



How The Debt Ceiling Came About – Fiscal Policy

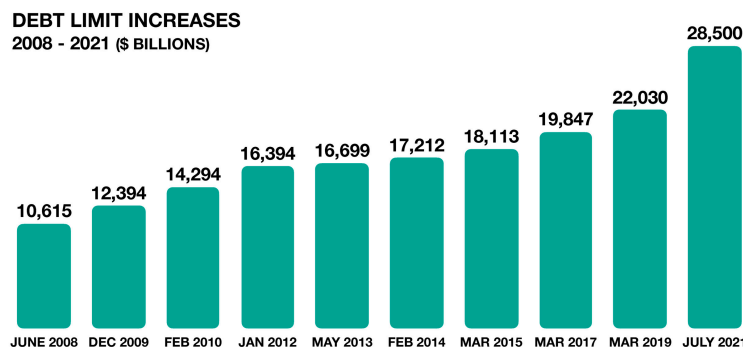
Formally known as the statutory debt limit, the United States debt ceiling or debt limit is a legislative restriction on the amount of national debt that can be issued by the Treasury. The debt limit has been raised 79 times since its creation in 1917, with 17 of these increases occurring over the past 20 years.

The United States has maintained legislative restriction on debt since 1917. In order to control the amount of total debt outstanding, Congress has placed restrictions on Federal debt issuance since the passing of the Second Liberty Bond Act of 1917, which eventually evolved into a general debt limit in 1939. The Second Liberty Bond Act of 1917 helped finance the United States' entry into World War I, which allowed the Treasury to issue long-term Liberty Bonds.

Periodically, a political dispute arises over legislation to raise the debt ceiling. Until the debt ceiling is raised, the Treasury undertakes what is termed as "extraordinary measures", which essentially buys more time for the ceiling to be raised.

The United States has never reached the point of default, where the Treasury is unable to pay its obligations. In 2011 the United States reached a point of near default, which in turn triggered the first downgrade of U.S. debt by credit rating agencies. Congress raised the debt limit with the Budget Control Act of 2011, which led to the fiscal cliff and set a new debt ceiling that was reached on December 31, 2012. The current debt ceiling debate in Congress is expected to lead to a debt ceiling increase sometime in the first quarter of the government's fiscal year, which begins October 1 of each year.

Source: Congressional Research Service, U.S. Treasury



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