

DEBT LIMIT SUSPENSION

FREQUENTLY ASKED QUESTIONS

November 2013

What Happened

to the debt limit in October?

OCTOBER 16: As part of the legislation that ended the shutdown, Congress passed the “Default Prevention Act,” which the president signed on the following day. This law gave the president authority to request a temporary debt limit suspension through February 7, 2014.

OCTOBER 17: President Obama requested this debt limit suspension, which took effect immediately. The Act also gave Congress the ability to pass a resolution disapproving of the suspension and to reinstate the debt limit earlier than February 7, but only upon the support of a two-thirds majority in both the House and Senate.

OCTOBER 29: The Senate rejected a resolution of disapproval, which means that the debt limit will remain suspended and will be reinstated on February 8, 2014.



Is The Debt Limit Suspended?

Wait – so they didn't actually increase the debt limit?

IN PREVIOUS YEARS, when the debt limit was approached, Congress acted to increase the limit to a specific amount. Recently, when the debt limit has neared, Congress has suspended it temporarily. At the end of these suspensions, the debt limit is reinstated at a higher level.

**SUSPENDED
NO BUDGET
NO PAY**

In January 2013, the debt limit was \$16.4 trillion. The limit was suspended on February 4 as part of the “No Budget, No Pay Act.” It was reinstated on May 19, 2013 at \$16.7 trillion, reflecting new debt issued during the suspension. The current debt limit suspension uses the same approach.

February 8, 2014

What will the new debt limit be?

**NEW
LIMIT
\$17.3
TRILLION**

REINSTATED AT A HIGHER LEVEL

The debt limit will be reinstated at a higher level on February 8, reflecting debt issued since October 17 (when the suspension began) to pay bills and credit government trust funds. This will include restoration of about \$300 billion of extraordinary measures that were used after the debt limit was last reinstated on May 19.

\$600 BILLION INCREASE

The exact level of the new debt limit depends on the amount of deficit spending until February 8. At this time, only a rough projection is possible. BPC estimates that the debt limit will increase by roughly \$600 billion in February to about \$17.3 trillion.

How Long

will extraordinary measures last after February 8, 2014?

LATE-FEBRUARY TO MID-MARCH:

BPC estimates that extraordinary measures will enable Treasury to continue to make payments in full and on time until some point between late-February and mid-March.

Extraordinary Measures

Wait – didn't extraordinary measures last for nearly five months during 2013? Why so short the next time around?

ONE Fewer measures will be available in February. During the summer and fall of 2013, Treasury delayed issuing a large amount of debt to the Civil Service Retirement and Disability Fund. In February and early March the measure is much less valuable since there is little debt set to be issued to this fund.

TWO The government runs an especially large deficit in February and early March, mainly due to the payment of income tax refunds.

Tax Filing Season

The tax filing season will be delayed a couple of weeks due to the shutdown. Won't that help make extraordinary measures last longer?

DOUBTFUL Probably not. If anything, delaying filing season likely means that more tax refunds will be paid after February 7, exhausting extraordinary measures more quickly.

Building Up Cash

Could the Treasury Department issue more debt than necessary between now and February 8, building up an unusually large cash balance to extend the length of time for which Treasury could continue to meet all of its obligations after that date?

NO

No. The Default Prevention Act includes the following provision that requires the new debt limit to reflect borrowing necessary to meet obligations due on or before February 7, 2014:

“An obligation shall not be taken into account under subparagraph (A) unless the issuance of such obligation was necessary to fund a commitment incurred by the Federal Government that required payment before February 8, 2014.”

Debt Limit Suspension Part 2?

Does the president have the authority to suspend the debt limit again in February?

NO

NOT UNDER CURRENT LAW.

The authority for the president to request suspension of the debt limit under the Default Prevention Act was limited to three days after enactment, and the president has no authority to change the February 8 date of reinstatement. Another suspension of the debt limit in 2014 would require Congress to pass new legislation.

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To learn more about the debt limit and extraordinary measures, visit:
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