”<sup>(4)</sup>

As Congress works to meet the August 2<sup>nd</sup> 2011 deadline, I hope these details about the debt ceiling will help you understand what all the fuss is about regarding this important debate.

Sincerely,



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**References:**

- (1) <http://www.treasury.gov/initiatives/Pages/debtlimit.aspx>
- (2) <http://www.gao.gov/products/GAO-11-203>
- (3) <http://www.treasury.gov/press-center/press-releases/Pages/tg1243.aspx>
- (4) <http://www.treasury.gov/initiatives/Documents/Debt%20Limit%20Myth%20v%20Fact%20FINAL.pdf>
- (5) <http://www.treasury.gov/initiatives/Documents/DLJohnsonLetter062911.pdf>