

# BACKGROUND

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## Debt Limit: Options and the Way Forward

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### Abstract

*The Department of the Treasury has employed extraordinary measures to meet the federal government's financial obligations since May 19, 2013, when it reached the statutory debt limit of \$16.7 trillion. When these measures run out in mid-October, the government will not necessarily default on its debt obligations. The Treasury and the President have the discretion to prioritize payments and use other tools to prevent default during a debt limit impasse. However, the debt limit presents a decisive moment for Congress to take charge of the automatic entitlement spending increases that are driving the nation deeper into debt. Congress should cut discretionary spending and reform mandatory programs to put the federal budget on a path to balance before increasing the debt limit.*

Congress cuts spending only when forced to act, and it should carefully consider its options on the debt limit. The federal government hit the statutory debt limit on May 19, 2013, with \$16.7 trillion in debt.<sup>1</sup> Two days earlier, Secretary of the Treasury Jack Lew sent a letter to Congress detailing \$260 billion in extraordinary measures that the Department of the Treasury could employ to continue borrowing without breaching the debt limit.<sup>2</sup> Most recently, the Treasury Department warned Congress that it projects reaching the limit of the extraordinary borrowing measures by mid-October, leaving it with \$50 billion of cash reserves on hand and forcing the federal government to begin operating on a cash-flow basis.<sup>3</sup>

Congress should cut discretionary spending and reform mandatory programs, starting with repealing the Affordable Care Act, to

### KEY POINTS

- The debt limit presents a rare opportunity for Congress to take control of the automatic spending increases that are driving the nation deeper into debt.
- Entitlement spending is rapidly growing to dangerous levels. In only 10 years, Social Security, Medicare, and Medicaid will devour half of the federal budget.
- The current short-term improvement in the deficit is fleeting, and failure to cut discretionary spending and reform entitlement programs is irresponsible in the short run and reckless in the long run.
- When the Treasury exhausts its extraordinary measures in mid-October, the President and the Treasury have discretion to prioritize payments and use other tools to avoid default and pay Social Security benefits.
- To avoid a debt crisis now and in the future, Congress should cut spending and enact policy reforms that put the budget on a path to balance.

This paper, in its entirety, can be found at <http://report.heritage.org/bg2844>

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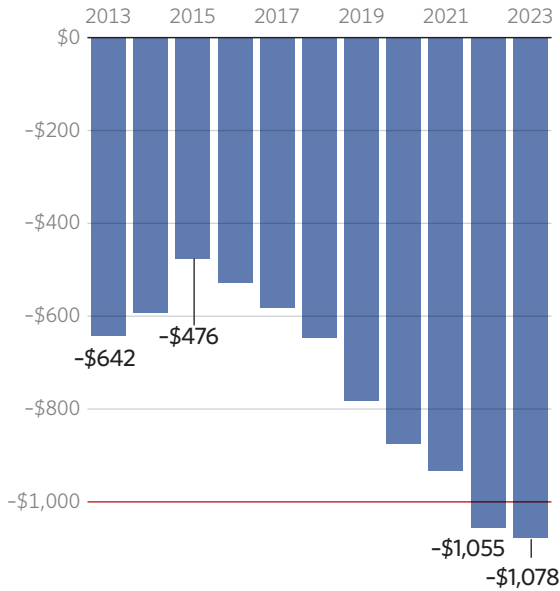
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CHART 1

### Deficits Return to Trillion-Dollar Levels by 2022

IN BILLIONS OF CURRENT DOLLARS



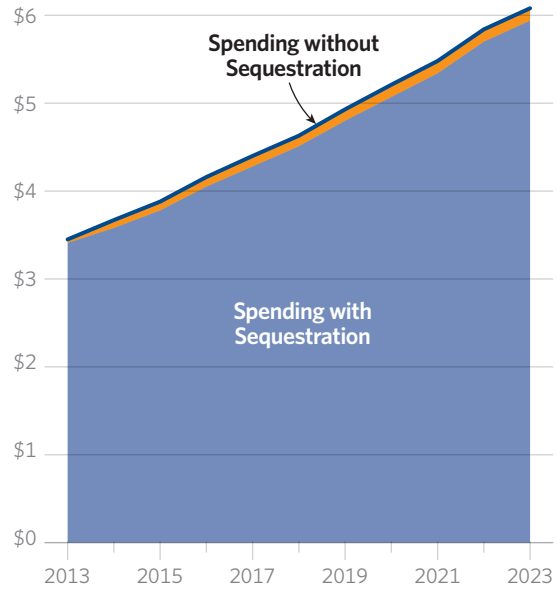
**Note:** Sequestration is factored in.  
**Source:** Heritage Foundation calculations based on data from the Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023, Alternative Fiscal Scenario*, May 2013, <http://www.cbo.gov/publication/44172> (accessed May 15, 2013).

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CHART 2

### Sequestration Reduces Total Spending by Only 2.5 Percent

IN TRILLIONS OF CURRENT DOLLARS



**Source:** Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023, Alternative Fiscal Scenario*, May 2013, <http://www.cbo.gov/publication/44172> (accessed May 15, 2013).

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put the budget on a path to balance before increasing the debt limit.

### Chronic Deficits

The Congressional Budget Office (CBO) projects chronic deficits for as far as projections look into the future. The CBO’s baseline projects that the federal deficit during fiscal year (FY) 2014 will be \$560 billion (3.4 percent of gross domestic product). The federal government will need to borrow 16 cents of every dollar it spends in 2014. Deficits are projected to decrease through 2015, before steeply rising again

to trillion-dollar levels before the end of the decade.

Contrary to misperceptions that the federal government has already cut spending enough with the Budget Control Act and sequestration, spending continues to grow nearly unabated over the decade, especially on entitlement programs. The Budget Control Act of 2011, which increased the debt limit by \$2.1 trillion, will reduce spending by only 2.5 percent over 10 years, and federal spending will still grow by 69 percent without further cuts and reforms.

Congress should look beyond the short-term, fleeting improvement in deficits when assessing the

1. As of May 19, 2013, the debt limit was increased to \$16,699,421,095,673.60. Romina Boccia, “Washington Hits the \$16.7 Trillion Debt Ceiling with \$300 Billion in New Debt,” The Heritage Foundation, The Foundry, May 19, 2013, <http://blog.heritage.org/2013/05/19/washington-hits-the-16-7-trillion-debt-ceiling-with-300-billion-in-new-debt/>.
2. Romina Boccia, “Treasury Employs Extraordinary Measures to Spend Beyond Debt Limit,” The Heritage Foundation, The Foundry, June 6, 2013, <http://blog.heritage.org/2013/06/06/treasury-employs-extraordinary-measures-to-spend-beyond-debt-limit/>.
3. Jacob J. Lew, letter to Speaker of the House John A. Boehner (R-OH), August 26, 2013, <http://www.treasury.gov/initiatives/Documents/082613%20Debt%20Limit%20Letter%20to%20Congress.pdf> (accessed September 11, 2013).

TABLE 1

## Comparing Budgets for 2014

	Republican Study Committee	House Budget Committee	Senate Budget Committee	President
Spending in 2014	\$3.48 trillion	\$3.53 trillion	\$3.72 trillion	\$3.73 trillion
Deficit in 2014	\$523 billion	\$528 billion	\$693 billion	\$675 billion
10-Year Deficit	\$33 billion surplus	\$1.2 trillion	\$5.2 trillion	\$5.9 trillion
New Tax Increase	\$0	\$0	\$1 trillion	\$1.1 trillion

**Sources:** Republican Study Committee, “Back to Basics: A Budget for Fiscal Year 2014,” [http://rsc.scalis.house.gov/uploadedfiles/back\\_to\\_basics-rsc\\_fy2014\\_budget.pdf](http://rsc.scalis.house.gov/uploadedfiles/back_to_basics-rsc_fy2014_budget.pdf) (accessed September 10, 2013); U.S. House of Representatives, Committee on the Budget, “The Path to Prosperity: A Responsible, Balanced Budget,” March 12, 2013, pp. 77–81, Tables S1–S5, <http://budget.house.gov/uploadedfiles/fy14budget.pdf> (accessed March 13, 2013); U.S. Senate, Committee on the Budget, “Foundation for Growth: Restoring the Promise of American Opportunity,” March 13, 2012, <http://www.budget.senate.gov/democratic/index.cfm/senatebudget> (accessed March 13, 2013); and Congressional Budget Office, “An Analysis of the President’s 2014 Budget,” May 17, 2013, <http://www.cbo.gov/publication/44173> (accessed May 20, 2013).

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fiscal state of the U.S. government and pursue long-term spending cuts in discretionary and mandatory spending to put the budget on a path to balance.

Beyond the 10-year budget window, spending growth will accelerate as more and more baby boomers begin drawing benefits from Social Security, Medicare, and Medicaid. The oldest baby boomers reached the age of 65 in 2011. Since then, 10,000 baby boomers have reached age 65 every day and will continue to do so through 2030.<sup>4</sup> The three major entitlements already account for 45 percent of federal spending, up from 25 percent in a little more than a decade. By 2023, these entitlements will consume half of federal spending.

The need for entitlement reform is urgent and unavoidable. The longer lawmakers procrastinate, the more drastic and painful the policy reforms will be. Members of Congress and the President should have tackled entitlement reform in 2011 with the Budget Control Act’s “super committee.” Two years later, their failure to act has returned to haunt them as the federal government has once again reached the limit of how much it may borrow.

### Budget Proposals and the Debt Limit

Among the four proposals discussed in the paper,

only the House budget and the Republican Study Committee (RSC) budget would balance the budget within 10 years (FY 2014 through FY 2023). The budgets proposed by the Senate and by President Barack Obama would make no effort to balance the budget within 10 years—or ever—instead increasing the debt by trillions of dollars. The House budget achieves balance through spending cuts in discretionary programs and important entitlement reforms, especially health care entitlements. Deficits shrink immediately and permanently under the House budget plan, which prioritizes repealing Obamacare and pursues structural Medicare and Medicaid reform. The plan balances the budget in 2023.

The RSC budget sets out to achieve a balanced budget in only four years and, unlike the other three budgets, produces a total surplus over the entire 10-year period. It is the only budget that proposes Social Security reforms that go beyond simple technical changes, such as the chained Consumer Price Index (CPI). It would repeal the Affordable Care Act and reform other entitlement programs sooner than the House budget would. It would also steeply reduce nondefense discretionary spending, but it lacks sufficient detail on how it would accomplish this.<sup>5</sup>

4. Pew Research Center, “Baby Boomers Retire,” December 29, 2010, <http://www.pewresearch.org/daily-number/baby-boomers-retire/> (accessed September 9, 2013).

5. Patrick Louis Knudsen, “The RSC Budget: A First Look,” The Heritage Foundation, The Foundry, March 20, 2013, <http://blog.heritage.org/2013/03/20/the-rsc-budget-a-first-look/> (accessed September 11, 2013).

Of these four plans, only the RSC and House proposals would put the government on a path to a balanced budget. The Senate and Obama budgets would worsen the fiscal situation and add multiple trillions of dollars to the already massive national debt. All of the budgets proposed would require an increase in the debt limit.

Failing to implement spending cuts and policy reforms that would put the federal budget on a path to balance is irresponsible in the short run and reckless in the long run. Congress should implement spending cuts and entitlement reforms before—or as part of—an increase in the debt ceiling.

### **Avoiding Default and Prioritizing Payments**

If Congress does not raise the debt limit by mid-October, the Treasury would not necessarily default on debt obligations. Even while cash-strapped, the Treasury can reasonably be expected to prioritize principal and interest payments on the national debt, protecting the full faith and credit of the United States above all other spending. It is almost impossible to conceive that the Treasury and the President would choose to default on debt obligations because doing so would have damaging economic consequences.

Nevertheless, the Treasury and the President have repeatedly invoked the threat of default to pressure Congress into raising the debt ceiling without substantial spending cuts and policy reforms. In July, Secretary Lew said on ABC's *This Week*: "Congress can't let us default. Congress has to do its work."<sup>6</sup> On August 26, he wrote to Congress: "Congress should act as soon as possible to protect America's good credit by extending normal borrowing authority well before any risk of default becomes imminent."<sup>7</sup> President

Obama also mentioned default at the G-20 summit: "That includes making sure we don't risk a U.S. default over paying bills we've already racked up."<sup>8</sup>

The Treasury justifies this threat by arguing that it lacks the logistical means and the authority to prioritize federal payments and will instead delay all payments, including debt obligations, in the event of a debt limit impasse. This interpretation of authority directly contradicts a previous statement by the Government Accountability Office, which asserted that the Treasury has the discretion to prioritize payments:

We are aware of no statute or any other basis for concluding that Treasury is required to pay outstanding obligations in the order in which they are presented for payment unless it chooses to do so. Treasury is free to liquidate obligations in any order it finds will best serve the interests of the United States.<sup>9</sup>

A briefing paper from the Harvard Law School sheds light on why the Treasury may insist on the possibility of debt default, noting that "adherence to a FIFO [first in, first out] approach may have served to apply pressure to Congressional Republicans."<sup>10</sup> Further support for this argument comes from an Administration official who, speaking on the basis of anonymity, suggested in 2011 that Treasury intended to prioritize meeting its debt obligations to avoid default.<sup>11</sup> Recently, the credit rating agency Moody's asserted confidence in the federal government meeting its debt obligations in the context of current debt limit negotiations:

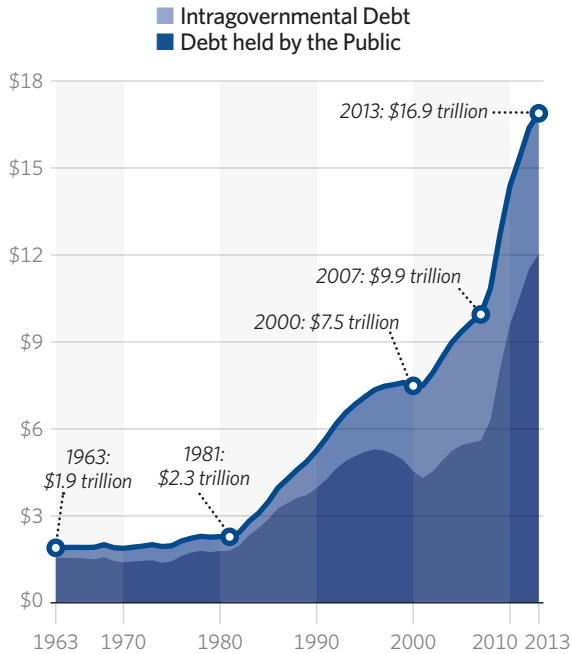
We think that they will raise the debt ceiling, as they always have in the past. But even if there's

6. Burgess Everett, "Lew Reiterates Obama Won't Negotiate over Debt Limit," *Politico*, July 28, 2013, <http://www.politico.com/blogs/politico-live/2013/07/lew-reiterates-obama-wont-negotiate-over-debt-limit-169332.html> (accessed September 6, 2013).
7. Lew, letter to Speaker of the House John A. Boehner.
8. Michael Sherer, "Obama Admits Public Opposition to Syria Strike (Transcript)," *Time*, September 6, 2013, <http://swampland.time.com/2013/09/06/admitting-public-opposition-on-syria-obama-vows-to-push-forward-transcript/> (accessed September 6, 2013).
9. U.S. Government Accountability Office, letter to Senator Bob Packwood (R-OR), October 9, 1985, <http://redbook.gao.gov/14/fl0065142.php> (accessed on September 6, 2013).
10. Jeremy Kreisberg and Kelley O'Mara, "The 2011 Debt Limit Impasse: Treasury's Actions & the Counterfactual What Might Have Happened If the National Debt Hit the Statutory Limit," Harvard Law School *Briefing Paper* No. 41, September 4, 2012, <http://www.law.harvard.edu/faculty/hjackson/BriefingPaper41%20-%202011DebtLimitImpasse.pdf> (accessed September 6, 2013).
11. Peter Cook and Cheyenne Hopkins, "U.S. Contingency Plan Said to Give Priority to Bondholders," *Bloomberg*, July 28, 2011, <http://www.bloomberg.com/news/2011-07-28/u-s-contingency-plan-gives-bondholders-priority.html> (accessed September 6, 2013).

CHART 3

## U.S. National Debt Approaching \$17 Trillion

IN TRILLIONS OF INFLATION-ADJUSTED 2013 DOLLARS



Source: U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014: Historical Tables* (Washington, DC: U.S. Government Printing Office, 2013), pp. 143-144, Table 7.1, <http://www.whitehouse.gov/omb/budget/Historicals> (accessed May 8, 2013).

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some delay, we're not too concerned about that affecting the government's ability to service its debt.<sup>12</sup>

Fitch, another credit rating agency, was even more direct in its assessment:

Fitch assumes that even in the unlikely event that the debt limit is not raised in a timely fashion, there is sufficient political will and capacity to ensure that Treasury securities will continue to be honoured in full and on time.<sup>13</sup>

Nevertheless, Congress and the President should come to an agreement soon to avoid a further downgrade by any of the three credit rating agencies.<sup>14</sup>

### Payments During a Debt Limit Impasse

Treasury will collect more than enough revenue in FY 2014 to meet all debt obligations and most non-debt obligations on an annualized basis. The CBO projects that the federal government will spend \$3,602 billion in 2014 and collect \$3,042 billion in revenues. Net interest costs are projected at \$237 billion. Thus, employing monthly smoothing, the Treasury should have no difficulty in meeting debt obligations. Moreover, the Treasury could fund up to \$2,805 billion in additional obligations with projected revenues. This would cover, for example, Social Security and disability payments (\$848 billion), discretionary defense programs (\$582 billion),<sup>15</sup> Medicare (\$505 billion), Medicaid (\$298

12. Romina Boccia, "Moody's: Further Deficit Reduction Needed to Maintain Stable Outlook," The Heritage Foundation, The Foundry, July 23, 2013, <http://blog.heritage.org/2013/07/23/moodys-further-deficit-reduction-needed-to-maintain-stable-outlook/>.
13. Fitch Ratings, "Fitch Affirms United States at 'AAA'; Outlook Remains Negative," U.S. Medium-Term Fiscal Projections—An Update, June 28, 2013, [http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=711441](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=711441) (accessed September 11, 2013; subscription required).
14. According to Fitch Ratings, "Failure to Raise the Federal Debt Ceiling in a timely manner (ie. several days prior to when the Treasury will have exhausted extraordinary measures and cash reserves) will prompt a formal review of the U.S. sovereign ratings and likely lead to a downgrade." Press release, "Fitch Affirms United States at 'AAA'; Outlook Remains Negative," Fitch Ratings, June 28, 2013, [http://www.fitchratings.com/creditdesk/press\\_releases/detail.cfm?pr\\_id=795073](http://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=795073) (accessed September 13, 2013). Standard and Poor's stated, "Although we expect some political posturing to coincide with raising the government's debt ceiling, which now appears likely to occur near the Sept. 30 fiscal year-end, we assume with our outlook revision that the debate will not result in a sudden unplanned contraction in current spending—which could be disruptive—let alone debt service." Standard and Poor's, "United States of America 'AA+/A-1+' Ratings Affirmed; Outlook Revised to Stable on Receding Fiscal Risks," June 10, 2013, <http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245352834859> (accessed September 9, 2013).
15. This includes \$84 billion in overseas contingency operations funding.

billion), and \$517 billion of all other obligations—in total more than three-quarters of the non-interest budget.<sup>16</sup> During a debt limit impasse, the Treasury and President Obama will have the discretion to decide whether and how to prioritize payments.

Moreover, the President and Congress already have a number of debt limit loopholes that enable spending in excess of revenues and accumulation of public debt without breaching the statutory debt limit. More than \$4.75 trillion of the \$16.7 trillion in debt subject to the limit is intragovernmental debt, meaning debt government agencies have borrowed from one another. The remaining \$11.95 trillion is held by the public, which is the debt borrowed in credit markets. When agencies redeem trust fund bonds at the Treasury this reduces the intragovernmental portion of the national debt and frees up room under the debt limit for additional borrowing from the public.

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## The most credible way to protect the full faith and credit of the U.S. government is to cut spending and implement policy reforms that put the federal budget on a path to balance.

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Having to tap into these debt limit loopholes would signal severe political and budgetary dysfunction, as would continuing to spend and borrow with no credible plan in place to put the U.S. budget on solid fiscal ground. Increasing the publicly held debt by redeeming trust fund bonds early means borrowing more debt from credit markets and would increase the portion of the debt most relevant when considering the creditworthiness of the United States of America. The most credible way to protect the full faith and credit of the U.S. government is to

cut spending and implement policy reforms that put the federal budget on a path to balance.

**Redeeming Social Security Trust Fund Bonds Early.** One large debt-limit loophole is the ability to redeem Social Security trust fund bonds early to meet all Social Security and disability payment obligations during a debt limit impasse.

When the Treasury collects more in Social Security payroll taxes than is needed to pay benefits, the difference is spent immediately, and the Treasury credits the Social Security trust fund with interest-bearing special securities. The securities and interest that the Treasury issues to the Social Security trust fund count toward the federal debt limit. Conversely, during Social Security cash-flow deficit years, the Treasury redeems some of the special issue bonds to pay benefits, thus lowering the intragovernmental portion of the debt subject to the limit, which allows for additional public borrowing.

As Thomas R. Saving, former public trustee of the Social Security and Medicare trust funds, explains:

By law the Treasury is bound to redeem any bonds presented to it by the Social Security Administration. And when the Treasury does, total government debt subject to the debt limit falls by the amount of the redemption—thus freeing up the Treasury’s ability to issue new bonds equal in amount to the redeemed Trust Fund bonds.<sup>17</sup>

A law from 1996 authorizes the Treasury to redeem Social Security bonds early to pay benefits and administrative expenses.<sup>18</sup> About \$2.7 trillion in bonds is credited to the Social Security trust fund. However, redeeming them early without replenishing them would move up the trust fund’s insolvency date.<sup>19</sup> The CBO projects that paying Social Security benefits in FY 2014 will require \$848 billion.

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16. Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 14, 2013, <http://www.cbo.gov/publication/44172> (accessed September 10, 2013).

17. Thomas R. Saving, “Obama’s Debt-Ceiling Scare Tactics,” *The Wall Street Journal*, July 22, 2011, <http://online.wsj.com/article/SB10001424053111903554904576458294273264416.html> (accessed September 5, 2013). The same mechanism is available to pay a portion of Medicare obligations. See Contract with America Advancement Act of 1996, Public Law 104-121.

18. Contract with America Advancement Act of 1996.

19. Romina Boccia and Rachel Greszler, “Social Security Trust Fund Reports Massive Deficits, Benefit Cuts by 2033,” *Heritage Foundation Issue Brief* No. 3952, May 31, 2013, <http://www.heritage.org/research/reports/2013/05/2013-social-security-trust-fund-reports-massive-deficits-benefit-cuts>.

**Redeeming Federal Trust Fund Bonds.** Excluding the Social Security trust fund, which is by far the largest, the Treasury lists more than \$2 trillion in intragovernmental holdings possibly available for redemption and conversion to public debt.<sup>20</sup>

### Congressional Debt Limit Options

Congress is facing two deadlines: The federal government will reach the limit of the extraordinary measures in October, and the continuing resolution to fund the government expires on September 30. These deadlines offer Congress an opportunity to bring spending and debt under control. Congress can choose from a range of good and bad choices:

- **Suspend the debt limit again.** Congress could again suspend the debt ceiling, as it did in January when it suspended the limit through May 18, 2013, adding \$300 billion in additional borrowing in less than four months.<sup>21</sup> However, a debt limit suspension is the same as a debt limit increase, except that it does not limit the debt to a fixed dollar amount.
- **Delegate debt limit increase to the President.** Congress could authorize the President to raise the debt ceiling unless Congress voted to stop it, as Senator Mitch McConnell (R-KY) proposed during the debt limit debate in 2011 and the President requested during the 2012 fiscal cliff debate. In doing so, Congress would effectively surrender its authority over the debt limit and its ability to exercise the power of the purse in making vital course corrections when confronted with the results of unsustainable spending decisions.<sup>22</sup>

- **Freeze the current debt limit.** If Congress freezes the current debt limit without giving further guidance and the Treasury exhausts its extraordinary measures, the Treasury and President Obama would have broad discretion in deciding which obligations to pay on time and which to delay. Congress should therefore consider legislation that prioritizes payment in the event of a debt limit impasse.<sup>23</sup>

- **Raise the debt limit in small increments.** Congress could choose to raise the limit in small increments in exchange for small spending reductions to maintain pressure on Congress and the President to arrive at a budget deal that puts the U.S. budget on a path to balance. This is not the optimal way to run a government. Short increases of only days at a time are disruptive and can disturb markets. However, continuing with “business as usual” would be worse than increasing the debt limit without addressing the long-term problems driving the soaring debt.

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A debt limit suspension is the same as a debt limit increase, except that it does not limit the debt to a fixed dollar amount.

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- **Raise the limit with a path to balance.** By cutting spending and reforming entitlements, starting with repealing Obamacare, Congress and the President could put the federal budget on a path to balance, with a modest debt limit increase to

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20. According to the CBO, “The federal government has more than 200 trust funds. The largest and best known of those funds finance major benefit programs (such as the Social Security and Medicare trust funds) or infrastructure spending (such as the Highway Trust Fund and the Airport and Airway Trust Fund).” Congressional Budget Office, “Glossary,” updated January 2012, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/glossary.pdf> (accessed September 5, 2013). For a list of federal trust funds and their values for each month, see U.S. Department of the Treasury, Bureau of the Public Debt, “Monthly Statement of the Public Debt (MSPD) and Downloadable Files,” <http://www.treasurydirect.gov/govt/reports/pd/mspd/mspd.htm> (accessed September 11, 2013).

21. Boccia, “Washington Hits the \$16.7 Trillion Debt Ceiling with \$300 Billion in New Debt.”

22. Amy Payne, “Obama Wants Power to Raise Debt Limit by Himself, Anytime,” The Heritage Foundation, The Foundry, December 5, 2012, <http://blog.heritage.org/2012/12/05/morning-bell-obama-wants-power-to-raise-debt-limit-by-himself-anytime/>, and Keith Hennessey, “Understanding the McConnell Debt Limit Proposal,” July 14, 2011, <http://keithhennessey.com/2011/07/14/understanding-the-mcconnell-debt-limit-proposal/> (accessed September 11, 2013).

23. J. D. Foster, “A New, Extra-Extraordinary Debt-Ceiling Tool,” Heritage Foundation *Issue Brief* No. 3814, January 3, 2013, <http://www.heritage.org/research/reports/2013/01/debt-ceiling-and-extraordinary-measures-to-fund-budget-shortfall>.

arrive at balance in an orderly and deliberate fashion. This option would prevent a debt crisis today and in the future.

### **The Way Forward**

Federal spending on entitlement programs is out of control and projected to grow to dangerous levels in the near future. Absent reforms, spending on Social Security, Medicare, and Medicaid will soon consume half of the federal budget. While the Budget Control Act of 2011 caps discretionary spending through 2021, discretionary spending is still projected to grow by 17 percent over the next 10 years, not including any emergency and disaster-related spending. By 2021, discretionary spending will return to its abnormally high stimulus levels and be allowed to grow even more without long-term spending caps. Meanwhile, total federal spending is projected to grow by 69 percent through 2023, even with sequestration in place.

The current improvement in the deficit is fleeting and should not lead to complacency among lawmakers. The long-term U.S. fiscal situation is even more dire today than it was before the recent recession.

The Heritage Foundation's *Saving the American Dream* is a plan to solve the nation's spending and debt crisis in an orderly and deliberate fashion. It would balance the budget in less than 10 years and keeps it balanced without raising taxes and while fully funding national defense. It does this by repealing Obamacare and implementing entitlement reforms that would preserve Social Security, Medicare, and Medicaid for those who truly need assistance, while ensuring that these programs are affordable and sustainable. The plan cuts discretionary spending by focusing federal resources on true national priorities, while empowering states, localities, and the private sector in areas that the federal government has usurped.

The debt limit presents a decisive moment for Congress to take charge of the automatic spending increases that are driving the U.S. spending and debt crisis. Congress should cut spending and reform mandatory programs to put the budget on a path to balance before increasing the debt limit.

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