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# RSC Policy Brief: Spending Prioritization and the Debt Limit

*"I cannot guarantee that those checks go out on August 3rd if we haven't resolved this issue. Because there may simply not be the money in the coffers to do it."*

**--President Barack Obama,** on the debt limit and the Administration's plans regarding Social Security, July 2011

**Background on Spending Prioritization and the Debt Limit:** If the borrowing limit is reached, the Treasury Department makes decisions about what order to pay incoming obligations. Arguably, this broad power can influence the shape of legislation concerning the debt ceiling. For example, under current law, this power can be used to threaten Social Security payments (as demonstrated above), troop payments, or even payments on the debt itself (necessary to avoid default). The Administration has this power even though federal revenues exceed these, and other, spending priorities. Consequently, proponents of raising the debt ceiling (without meaningful spending reforms attached) may inaccurately argue that the most crucial spending priorities would be the first obligations to be threatened.

Many RSC Members have proposed legislation to explicitly require the most urgent spending priorities to be paid first. It can be argued these efforts would calm deliberations over the debt ceiling (for summaries of some of these bills, see page 2).

**Historical Background on Debt Limit:** Congress has always exercised its power of the purse to place limits on the ability of the executive branch to borrow money. In 1939, this took the form of an aggregate debt limit of $45 billion. During World War II, this increased to $300 billion. Interestingly, after World War II, the debt limit was actually reduced to $275 billion. Between 1954 and 1962, the debt limit was reduced twice and increased seven times. In total, after 1962, the debt limit has changed 76 times.[1]

More recently, since 2007, the debt limit has increased 7 times. It has grown from $8.965 trillion to $16.394 trillion in 2011. This is an increase of $7.429 trillion or 82.9%.[2]

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[1] CRS Report: The Debt Limit and Recent Increases, D. Andrew Austin and Mindy R. Levit, May 22, 2012.
[2] From same CRS report as above.

The most recent debt limit increase, the Budget Control Act (BCA) of 2011, allowed an increase in the debt ceiling of $2.1 trillion, established discretionary spending caps ranging from $1.043 trillion in FY 2012 to $1.234 trillion in FY 2021, required votes on a Balanced Budget Amendment in the House and Senate, and created a Joint Select Committee on Deficit Reduction with a $1.2 trillion sequestration mandated (over the 2013 to 2021 period) if the committee did not lead to the required savings being enacted into law. Borrowing capacity from this law will be reached sometime in late 2012 or early 2013. For more information, see here for key dates from the Budget Control Act.

Prior to enactment of that law, other debt limit increase proposals were put forward. The RSC's Cut, Cap, and Balance legislation would have cut $111 billion of FY 2012 spending, placed firm caps on future spending, and – contingent upon House and Senate passage of a Balanced Budget Amendment – granted President Obama's request for a debt limit increase. The House passed the legislation, but it was rejected by the Senate.

Consistent with the spending cut-to-debt-limit increase envisioned by the BCA, Speaker Boehner has argued for the necessity of requiring spending cuts that at least match the amount of the debt limit increase for future debt limit increases. The President is opposed to cutting spending along these lines as part of future debt limit ceiling increases.

**Legislative Proposals This Congress:** Prior to the last increase, many Members introduced bills to prioritize or guarantee certain spending obligations in the event that the Treasury Department runs out of borrowing authority. The following are some these proposals:

**H.R. 421, The Full Faith and Credit Act (Rep. McClintock):** The legislation directs the United States Treasury, in the event the debt ceiling is reached, to pay principal and interest due on debt held by the public before making any other payments. The Treasury has ten times more revenue than needed to cover interest and debt service. This legislation has 101 cosponsors.

**H.R. 728 (Rep. Stutzman):** In the event that the debt limit is reached, the legislation requires the government to prioritize payment of all obligations on the debt held by the public, payment of Social Security benefits, and military funding over other obligations incurred by the federal government.

**H.R. 1551, Guarantee Paychecks for America's Military Families Act (Rep. Hunter):** In the event the debt ceiling is reached, the legislation requires the following obligations to take priority over any other obligations incurred by the federal government:

- Payments on principal and interest due on the public debt;
- Pay and compensation for members of the Armed Forces; and
- Contingency military operations, including the pay earned by civilian employees of the Department of Defense and the Coast Guard serving in a combat zone.

The legislation also allows payments to the armed forces to continue in the event there is a government shutdown. <u>This legislation has 39 cosponsors</u>.

**H.R. 1908 (Rep. Akin):** In the event the debt limit is reached, the legislation requires payments on the following items to be prioritized over other obligations incurred by the federal government:

- Payments on principal and interest due on the public debt;
- Such amounts as the Secretary of Defense (and the Secretary of Homeland Security in the case of the Coast Guard) determines to be necessary to continue to provide pay and allowances (without interruption) to members of the Army, Navy, Air Force, Marine Corps, and Coast Guard, including reserve components thereof, who perform active service;
- Such amounts as the President certifies to the Congress are necessary to carry out vital national security priorities;
- Social Security payments; and
- Amounts necessary to satisfy all other obligations, in an order of priority determined by the President.

The legislation also allows payments to the armed forces to continue in the event there is a government shutdown.

**H.R. 2402, Prioritize Spending Act (Rep. Webster):** In the event that the debt limit is reached, the legislation requires payments on the following items to be prioritized over all other obligations incurred by the federal government:

- Payments on principal and interest due on the public debt;
- Such amounts as the Secretary of Defense (and the Secretary of Homeland Security in the case of the Coast Guard) determines to be necessary to continue to provide pay and allowances (without interruption) to members of the Army, Navy, Air Force, Marine Corps, and Coast Guard, including reserve components thereof, who perform active service;
- Such amounts as the President certifies to the Congress are necessary to carry out vital national security priorities;
- Social Security payments; and
- Medicare payments.

<u>This legislation has 51 cosponsors</u>.

**H.R. 2496, PROMISES Act (Rep. King):** In the event that the debt limit is reached, the legislation requires payments on the following items to be prioritized over other obligations incurred by the federal government:

- Armed Forces/active duty military payments; and
- Payments on principal and interest due on the public debt.

The legislation also allows payments to the armed forces to continue in the event there is a government shutdown.

**H.R. 2534, Ensuring America's Promises Act of 2011 (Rep. Gowdy):** The legislation directs the United States Treasury, in the event the debt ceiling is reached, to pay the following obligations:

- Payments on principal and interest due on the public debt;
- Armed Forces/active duty military payments;
- Social Security payments;
- Veterans payments; and
- Medicare.

This bill would require the Administration to prioritize these items. This legislation has 20 cosponsors.

**H.R. 2581, Social Security Check Guarantee Act (Rep. Posey):** The legislation prevents the debt limit from being used to impact the timely payment in full of Social Security benefits. In other words, the legislation eliminates the Administration's ability to claim that the debt limit poses a threat to Social Security recipients. This legislation has 26 cosponsors.

**H.R. 2651 (Rep. Schweikert):** In the event that the debt limit is reached, the legislation requires debt held by the public, Social Security benefits, and military pay take priority over other obligations incurred by the federal government. This legislation has 13 cosponsors.

**Conclusion:** As the government comes closer to the $16.394 trillion debt, there will be increased focus on what to do about the debt ceiling. Conservatives will argue that any debt limit increase should be contingent on meaningful spending reforms. Many liberals will argue that the debt ceiling should be increased with either tax increases or no spending reforms attached, or that the debt ceiling should be abolished altogether. Spending prioritization bills may allow for more careful deliberation of this issue.

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