



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 29, 2011

The Honorable Ron Johnson
United States Senate
Washington, DC 20510

Dear Senator Johnson:

President Obama asked that I reply on his behalf to your letter of May 25, 2011, regarding the statutory debt limit. The President is strongly committed to restoring fiscal responsibility to our government, and he has put forward a framework and set in motion a process to work with both parties to accomplish this critically important objective. Although agreement has not yet been reached, we have made progress toward that objective, and I welcome the statements by leaders of both parties making clear that the debt limit must be increased in order to protect America's creditworthiness.

I would make two basic points in response to your letter. The first relates to your assertion that "Members of your party have been saying that failure to raise the debt ceiling would be irresponsible." In fact, however, that view is not a partisan one. Members of both parties have frequently made the same point. For example, Speaker John Boehner said earlier this year:

I think raising the debt limit is the responsible thing to do for our country, the responsible thing for our economy...if we were to fail to increase the debt limit, we would send our economy into a tailspin.

Likewise, Senator Jim DeMint said in 2010:

You don't have much choice if you charge something on your credit card. You have to pay it, and that's effectively what this debt limit is...we've already spent the money. The question is now, do we shut down the government, or do we fund what we've already done?

Senator Chuck Grassley, the former Ranking Member of the Senate Finance Committee, made the point well when he said in 2007:

Increasing the debt limit is necessary to preserve the full faith and credit of the United States of America. Without an increase in [the debt] limit, our Government will face a choice between breaking the law by exceeding the legal limit or breaking faith with the investors by defaulting on debt. Neither of those choices is

acceptable, and we have never done them. Critics sometimes object to raising the debt limit on grounds that it will allow the Government to borrow more money, but refusing to raise the debt limit is akin to refusing to pay your individual credit card bill after you have already gone shopping and bought something. We cannot pass tax bills and spending bills and then refuse to pay our bills. The time to control the debt is when we are voting on bills that actually create that debt. Raising the debt limit is about meeting the obligations we have already incurred, it is that simple. We must meet our obligations.

These statements illustrate why this Administration believes the debt limit should not be a partisan issue. Our position on the issue is identical to that of every previous Administration that has confronted the need to raise the debt limit, regardless of party. As President Reagan wrote in 1983:

This country now possesses the strongest credit in the world. The full consequences of a default – or even the serious prospect of default – by the United States are impossible to predict and awesome to contemplate. Denigration of the full faith and credit of the United States would have substantial effects on the domestic financial markets and on the value of the dollar in exchange markets. The Nation can ill afford to allow such a result. The risks, the costs, the disruptions, and the incalculable damage lead me to but one conclusion: the Senate must pass this legislation before the Congress adjourns.

Secondly, your suggestion that the government operate for some indefinite period within a \$2.6 trillion “Debt Ceiling Budget” is unworkable. The United States is now required to borrow roughly 40 cents for every dollar of expenditures. Therefore, your proposal would require cutting approximately 40 percent of all government payments.

As the Congressional Research Service stated in its February 11, 2011, report:

If the debt limit is reached and Treasury is no longer able to issue federal debt, federal spending would have to be decreased or federal revenues would have to be increased by a corresponding amount to cover the gap in what cannot be borrowed. To put this into context, the federal government would have to eliminate all spending on discretionary programs, cut nearly 70% of outlays for mandatory programs, increase revenue collection by nearly two-thirds, or take some combination of those actions in the second half of FY2011 (April through September 30, 2011) in order to avoid increasing the debt limit. Additional spending cuts and/or revenue increases would be required, under current policy, in FY2012 and

beyond to avoid increasing the debt limit.¹

Again, this Administration is committed to restoring the country to a fiscally responsible budget path. But abrupt cuts of the magnitude you propose are neither feasible nor responsible, and they would risk throwing the economy back into recession.

Regardless of which spending path is adopted, the debt limit must be increased. In fact, failure to enact a timely increase in the limit would have the perverse effect of *increasing* the government's borrowing costs and worsening our fiscal challenges. Default, or even the perception that default is likely, would increase rates on Treasury securities, which would significantly increase the cost of paying interest on the national debt.

The debate over the debt limit can seem esoteric, but a failure to resolve it in the near term would have painful implications for people in every walk of American life. It would have a serious impact on members of the Armed Forces who depend on paychecks to feed and house their families, Social Security recipients who subsist on their monthly benefits, veterans who rely on the government for their retirement and health care needs, and small business owners or employees who provide goods and services to the country.

Congress must raise the statutory debt limit in order to protect the full faith and credit of the United States. I appreciate your attention to this important issue and I look forward to working with you and other Members of Congress in the weeks ahead.

Sincerely,



Timothy F. Geithner

cc: The Honorable Kelly Ayotte
The Honorable John Barasso
The Honorable Roy Blunt
The Honorable John Boozman
The Honorable Dan Coats
The Honorable Tom Coburn
The Honorable John Cornyn
The Honorable Jim DeMint
The Honorable Mike Enzi
The Honorable Lindsey Graham
The Honorable Orrin Hatch
The Honorable Jim Inhofe
The Honorable John Isakson
The Honorable Mike Johanns
The Honorable Mark Kirk
The Honorable Mike Lee

¹ CRS Report R41633, February 11, 2011

The Honorable John McCain
The Honorable Rand Paul
The Honorable Jim Risch
The Honorable Marco Rubio
The Honorable John Thune
The Honorable David Vitter