

Q&A on the Federal Debt Ceiling

Written by Sen. Charles Grassley
Tuesday, 24 September 2013 11:40

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by U.S. Senator Chuck Grassley

Monday, September 23, 2013

Q: Why is the federal government expected to reach the debt ceiling yet again?

A: The simple answer: Washington spends too much. Think of it this way. How long could your household operate by spending more money each day every day that outstrips your earnings, savings and investments? That's basically what Uncle Sam does 365 days a year. Month after month, year after year, Washington spends beyond its means. American households must make tough choices to cover shortfalls in their budgets. That includes: stop spending money you don't have, earn more take-home pay or take on debt. Borrowing money to bridge the gap also means paying more at the end of the day to cover the interest on the loan. That's exactly the hole into which Washington has dug itself. The U.S. government pays \$600 million a day to service its debt. Under current law, the Treasury Department may not exceed its current \$16.7 trillion borrowing authority without approval from Congress. Washington reached the debt limit in May and will exhaust all options for avoid hitting the debt ceiling by mid-October. At that time, the Treasury Department may not spend more money than it collects. Now that sounds like music to the ears for those of us who work so hard to rein in runaway federal spending. But it's a little more complicated than that as Washington needs to maintain its creditworthiness to uphold the "full faith and credit" of the United States.

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Q: Can Washington pay its bills if the debt ceiling isn't raised?

A: Big spenders like to rinse-and-repeat the idea that the sky is falling when it comes time to get serious about cutting spending. Take the sequestration that kicked in March 1. Despite doomsday predictions, the sun continued to rise in the east and set in the west. It turns out belt-tightening in the Beltway didn't cause the world to end as we know it. And yet, Washington must still face the consequences of spending beyond its means. If an agreement to lift the debt ceiling fails to reach a consensus, it's reasonable to have a back-up plan to ensure Washington doesn't default on the national debt. That's why I'm co-sponsoring the "Full Faith and Credit Act." This would serve as a temporary tool to allow the federal government to borrow money – if incoming revenue falls short – to cover Social Security payments, active-duty military pay and interest payments on the national debt. Prioritizing these essential financial obligations is a responsible way to pay the bills and blunt the efforts of those who choose to govern by scare tactics instead of solving the nation's spending problems.

Q: Why is there a debt ceiling?

A: By setting a debt ceiling, Congress exercises its Constitutional power of the purse strings to, in effect, trigger a debate on taxes and spending. Thank goodness for that. Riding the borrow-and-spend gravy train, Washington is careening towards an unprecedented \$17 trillion national debt. The U.S. Treasury is expected to collect \$2.8 trillion in tax revenue for the fiscal year ending Sept. 30. And federal spending is expected to exceed \$3.4 trillion in those 12 months. You don't need to be a math genius to understand this doesn't add up. This imbalance creates the federal deficit. Uncle Sam fills the spending gap by taking on debt and paying interest on the Treasury bonds and notes. America can't afford to let interest payments swallow up a growing percentage of the federal budget and Gross Domestic Product. A bigger risk lies ahead when interest rates start to climb.

Q: Why is the debate framed as a "budget showdown?"

A: Washington is operating under a divided government. The electorate voted to split the majorities in the U.S. Senate and House of Representatives. So it shouldn't come as a big surprise that lawmakers are working hard to represent the views of the people who sent them to Washington. Those inside the Beltway like to talk in terms of budget brinkmanship and fiscal cliffhangers, but failing to chart a path of fiscal discipline pretty much secures a legacy of burdensome taxes and debt for our children and grandchildren. Congress and the President

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need to come to a meeting of the minds for the greater good of the country. It will require presidential leadership to build consensus among Congress and the American public to secure entitlement reform. If Washington doesn't come together sooner rather than later to curb spending, tame the debt and reform public entitlements, \$600 million swallowed up per day on interest payments will seem like a bargain.