October 4, 2013

The Honorable Orrin G. Hatch  
Ranking Member  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Senator Hatch:

I am writing in response to your recent letter regarding the debt limit and the nation’s fiscal policies. As we discussed during our meeting on September 18, it is imperative that Congress act immediately to extend the nation’s borrowing authority so we can honor all of the country’s past commitments. The President remains willing to negotiate over the future direction of fiscal policy, but he will not negotiate over whether the United States should pay its bills.

Your letter asks me to detail how long or how great of a debt limit increase the Administration is seeking. Only Congress can authorize an increase in the nation’s borrowing authority, and therefore Congress must choose how long to extend the debt limit. A longer period of certainty would help protect our economy from future political brinkmanship. If Congress fails to meet its responsibility, however, it could be catastrophic for the financial markets, the ongoing economic recovery, and the jobs and savings of millions of Americans. I have a responsibility to be transparent with the American people about these risks. And I think it would be a grave mistake to discount or dismiss them. For these reasons, I have repeatedly urged Congress to take action immediately.

Your letter also makes a number of factual assertions about the history of the debt limit, its role in prior budget negotiations, and our current fiscal situation. I respectfully disagree with these assertions for the reasons described below.

**Origins of the Debt Limit**

Article I of the Constitution exclusively grants Congress – not the Executive Branch – the power of the purse and the power to “borrow money on the credit of the United States.” Beginning in 1789 and for approximately 130 years thereafter, Congress generally had to act each and every time before Treasury borrowed money. If that practice existed today, Congress would have to approve each individual Treasury auction of bonds, bills, or notes. Since World War I, however, Congress has provided Treasury with increased flexibility to manage the federal debt in an efficient and cost-effective manner.
Through a series of steps, Congress enacted a more regularized and less politically difficult process for authorizing the issuance of debt to pay existing obligations. In 1917, Congress granted Treasury broad authority to borrow. This eliminated the need for Congress to approve each individual debt issuance, but Congress also began enacting specific limits for different categories of borrowing, such as bonds and certificates of indebtedness. Between 1938 and 1940, Congress further simplified the process and provided even greater flexibility to Treasury. It replaced the separate borrowing limits with one single combined limit that covered nearly all public debt. Although Congress continued to make changes over the following decades, this was the beginning of the modern debt limit.

The Debt Limit and Budget Negotiations

Since World War II, Congress has routinely raised the debt limit through standalone legislation signed by both Democratic and Republican Presidents. Since President Reagan was inaugurated in 1981, Congress has enacted 45 different pieces of legislation to raise, extend, or revise the definition of the debt limit. During President Reagan’s two terms alone, Congress raised the debt limit 18 times, even though Democrats controlled the House of Representatives for the duration of his presidency. In emphasizing the need to raise the debt limit, President Reagan wrote to Congress in 1983 that 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.”

Your letter suggests that the debt limit has traditionally been used as a tool to address budgetary and fiscal issues. This is not historically accurate. According to the Center on Budget and Policy Priorities, between 1981 and 2011, policymakers enacted nine bipartisan deficit reduction packages. Only three of those legislative packages also included debt limit increases:

- The Budget Enforcement Act in 1990; and

In each of these three instances, the debate was driven by fiscal policy and how to achieve deficit reduction in a responsible, balanced manner. Neither political party thought that defaulting on our debt was a serious, credible option. In 1985, the need to raise the debt limit served as a deadline for budget negotiations. In 1990, Congress and the President worked together to avoid across-the-board cuts from the original Gramm-Rudman sequestration, which were universally viewed as the wrong way to reduce the deficit. In 1997, Congress added a debt limit increase at the end of negotiations, after the parties agreed on a deal to reduce the deficit responsibly and grow the economy. I participated personally in many of these negotiations, and I do not recall anyone ever seriously suggesting that the United States should fail to pay its bills.
The summer of 2011 was different. Certain Members of Congress argued that default was an acceptable outcome if they were unable to achieve their legislative objectives. Rather than enter into a good-faith compromise on fiscal issues, these Members argued that the United States should voluntarily fail to pay its bills if their position was not accepted. Our economy paid a significant price for these irresponsible and protracted threats. Business and consumer confidence dropped; financial markets were jarred; and ultimately, for the first time in history, the AAA credit rating of the United States was downgraded. Using the full faith and credit of the United States as a bargaining chip is not an opportunity, as your letter suggests. It is reckless and irresponsible.

**Current Fiscal Policy and Reform Proposals**

Your letter emphasizes the importance of addressing our significant, long-term fiscal imbalance. Although I share the same goal, the facts cited in your letter are incomplete and misleading. As your letter correctly notes, the government’s response to the 2008 financial crisis and ensuing recession led to increases in both federal deficits as a share of GDP and debt held by the public. Of course, those increases were also driven by two wars and the impact of fiscal policy decisions made by the previous Administration. Nonetheless, by the end of this year, we expect the deficit will have fallen by more than 50 percent since the President took office. The Congressional Budget Office (CBO) projects that the deficit will drop to 4.2 percent of GDP in 2013, as a result of a stronger economy and the deficit reduction that the President has already signed into law. CBO further projects that deficits will drop to 2.1 percent of GDP by 2023.

Despite this progress, I agree that we need to work together to achieve long-term fiscal reform. The President has been clear that he remains willing to negotiate on broad fiscal policy. He has repeatedly proposed a comprehensive and balanced package of deficit reduction proposals that contain the “real, structural fixes” to entitlement programs that your letter references. For example, the President’s most recent federal budget proposes chained CPI and Medicare means-testing for higher income seniors, as well as reforms to the tax code that generate modest revenues. The President has been – and continues to be – prepared to support balanced legislative action that would reduce our deficits and reform our entitlement programs.

Thank you for your letter. I strongly agree that the United States government must pay its obligations. Therefore, I respectfully urge Congress to extend the nation’s borrowing authority immediately. Separately, the Administration remains committed to working with Congress to achieve meaningful and balanced long-term deficit reduction.

Sincerely,

Jacob J. Lew

cc: The Honorable Charles Grassley  
The Honorable Michael Crapo  
The Honorable Pat Roberts
The Honorable Michael B. Enzi
The Honorable John Cornyn
The Honorable John Thune
The Honorable Richard Burr
The Honorable Johnny Isakson
The Honorable Rob Portman
The Honorable Patrick J. Toomey