BBC News

Q&A:

WHAT IS THE

US DEBT CEILING?

by

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A US default would undermine confidence in the dollar

[In 2012, the US GDP was $15.68 Trillion; currently, 08 Oct 2013, the current debt ceiling (reached May 2013) is $16.699 Trillion - The debt ceiling is a cap on the total amount the US government can borrow, and is set by US lawmakers]

The debt ceiling is a cap on the total amount the US government can borrow, set by US lawmakers.

The current debt limit of $16.699 trillion was reached in May. Since then the US Treasury has been using what are called extraordinary measures to keep paying the bills.

Why does the US government need to borrow so much?

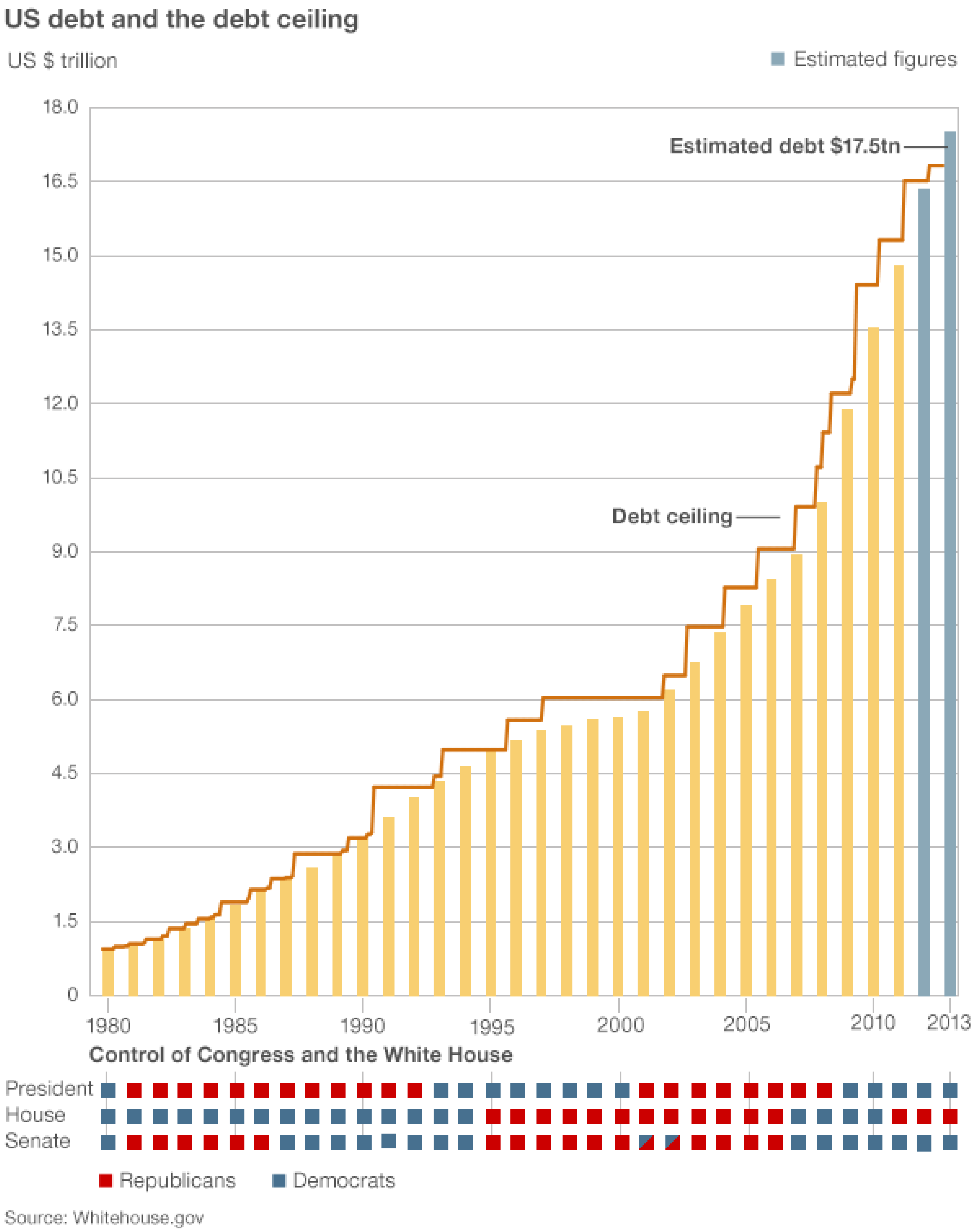
If you compare borrowing to the size of the US economy, it has been increasing since the 1980s.

But the 2007 financial crisis created huge gaps between government income and expenditure.

The economy was plunged into a deep recession and federal finances deteriorated dramatically as the government attempted to boost the economy and stabilise the financial sector.

As a result the debt ceiling was raised twice in the second half of 2008 and twice in 2009.

According to the **Congressional Budget Office (CBO)**, US debt as a percentage of gross domestic product (GDP) is now 73%, twice as much as it was at the end of 2007.



Why can't the president raise the limit?

He doesn't have that power.

The limits are set by lawmakers in Congress, which is made up of two houses, the Senate and the House of Representatives.

They set in law how much the Treasury department can borrow.

How often has the limit been raised?

Since March 1962, Congress has enacted 77 separate measures that have altered the limit on federal debt.

Until recently those changes have been achieved without a lot of fuss.

Why has it become such a big issue?

Since the Democrats lost control of the House of Representatives to the Republicans in 2010, budget fighting between the two parties has become commonplace.

Republicans took their victory in the mid-term elections as a sign that Americans had rejected the president's Democratic agenda, and more specifically, that Americans were unhappy with the Patient Protection and Affordable Care Act, or "Obamacare" as Republicans label it.

Although past budget fights have included larger questions about the size and scope of the US government, this one is very specifically about Mr Obama's healthcare law, substantial parts of which took effect on 1 October.

Republicans have been doing everything in their power to force Mr Obama to delay implementation of a law they strongly believe was rejected by the American public.

Democrats argue the law was validated by the Supreme Court in June 2012 and was a central issue in the 2012 presidential election, which Mr Obama won decisively.

It seems a messy way to run the nation's finances.

Part of the problem is that Congress approves spending separately from the debt ceiling.

So politicians can agree to all sorts of expenditure without necessarily having the financing in place to pay for it.

In good years that does not matter too much as government income is greater that expenditure.

But historically those have been rare.

Usually the Treasury has to cover the gap between income and expenditure, by borrowing on the international money markets.

When does the money run out?

The government has been juggling its debts to keep paying the bills, but those measures will run out between 22 October and the end of the month, according to the Congressional Budget Office.

What happens then?

The government could make drastic cuts in federal spending or try to raise taxes, or possibly even both.

That would be difficult and, perhaps, not enough.

During the previous row over the debt ceiling in 2011, then Treasury Secretary Tim Geithner warned that the US government's obligations are so great "immediate cuts in spending or tax increases cannot make the necessary cash available".

So what does that mean?

The big worry is that the US government may have to stop paying back its debts, which is known as a default.

Traditionally the US has been able to borrow at low interest rates on the international markets, which has helped keep interest rates low for consumers.

But a default could damage confidence and drive up the cost of borrowing for Americans.

A default could also create a chaotic situation on the international market for debt.

Investors would not want to accept bonds that were no longer being honoured.

But the market is not set up to deal with rejected bonds, so there could be a period of confusion for traders.

What would it mean for the rest of the world?

A default would send a shock through the financial markets.

US bonds, known as treasuries, have always been seen as a safe investment and trillions of dollars are invested in them.

Analysts say it is hard to know what would happen and a lot would depend on how long the default lasts.

Investors may be prepared to wait out a short disruption.

But a lengthy default might see money switch into other perceived havens, such as German and Swiss debt.

There might also be a rush into gold, which is traditionally seen as a safe investment.

Are there any other options?

The president could ignore the debt ceiling.

He would be breaking the law and could be impeached.

But if the alternative is to cut funding for doctors, schools and agencies such as the FBI, he might decide it is the least bad option.

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