

# Hard choices in debt-ceiling battle

In mid-October the U.S. government will reach its \$16.7 trillion public debt ceiling, leaving the Treasury with only tax revenues – around \$250 billion a month – to pay bills and service existing “debt” to creditors



## Budget (2013-14) – stalled by Congress

Cost of running government:	<b>\$3,778 billion</b>
Funds from tax receipts:	<b>\$3,034 billion</b>
Deficit	<b>\$744 billion</b> (\$62bn a month)
Cash available (Oct 17):	<b>\$30 billion</b>
Total public debt:	Almost <b>\$16,700 billion</b>
Total debt per taxpayer:	<b>\$148,210</b>
Treasury borrows money by selling Treasury bills, notes, and bonds	
Interest due (2013-14):	<b>\$222 billion</b>

## U.S. Constitution

**Article I, Section 8:** Only Congress has power to **“borrow money on the credit of the United States”**

**14th Amendment, Section 4:** **“The validity of the public debt authorized by law... shall not be questioned.”** This is interpreted as meaning “debts” for past loans must be paid in full, and on time



## OPTION 1

Default on U.S. treasury bonds – this would violate 14th Amendment, destroy credit standing of U.S., boost borrowing costs, and provoke second global financial crisis

## 2

Instruct Treasury to sell more bonds to fund full operation of government. Unilateral action would violate Article 1 and open President Obama up to impeachment

## 3

Prioritise which bills Treasury pays, put interest payments at top of list and cut \$600bn – 4% of GDP – off budget. Option could throw economy back into recession

## Republican demands:

Hardliners have tied approval of Budget – and end to government shutdown – to pledges to repeal **Affordable Care Act** (known as Obamacare)