

POLITICS

Q&A: Explaining Lawmakers' Deadlines on Debt Ceiling, Government Shutdown

Congress also hopes to start tackling a tax overhaul



A partial government shutdown in 2013 closed access to the Lincoln Memorial in Washington. PHOTO: CAROLYN KASTER/ASSOCIATED PRESS

By Siobhan Hughes and Richard Rubin

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When Congress returns after Labor Day, it will immediately confront a pair of critical fiscal issues: the U.S. government debt limit and spending legislation required to prevent the shutdown of the federal government on Oct. 1.

In addition, GOP congressional leaders and the Trump administration hope this fall to begin work in earnest on tax-overhaul legislation.

Congress is deeply divided, and President Donald Trump has repeatedly criticized the Republican leadership of the House and Senate in recent weeks, adding uncertainty ahead of lawmakers' deadlines. Here's a look at the coming deadlines and decision points.

What's the schedule?

Lawmakers return from August recess on Sept. 5, but both chambers of Congress have breaks later in the month.

The government is funded through Sept. 30, the end of the 2017 fiscal year. On the debt ceiling, Treasury Secretary Steven Mnuchin has warned the federal government will reach the limit of its authorized borrowing by about Sept. 29.

That leaves just 12 days when both chambers will be in session to pass the two critical pieces of legislation.

What is happening with basic government funding?

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The government is funded through the end of the fiscal year under a temporary measure passed in May that gave President Donald Trump some of his priorities—like higher defense spending and more money for border security—but that didn't pay for the wall he wants to build along the Mexican border.

Mr. Trump recently insisted on the wall funding as a condition for keeping the government open.

“We’re going to get our wall,” Mr. Trump said at a rally last week in Phoenix. “If we have to close down our government, we’re building that wall.”

If Congress fails to pass a new spending bill by Sept. 30, most non-emergency functions of the U.S. government would halt, furloughing workers, closing office buildings and public facilities, delaying paperwork, and more.

The Republicans who control both chambers of Congress have no appetite for a shutdown. They are planning to advance an interim spending bill that would delay a fight over money for Mr. Trump's border wall.

Such temporary spending measures are despised in Washington because they extend current spending without giving federal agencies flexibility in how they spend their budgets. But Republicans see such a measure, known as a continuing resolution, as better than a politically and economically damaging shutdown.

Mr. Trump would still have to sign the spending bill into law, and in theory he could balk at doing so.

What about raising the borrowing limit?

The last time Congress dealt with this issue was October 2015, when it suspended the debt limit, then at \$18.1 trillion, until March 2017. Since March, the Treasury has been using emergency cash-management techniques to avoid breaching the limit.

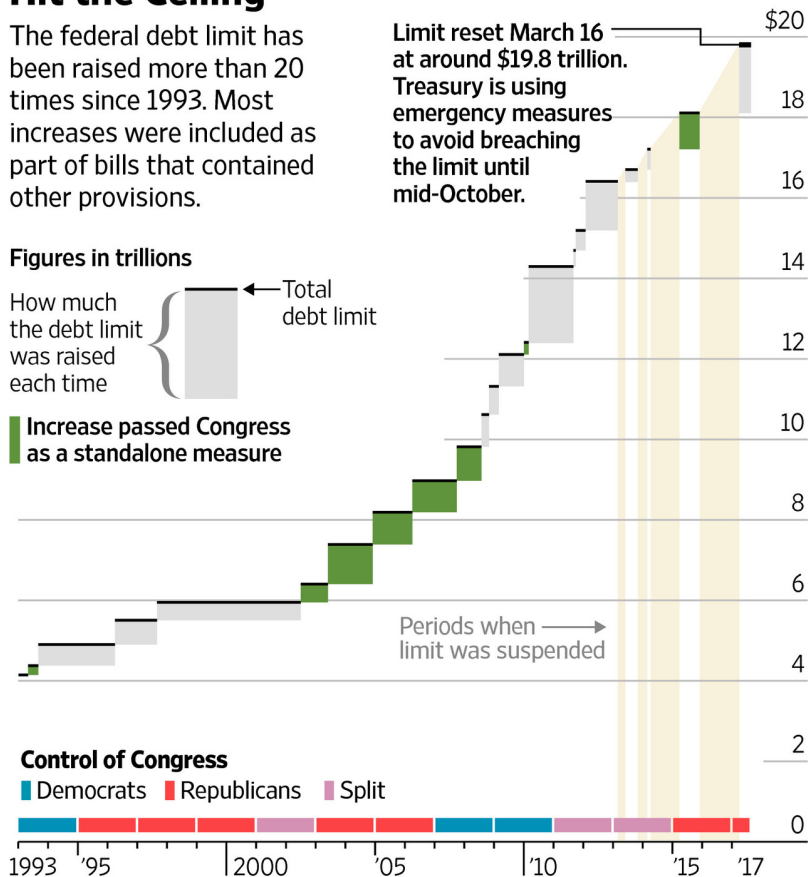
Hit the Ceiling

The federal debt limit has been raised more than 20 times since 1993. Most increases were included as part of bills that contained other provisions.

Figures in trillions

How much the debt limit was raised each time

Increase passed Congress as a standalone measure



Sources: White House Office of Management and Budget (debt limit); Treasury Dept. (debt subject to limit); Congressional Research Service; U.S. House and Senate (bills, control)

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Such maneuvers only work for so long, and Mr. Mnuchin has said that the debt ceiling needs to be raised by Sept. 29 to guard against the risk that the government will be unable to pay its bills. The Congressional Budget Office and the Bipartisan Policy Center have said that the Treasury could run out of maneuvering room in early to mid-October.

“I have had discussions with the leaders in both parties in the House and Senate and we are all on the same page. The government intends to pay its debts and the debt ceiling will be raised,” Mr. Mnuchin said Friday in a White House briefing. “There is no scenario where the government won’t be paying its bills.”

What happens if Congress doesn’t increase the debt ceiling?

The U.S. Treasury would enter uncharted territory by being unable to pay bills on time, including payments to Social Security beneficiaries, government employees, troops, or even U.S. bondholders.

While the Obama administration never publicly said what would happen if the debt limit wasn’t raised, Federal Reserve and Treasury Department officials in August 2011 had privately formalized a plan to make on-time payments on Treasury debt and delay paying other government bills if Congress and the White House failed to reach an agreement on raising the borrowing limit, according to a transcript of a Fed meeting at the time that was released earlier this year.

Many analysts consider prioritizing payments, while not technically constituting a default on the U.S. debt, akin to a default—like paying the mortgage but not the water or electrical bill. Fitch Ratings said this week payment prioritization could warrant downgrading the credit rating of the U.S., and Mr. Mnuchin has said prioritization would be neither practical nor desirable. It would put the Treasury secretary in a politically treacherous spot, forced to choose which bills to pay—bondholders in foreign countries?—and which ones to delay—pension payments to veterans?

The potential of default—or an actual default—could also raise U.S. borrowing costs. Consider: A word-processing equipment glitch at Treasury in April 1979 prevented the timely payment of principal and interest on federal securities that matured at the end of the month, triggering a technical default from late April through early May of that year. The accidental default led to a 0.6 percentage point increase in Treasury interest rates that lasted for nearly a year, according to a Senate Budget Committee report.

Even short of that, debt-ceiling scrapes can have a collateral cost. The standoff in August 2011 contributed to Standard & Poor's decision to downgrade U.S. debt by one notch, where it remains today.

What are Congress's options on the debt ceiling?

The most likely outcome: A coalition of Democrats and moderate Republicans will team up to pass a “clean” increase, an approach favored by Mr. Mnuchin and Democrats in Congress.

Republicans could seek spending cuts as part of any measure to raise the debt ceiling, but Senate Democrats would need to go along in order to ensure that Republicans, who hold only 52 seats, could garner the 60 votes needed to pass legislation through that chamber.

Another option is to tuck the debt measure into other legislation, perhaps must-pass legislation like a spending bill. Mr. Trump last week blamed congressional Republican leadership for the “mess” awaiting lawmakers this fall.

Will Congress also turn its attention to taxes next month?

Gary Cohn, director of the National Economic Council and a close adviser to President Trump, said in an interview with the Financial Times: “I don't know how long it will take to actually mark up the bill, but I do think it can pass both of the tax committees and both chambers in 2017.”

The Republican congressional leadership badly wants a major legislative victory during Mr. Trump's first year in office, before lawmakers turn to the 2018 midterm elections. After the failed effort to pass a health-care law over the summer, their goal now is to pass tax legislation.

Republicans control 52 votes in the Senate, and Senate Majority Leader Mitch McConnell has said he doesn't expect to pass a bipartisan tax bill.

In order to pass a tax bill with a simple 51-vote majority instead of the usual 60 votes, Congress must first pass a budget resolution that unlocks procedures known as reconciliation. Under reconciliation procedures, Congress can pass a tax bill in the Senate with only 51 votes. But Republicans are beset by infighting over their budget, and may not be able to agree on a spending blueprint.

To entice rank-and-file Republicans to support a budget, GOP leaders will likely need to provide more specificity about their tax plans. That creates an additional deadline to fill in key details, such as the amount of revenue any new tax plan will need to raise and what tax breaks are on the table to be curtailed or repealed. Although Republicans have general agreement on the direction they want to head, the tax bill will force them to make dozens of strategic decisions and thousands of technical ones.

—*Nick Timiraos contributed to this article.*

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Corrections & Amplifications

President Donald Trump spoke at a rally in Phoenix last week. An earlier version of this article incorrectly stated it was last month. (Aug. 27, 2017)

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