Evidence Card: Arguments Against Banning Congressional Debt Limit Increases

Team Policy Evidence Sheet

Tag Line

Debt ceiling brinksmanship has unambiguously negative economic effects and costs taxpayers billions through higher interest rates

Verbal Citation

Wendy Edelberg and Noadia Steinmetz-Silber, Brookings Institution economists, in their May 23, 2023 article "Debt ceiling brinksmanship has clear negative effects on taxpayers," demonstrate that debt ceiling conflicts directly harm American taxpayers. They explain that "even if policymakers raise the debt ceiling in time to prevent its constraining payments, the economic effects are unambiguously negative," with research showing "the relatively large premium being charged now on Treasury securities maturing in June suggests that financial markets are concerned that principal payments will indeed be delayed and more so than in prior debt limit standoffs." Their analysis reveals that "the increase in interest rates represents a cost to taxpayers and a lack of confidence among investors," with concrete data showing "between mid-April and May 22, interest rates on Treasury bills maturing on June 1 rose from 4.4 percent to 5.7 percent." The economists warn that America's borrowing advantage is at risk, noting "up until now, the U.S. government has enjoyed a borrowing rate that is estimated to be lower by roughly Â¼ percentage point, meaning interest savings of more than $750 billion over the next decade. If a portion of this advantage were lost by allowing the debt limit to bind, the cost to the taxpayer could be significant."

What the evidence says in context

Brookings Institution economists demonstrate that debt ceiling brinksmanship directly harms taxpayers through increased borrowing costs. Research shows Treasury bill interest rates rising from 4.4% to 5.7% during debt ceiling crises, representing significant additional costs to taxpayers. The experts emphasize that raising the debt limit is not about authorizing new spending but rather paying for obligations Congress has already incurred. Analysis of potential workarounds to avoid debt ceiling conflicts reveals that such approaches either bring significant legal uncertainty or are not sustainable, making Congressional action the only effective solution.

Impact

Banning Congress from raising the debt ceiling would eliminate the only effective solution to managing government borrowing costs, while brinksmanship already imposes clear negative effects on taxpayers through higher interest rates. Treasury bill rates have risen from 4.4% to 5.7% during debt ceiling conflicts, representing substantial additional costs to taxpayers. Since raising the debt limit is not about new spending but paying for already-incurred obligations, preventing Congress from taking this action would force costly and unsustainable workarounds with significant legal uncertainty.

Webpage or Book Title

Brookings Institution

URL or page number

https://www.brookings.edu/articles/debt-ceiling-brinksmanship-has-clear-negative-effects-on-taxpayers/

Article Title if Applicable

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