Breaching the Debt Ceiling Could Harm Millions of Americans and Produce Economic Devastation

The U.S. economy is again facing the grave threat of a breach of the debt limit. Past debt-limit brinkmanship crises inflicted substantial uncertainty on businesses, drove huge declines in the stock market and consumer confidence and led to higher borrowing costs for taxpayers and consumers. Debt-limit brinksmanship resulted in the first-ever downgrade of the U.S. credit rating and cost the country billions of dollars in lost economic activity, even though a default was ultimately avoided.

Breaching the debt ceiling would render the federal government unable to fulfill its financial obligations, forcing cuts to Medicare payments to hospitals and doctors, pay and benefits for military service members and Social Security payments to seniors.

A debt-limit breach could also cause a default on federal debt, which is widely considered one of the safest financial assets and an essential part of the U.S. dollar's position as the world's reserve currency. Defaulting on federal debt would create a financial crisis on par with that of 2008 and would result in catastrophic economic damage, with millions of jobs lost, businesses shuttered and a banking system in chaos.

The debt limit simply allows the federal government to make good on financial obligations Congress has already incurred

The federal debt ceiling is the statutory limit on the total amount of money that the Treasury Department may legally borrow. Federal law requires that the limit either be suspended or raised before new debts may be incurred once the limit is reached. The debt limit does not incur new debts but rather allows payment of existing debts. Failure to raise the debt ceiling would make it impossible for the federal government to keep its commitments in areas of government spending such as the military, veterans, Medicare, Medicaid and Social Security.

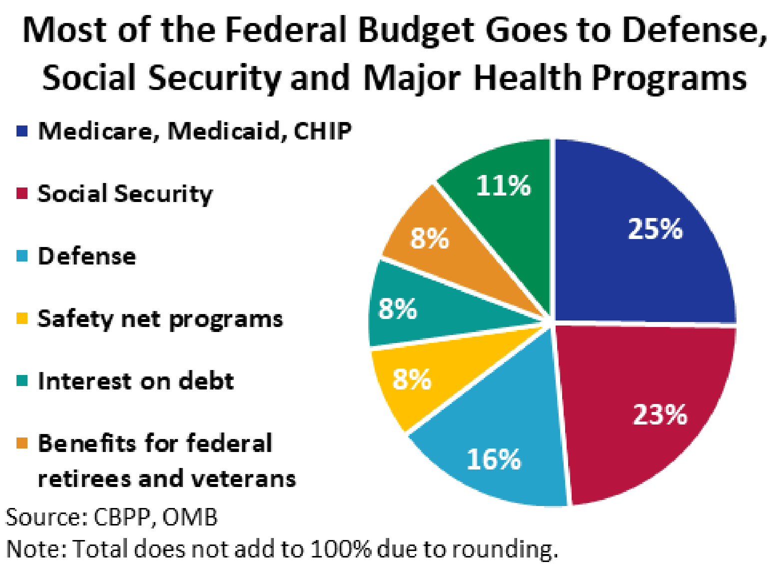
Recent analysis by the Center for American Progress finds that 97% of the debts currently necessitating an increase were accrued prior to the current administration. Many of those debts, including emergency pandemic relief measures, increased defense spending and continued government operations were passed with bipartisan support in Congress.

Treasury Secretary Janet Yellen has warned that the United States will hit the debt ceiling in October 2021. A bipartisan group of six former Treasury Secretaries warned in a letter to congressional leadership that an "accidental default could occur if the debt limit is not raised in time."

A debt limit breach would make it impossible for the federal government to continue expected payments to the military, veterans and seniors

Once the United States reaches the debt limit, the Treasury would only be able to pay debts using existing funds and revenue as it comes in. The majority of federal spending pays for the military, veterans, Social Security and health programs such as Medicare and Medicaid. Payments would quickly be outstripped by debt obligations because the federal government regularly runs a seasonal deficit in the fall, thus rendering the federal government fundamentally unable to continue expected payments to support the military, veterans, seniors and to service existing debt.

Slashing or delaying federal payments would hurt people across the United States, including Social Security recipients, hospitals and health care providers, veterans, military service members, the federal workforce, student loan recipients and more. If a default occurs, the Treasury Department might need to delay payments until it receives enough revenue to cover a full day's expenses, which would result in unpaid bills and "great hardships to millions of Americans and harm to the economy."



Defaulting on federal debt would cause an economic catastrophe

Breaching the debt ceiling and defaulting on federal debt would cause an economic catastrophe. Moody's Analytics economist Mark Zandi predicted that following a default, a global market panic on the scale of the 2008 financial crisis would ensue, which could result in a loss of six million jobs, an unemployment rate of nearly 9%, the elimination of $15 trillion in household wealth and a decline in real GDP of 4%.

The Federal Reserve currently projects the United States will experience 5.9% GDP growth in 2021 and 3.8% GDP growth in 2022, a level of economic growth that would exceed any year under the previous administration. However, this projection is predicated on the assumption that the United States will meet its financial obligations. Breaching the debt ceiling and going into default could throw millions of Americans into financial ruin at a time when America is just regaining its economic foothold following the COVID-19 crisis. The United States has recovered 75% of the more than 22 million jobs lost during the coronavirus pandemic and the unemployment rate continues to fall from its pandemic high.

Defaulting on our debt would halt this progress, needlessly harming millions. It would take years for the country to recover from the calamity of a default even during normal conditions, but the effects of a default in 2021 would be significantly worsened by the ongoing global pandemic. JPMorgan Chase CEO Jamie Dimon predicted that such a default "could cause an immediate, literally cascading catastrophe of unbelievable proportions and damage [to] America for 100 years."

Raising the debt limit is the only option to avoid an economic catastrophe

Though the full effects of a default would depend on the scope and duration of such an event, the effects of failing to raise the debt limit would likely be felt by most Americans. From drastically increased costs for mortgages, student loans, credit card payments and other borrowing, to halted payments for Social Security recipients, veterans, service members, hospitals and civil servants, to far-reaching effects in the financial system, the costs could be severe and long-lasting.

As the 2011 debt ceiling crisis shows, even narrowly avoiding a default costs the country billions of dollars. While raising the debt ceiling does not, on its own, create new debts for the United States government, a failure to do so certainly would.

Congress should act as it has done 78 times since 1960, raise the debt limit and avert an economic calamity that would inflict suffering and misery on millions of Americans.