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Hitting the Debt Limit: 3 Things to Know

By Joel Friedman and Richard Kogan

On January 1, 2025, the federal government will reach the debt limit, the maximum amount it is allowed to borrow. Accordingly, Congress will need to act to raise or suspend the limit in the coming months to cover existing commitments. Raising or suspending the debt limit does not authorize new spending or tax cuts; it merely acknowledges past budgetary decisions — that is, current budget law — and so allows the federal government to meet its existing legal obligations. The government must suspend or raise the limit to prevent default, which would be deeply damaging and disruptive for people across the U.S., financial markets, and the economy.

The debt limit has been suspended since the enactment of the bipartisan 2023 Fiscal Responsibility Act, allowing the federal government to borrow as needed. But under that law, the suspension expires at the start of 2025, and the new limit will be set at the level of debt outstanding on that day.

The Congressional Budget Office estimates that the deficit is currently running a bit below \$2 trillion per year, which is therefore a reasonable approximation of the amount the federal government will need to borrow in 2025 to pay its bills in full, even if policymakers enact no further deficit-increasing measures.

Here are three key things to know about the debt limit:

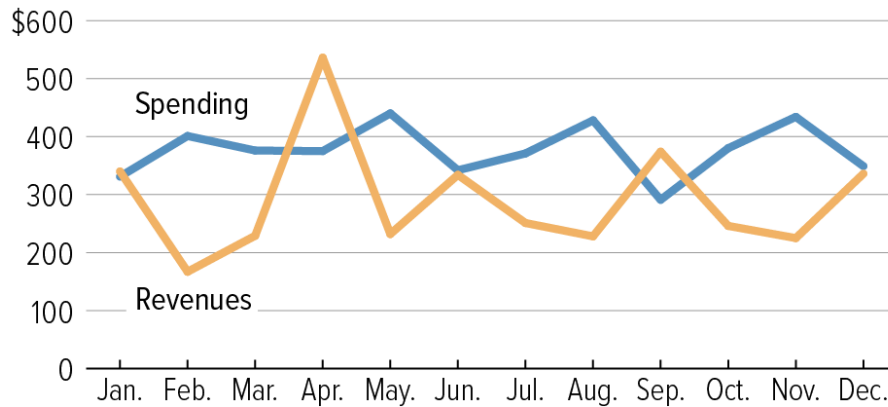
1. January 1st is not a hard deadline.

When the U.S. reaches the debt limit, Treasury cannot increase borrowing to finance spending. But it will be several more months before the federal government lacks the resources to meet its legal obligations. That hard deadline, sometimes called the “X-date,” will likely not occur until the spring or summer, but it is difficult to estimate precisely at this point.

What allows the Treasury to spend when it cannot borrow more? First, it will have a buffer of cash on hand, which stood at around \$700 billion on December 12. Second, Treasury will continue to collect revenues. Even though total revenues are less than total spending over the year, in certain months revenues exceed spending, generating a surplus. (See Figure 1.) This is particularly the case in April, around the tax filing deadline.

Federal Government Revenues and Spending Vary Greatly From Month to Month

2019, in billions of dollars



Source: Monthly Treasury Statements

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Finally, the Treasury Department can use certain accounting maneuvers, known as “extraordinary measures,” that let it finance expenditures without additional borrowing that counts against the limit. Both Democratic and Republican administrations have used these measures in recent decades after reaching the debt limit, allowing them to meet the federal government’s obligations while waiting for Congress to act. But these accounting maneuvers are not open-ended. In past years, they have given the Treasury several months of cushion before reaching the X-date. In 2023, for instance, Treasury relied on them for 135 days before Congress suspended the debt limit.

2. Prioritizing payments isn’t the answer to the debt ceiling.

If Congress does not raise or suspend the debt limit by the time Treasury has exhausted its cash balances and extraordinary measures, it would be unable to increase borrowing. It could not meet all the government’s legal obligations; it could pay only as much as it collects in revenues — on a day-to-day basis. Given that revenue is insufficient to cover spending, payments would need to be delayed and spending eventually cut — all of which would be illegal, because that would violate existing spending law. Default would not only hurt people who depend on timely government payments, but it would also shake financial markets and damage the economy.¹

A number of Republican members of Congress have introduced legislation over the past dozen years that would authorize Treasury to prioritize certain payments if the federal government reached the debt limit. But that is not a way around the debt limit. The many budget statutes authorizing government’s various spending programs provide no legal authority to prioritize one payment over another. As a result, the government’s current payment system is designed to pay bills in the order in which they come due. And it relies on quite old technology that cannot be easily or quickly updated.

¹ Paul Van de Water, “Failing to Suspend or Raise Debt Limit Would Have Wide-Ranging Effects,” CBPP, September 27, 2021, <https://www.cbpp.org/blog/failing-to-suspend-or-raise-debt-limit-would-have-wide-ranging-effects>.

Even if prioritizing were legalized, many experts believe it is a practical impossibility under current technology and systems, particularly given that Treasury makes hundreds of millions of separate payments each month. And even if it were possible to administer on a large scale, prioritization is little more than picking winners and losers. Proposing to prioritize certain payments is merely an attempt to lessen *some* of the harm to *some* of the people. But it would increase the harm even further to those not favored — harms that would grow every month, as delays cumulated — while still failing to provide protection from default’s widespread fallout.²

3. The debt limit is not a way to control deficits.

In the past, some lawmakers have refused to support raising or suspending the debt limit without accompanying deep spending cuts — including to programs that help people afford health care and groceries — as a way to link the debt limit to deficit reduction. But the debt limit is neither an effective nor appropriate mechanism to limit federal deficits and borrowing.

By the time the debt limit is reached, virtually all of the spending and tax policies that determine the federal government’s near-term borrowing needs have already been enacted. Therefore, raising or suspending the limit merely enables the government to pay the bills that it has already incurred through previous tax and spending policies that created deficits in the first place; it does not create more spending or larger deficits, as reports from the Congressional Research Service and the Government Accountability Office agree.³

Additionally, the Congressional Budget Office has written, “By itself, setting a limit on the debt cannot control deficits because the decisions that trigger borrowing are made through other legislative actions that occur largely before the debt ceiling is reached. By the time an increase is needed, it is too late to curtail federal spending or to avoid paying pending obligations without incurring negative consequences.”⁴

While policymakers should consider the risks associated with a federal debt that’s growing faster than the economy and is projected to continue doing so, they should not hold the debt limit hostage to their policy preferences, creating uncertainty and risking a government default. A more appropriate place to debate the long-term fiscal outlook would be when policymakers are considering the revenue and spending effects of specific legislation.

Moreover, a focus on tying the debt limit to spending cuts mistakenly implies that growing spending is the cause of our fiscal challenges. While total spending is projected to rise faster than revenue, this is almost exclusively due to rising interest costs. Program costs (which exclude interest) and revenue are growing at roughly the same rate. Rising interest costs are the result of the large underlying mismatch between revenues and program spending, which is due primarily to tax cuts

² Richard Kogan, “Debt Limit Default Is Default, Even Under a ‘Prioritization’ Scheme,” CBPP, updated February 16, 2023, <https://www.cbpp.org/research/federal-budget/debt-limit-default-is-default-even-under-a-prioritization-scheme>.

³ Mindy R. Levit *et al.*, “Reaching the Debt Limit: Background and Potential Effects on Government Operations,” Congressional Research Service, March 27, 2015, p. 21, <https://sgp.fas.org/crs/misc/R41633.pdf>; Government Accountability Office, “Debt Limit: Statutory Changes Could Avert the Risk of a Government Default and its Potentially Severe Consequences,” December 11, 2024, <https://www.gao.gov/products/gao-25-107089>.

⁴ Congressional Budget Office, “Federal Debt: A Primer,” March 2020, <https://www.cbo.gov/publication/56309>.

enacted over the last 25 years that have resulted in revenues lagging behind the cost of public services, like Social Security, Medicare, Medicaid, that are broadly supported by the public. This mismatch has necessitated greater borrowing, and higher interest rates have increased the cost of that borrowing.⁵ Rising interest costs associated with tax cuts should not be understood as “higher spending” but rather the additional cost of enacting those tax cuts.

The United States is the only major industrialized nation that sets a binding legal limit on the total debt of its central government — a limit that, in its current form, dates back to World War I.⁶ Policymakers should consider eliminating the debt limit because it serves no useful purpose and only seems to provide opportunities for political mischief while putting the nation’s financial standing at risk. But, at the very least, they should suspend or raise the debt limit in a timely way and for an extended period so that the government does not default or risk illegally defaulting on its obligations, which would cause a host of serious problems.

⁵ Richard Kogan *et al.*, “More Revenue Is Required to Meet the Nation’s Commitments, Needs, and Challenges,” CBPP, June 17, 2024, <https://www.cbpp.org/research/federal-budget/more-revenue-is-required-to-meet-the-nations-commitments-needs-and>.

⁶ Kathy Ruffing and Chad Stone, “Separating the Debt from the Deficit Problem,” CBPP, January 23, 2013, <https://www.cbpp.org/research/separating-the-debt-limit-from-the-deficit-problem-0>.