The Debt Ceiling: Congressional History and Consequences

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Hearing on: "Why Congress Needs to Abolish the Debt Ceiling"

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Chairman Yarmuth, Ranking Member Smith, and members of the committee: my name is Laura Blessing and I am a Senior Fellow at the Government Affairs Institute at Georgetown University. My research and teaching cover a range of topics relating to Congress, parties, and policy, particularly the politics and process of tax and budget policy. Thank you for inviting me here today to testify on the topic of "Why Congress Needs to Abolish the Debt Ceiling." It is an important and timely topic. It is my goal to provide some additional context for how the debt ceiling has functioned over time in congressional negotiations, and the consequences it has had.

To that end, I'd like to make three main points today. 1. Congress has evolved over time in how it has dealt with the debt ceiling, with a trend towards greater brinksmanship. 2. The current manifestations of the debt ceiling in Congress are a particularly worrisome combination. 3. The debt limit has not functioned as an effective tool in controlling debt, and carries with it a number of potential problems for lawmaking in addition to a default's catastrophic economic consequences.

1. The evolution of the debt ceiling:

The debt ceiling was created in 1917 with the Second Liberty Bond Act, and further modified and institutionalized in 1939, to allow the Treasury Department greater flexibility and to modernize federal financing.[2] It imposes an aggregate limit on almost all federal debt, including both debt held by the public and debt held by the government's own accounts. Notably, raising the debt limit does not incur additional spending—rather, it allows the Treasury to borrow money to cover spending Congress has already voted for.

While the US is not wholly unique in having a debt ceiling, it is highly unusual. A small number of other, far less risky, examples exist worldwide, including the Danish debt ceiling, which is safely set at multiple times the existing level of debt. The US Congress has lifted the debt ceiling over one hundred times, under administrations and Congresses of both parties.[3]

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[1] All views expressed are my own and do not necessarily reflect those of the Government Affairs Institute or any of its staff or board members.

[2] Cooke, H.J. and M. Katzen. 1954. "The Public Debt Limit." *The Journal of Finance*, September 1954, Vol. 9, No. 3, pp. 298-303. See also: Hall, George J. and Thomas J. Sargent. 2018. "Brief History of US Debt Limits Before 1939" *Proceedings of the National Academy of Sciences of the United States of America*, Vol. 115, No. 12, p. 2942-2945. Some confusion on the role of World War One exists, for a nice corrective piece see: Binder, Sarah. 2013. "Debt Ceiling Was Meant to Aid Borrow, Not Limit It." *The New York Times*, 13 January.

[3] "The Debt Limit: CRS in Focus". 2021. Congressional Research Service, 17 March. <https://fas.org/sgp/crs/misc/IF10292.pdf >

The midcentury period between the modern creation in 1939 and major reforms in the 1970s gets little attention in current commentary. The debt ceiling was less concerning than today and political conditions are in many ways not comparable: there was historically low polarization, a different budget process until 1974, fewer instances of divided government, and less frequent changes in majority party status in Congress. But this period still provided regular contestation over the debt ceiling. Both parties have politicized it (in rhetoric, by having a majority of their caucus or conference vote in opposition, by the refusal to bring up a vote, and more)—since 1953.[4]

There are many metrics and individual episodes one could cite. A study by Kowalsky and LeLoup[5] notes the voting patterns by party and chamber from 1945 to 1990. Substantial partisan divergence is present for most of these years, which is more pronounced in the House and worsens over time.[6]

Much of today's rhetoric and governance difficulties are present from very early on. In an early episode, the 1957 fight prompted the Air Force to drastically curtail spending, which economist Marshall Robinson identified as a major cause of the 1957-58 recession.[7] In his 1958 essay "Why a Federal Debt Limit?", economist Walter Heller noted that "far from promoting fiscal prudence and expenditure restraint, as claimed by its protagonists, the federal debt limit has in fact eroded the integrity of our federal budget, interfered with efficient expenditure scheduling and effective debt management, endangered our defense program, and aggravated the 1957-58 recession."[8] Right up until the identification of the year, one could be excused for thinking that this quote was contemporary. While the era of threatening actual default is barely over a decade old, these larger problems with the debt ceiling are neither new nor infrequent.

The 1970s brought two major reforms relevant to the debt ceiling. The first is the 1974 Budget Act, which reformed a more ad hoc appropriations process, providing regular oversight and a comprehensive consideration of total spending, and the creation of the Congressional Budget Office to aid Congress in these efforts. Previously, the debt ceiling, while still problematic, had functioned as a regular vehicle for consideration and oversight of federal spending in a process that otherwise largely lacked this. Fiscal stewardship and effective oversight are important congressional responsibilities; legislators have prioritized this as well as balanced budget ideals

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[4] Cooke, H.J. and M. Katzen. 1954. "The Public Debt Limit." *The Journal of Finance*, September 1954, Vol. 9, No. 3, pp. 298-303.

[5] Kowalcky, Linda and Lance LeLoup. 1993. "Congress and the Politics of Statutory Debt Limitation." *Public Administration Review* (Jan-Feb 1993), Vol 53, No. 1, p. 14-27.

[6] Republicans in the House vote almost unanimously against debt ceiling increases under Democratic administrations, with periods of initial support for Republican administrations eroding sharply. On the Senate side, about 20% more of the Democratic caucus votes for raises under Kennedy, Johnson, and Carter, roughly equal shares of both parties' caucuses vote for raises under Nixon and Ford, with the most significant opposition coming from Senate Democrats in the Reagan administration. Democratic opposition would become more pronounced years later.

[7] Robinson, Marshall. 1959. *The National Debt Ceiling: An Experiment in Fiscal Policy.* Washington, DC: The Brookings Institution Press.

[8] Heller, Walter. 1958. "Why a Federal Debt Limit?" *Proceedings of the Annual Conference on Taxation under the Auspices of the National Tax Association*, Vol. 51 (1958), p. 246-257.

over time.[9] Having a regular process to facilitate these goals is important; the larger question is how best to design such a process.

The second major reform was the creation of the Gephardt Rule in 1979. This procedural reform reduced but did not eliminate the number of House votes on the debt ceiling. A House vote for the budget resolution would cause House approval (automatically inserted into a joint resolution) of raising the debt ceiling without a separate vote, sparing lawmakers an uncomfortable vote. Of course, in years where the House could not approve a budget resolution or the limit was reached before a budget resolution could be passed, the House would have to take separate votes. This provided a helpful reform that nonetheless did not eliminate fights, and itself was vulnerable to reversal: Speaker Gingrich suspended it in 1995, and it was more definitively repealed in 2011, only to be brought back in modified and less effective form in 2019.[10] Both reforms are useful for considering the sort of oversight of the debt that can take place in the absence of the debt ceiling, and the benefits and limitations of procedural reform.

The 1980s through 2010 brought greater deficits, greater partisanship, and more contentious episodes of debt ceiling showdowns.[11] Reagan inherited debt just shy of a trillion dollars; it would double before the end of his administration, and then keep doubling: by 2010 it was over $13 trillion. Reagan's 1981 tax cut ushered in the modern era of high deficits and the "fiscalization of the policy discourse".[12] In 1985 a fight over the debt ceiling provided the context for our first use of sequestration: Gramm-Rudman-Hollings was attached as an amendment to a debt ceiling increase, with the debt ceiling again hastening its revised reinstatement in 1987 after the Supreme Court struck down portions. Sequestration, in the 1980s and today, invites conflict without delivering on its promises of fiscal restraint.[13]

In 1995-96 Speaker Gingrich demanded spending concessions and that President Clinton approve a GOP balanced budget plan before a debt ceiling vote would occur. While the stated threat that a debt ceiling vote might not happen was a new development, the impasse was resolved weeks before the Treasury's X date; historic brinksmanship for the time but tame by today's standards.[14] During the George W. Bush administration Democrats' opposition

[9] Savage, James. 1988. *Balanced Budgets and American Politics*. London: Cornell University Press.
[10] Heniff, Bill. 2019. "Debt Limit Legislation: The House 'Gephardt Rule'." Congressional Research Service, 13 February. <https://sgp.fas.org/crs/misc/RL31913.pdf>
[11] White, Joseph, and Aaron Wildavsky. 1989. *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s.* Berkeley, CA: The University of California Press.
[12] Patashnik, Eric. 2004. "Congress and the Budget Since 1974." In *The American Congress*, ed by Julian Zelizer. New York: Houghton Mifflin Company.
[13] Major difficulties both episodes include are that entitlements, the major drivers of deficits, are not considered for reform (neither are revenue raises), changes in the economy that could affect revenues and thus projected cuts are not considered, and that budgeting gimmicks prove irresistible. This is not to say that neither episode provided any spending restraint (one cannot precisely know a version of history absent these laws), but that lawmakers largely wrote themselves out of the fiscal handcuffs they created with a variety of accounting gimmicks, raising the caps, and repealing the law entirely.
[14] Wallach, Phillip. 2013. "Mr. Boehner, Tear Down This Ceiling!" Brookings Governance Studies, 13 January. <http://www. brookings.edu/research/papers/2013/01/10-debt-ceiling-wallach>

hardened.[15] In 2006 President Obama, then a Senator, voted against raising the debt ceiling, a vote he came to regret. In these increasingly partisan, but not perilous, years a pattern became clear: those in power voted to raise the limit.

2. The current era, from 2011 to the present, is particularly worrisome:

We are now in an era where Congress has risked default. 2011 is the year where the debt ceiling started to have teeth.[16] The Great Recession and spending measures intended to avert a Great Depression, on top of structural deficits deepened by the Bush tax cuts, put a number of major institutions in a position to call for major debt reduction, while the wave election of 2010 brought in an emboldened group of Tea Party fiscal conservatives, some noting a willingness to vote against the debt ceiling in their campaigns. President Obama and Speaker Boehner made serious attempts at a Grand Bargain, only to be stymied by both failures of communication—and fundamentally, a GOP position to not raise taxes in any bargain. Negotiations came down to the wire, with the Senate rejecting the House's short-term plan and the House following suit, just days before default. Finally, Vice President Biden and Senate Minority Leader Mitch McConnell forged a deal at the last minute, one that would not raise taxes. Credit rating agencies had threatened downgrades in earlier episodes (1995-96, for example), but 2011 marked the first time in US history that our credit was downgraded from its perfect AAA rating in history, by Standard and Poor's. The brokered agreement called for a Super Committee to find $1.2 trillion in cuts over a decade, with sequestration the result if the committee failed. That failure led to the Budget Control Act of 2011 and a decade of sequestration—with those caps raised roughly every two years by Congress.

In addition to our new system of defense and non-defense discretionary caps (and OCO), this new system has regularized both high-stakes, party leadership-driven brinksmanship, as well as the inclusion of the debt ceiling in appropriations negotiations. The debt limit is the threat that led us here, and which continues to bedevil lawmaking. The formal appropriations process in general has significantly broken down, with omnibus and harmful Continuing Resolution (CR) bills replacing stand-alone appropriations bills for the past decade; making the debt ceiling a regular part of the appropriations process adds to this larger dysfunction. Treasury regularly relies on extraordinary measures to avert default. 2013 featured another high stakes debt ceiling showdown, also affecting markets. These regular brushes with economic disaster have become numbing. This past December a debt ceiling increase squeaked through the Senate on a party-line vote right before Secretary Yellen warned Treasury's tools to keep the US from default would expire.[17]

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[15] Austin, D. Andrew. 2015. "The Debt Limit: History and Recent Increases." Congressional Research Service: 2 November. <https://sgp.fas.org/crs/misc/RL31967.pdf>

[16] Blessing, Laura. 2022. "The Eroding Congressional Budget Process." In *Under the Iron Dome: Congress from the Inside*, eds Paul Herrnson, Colton Campbell, and David Dulio. New York: Routledge.

[17] Rappeport, Alan. 2021. "Yellen Warns Lawmakers that the US could Breach its Debt Limit by Dec. 15." *The New York Times*, 16 November.

3. The debt ceiling's effects: brinksmanship without effective spending control:

There is little evidence that the debt ceiling provides fiscal restraint.[18] The debt keeps increasing, and the debt ceiling has virtually never been lowered.[19] Consider where it is in the process. Voting separately to service debt that has already been incurred by earlier congressional decisions and the state of the economy is a reactionary exercise.

Some claim that the debt ceiling has prompted negotiations that have resulted in fiscal restraint—the counterfactual that even though the ceiling keeps rising, that it could have risen faster. A fuller reading of congressional history would note that amending debt ceiling votes or otherwise pairing debt ceiling negotiations with reforms that affect deficits have been minor, but also that such policies and reforms have cost money as well as curtailed spending. In the early 1970s the debt ceiling votes were seen as such safe "must pass" legislation (as opposed to being truly imperiled) that they attracted additional social security benefits. In the 1980s nongermane amendments included both raising and cutting taxes: increasing the federal gas tax, repealing the windfall profits tax, increasing the tariff on imported oil, and more. Current discourse tends to center around BCA 2011's sequestration regime put into place after the 2011 debt ceiling scare—but that has provided little in fiscal restraint, as topline spending caps were regularly raised, roughly every two years.[20] Of course, there have been other costs to the Treasury connected to the lack of timeliness of debt ceiling increases.[21]

As for the argument that the debt ceiling provides an opportunity for congressional oversight and a way to focus attention on larger fiscal matters, this is true but comes at a high cost. There are other avenues for Congress to perform these same functions without the risk the debt ceiling entails. The appropriations process provides a significant focus on congressional spending, with total topline numbers receiving high levels of attention and political bargaining. A variety of reports on deficits and debt, some mandated, are provided to assist Congress in identifying trends in federal revenue, outlays, and deficits, as well as contributing factors.

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[18] American Political Science Association. 2019. "Report of the Task Force Project on Congressional Reform." <https://www.legbranch. uploads org/app/ /2019/11/APSA-Congressional-Reform-Task-Force-Report-11-2019-1.pdf > See also Kowalcky and LeLoup (1993)'s identification that "outside experts have consistently reported to Congress that the debt limit is ineffective at curbing borrowing".

[19] U.S. Office of Management and Budget, FY 2022 Budget of the United States Government, Historical Tables, Table 7.2 Exceptions to this rule are minor: in 1946 the Public Debt Act was amended to reduce the debt limit to $275 billion (from $300 billion) and on only five instances has the debt subject to the limit decreased, between 1946 and 1957.

[20] "Bipartisanship in Budgeting": Hearing Before the Joint Select Committee on Budget and Appropriations Process Reform, 115th Congress (2018, May 9) <https://www.govinfo.gov/content/pkg/CPRT-115HPRT33612/html/CPRT-115HPRT33612.htm> See especially the exchange between Rep. Womack and testifying witness Bill Hoagland.

[21] GAO, "Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches," GAO-15-476 (July 2015). <https://www.gao.gov/products/gao-15-476> See also Kowalsky and LeLoup (1993) for earlier episodes of cost to the Treasury: "In 1978, for example, it was estimated that a lapse in statutory authority cost the Treasury approximately $15 million. In 1984, Treasury Secretary Regan wrote Congress that postponement of two October auctions would cost $400 million in higher interest."

The debt ceiling is a vote that members of Congress have not enjoyed taking since the 1950s, with frequent episodes of political hardball escalating into brinksmanship, bringing the US to the precipice of default. Legislating is difficult enough with high levels of polarization and gridlock, in a world of significant and fast-moving policy challenges.