United States Senate
WASHINGTON, DC 20510

Friday, January 24, 2014

Dear Colleagues,

Last fall, Senator Baucus and I released a memo that called on our Republican colleagues to end their brinkmanship and join Democrats in passing clean debt ceiling legislation to ensure the United States could continue to pay its bills—including payments to millions of workers, seniors, and members of the military—and avoid hurting the economic recovery with self-inflicted uncertainty.

We believed that Republicans knew they could not afford to force an unprecedented default, and that they would ultimately join us to prevent one with no strings attached. While we would have preferred to remove the threat of default well in advance of the deadline so that the uncertainty did not hurt the economy, we were glad that Republicans finally did, for the second time in a year, give up their demands and allow Congress to suspend the debt ceiling so the federal government could pay its bills and we could avoid a self-inflicted economic catastrophe.

We were then able to move away from the cycle of governing by crisis and begin the bipartisan budget conference Democrats had pursued since the spring. Despite conventional wisdom and some skepticism, the budget conference resulted in a compromise agreement to roll back some harmful cuts to education, infrastructure, medical research and national security, and to take the possibility of another government shutdown off the table.

As we approach the date when we will need to act to avoid default again, Democrats will take the same responsible approach we laid out in the memo below. We will not negotiate over whether or not the United States of America should pay its bills. And once again, before they get any further down this damaging path, we call on our Republican colleagues to not play politics with our economic recovery.

Recent data from the Congressional Budget Office show that near-term budget deficits have improved significantly, falling by more than a third in the first three months of fiscal year 2014. But there is much more we need to do to tackle our long-term deficits responsibly, and crucially, to continue getting more Americans back to work and lay a foundation for broader economic growth in the future.

Democrats are ready and willing to work with Republicans on these and many other challenges. But as we have repeatedly shown, attempts to avoid compromise by putting the full faith and credit of the United States on the line will not succeed. The only way we can get anything done in a divided government is through compromise, not threats or hostage-taking.

House Republicans are meeting next week to discuss their agenda for the next year. We hope that coming out of this meeting, they will agree to build on the bipartisan budget work done so far, join Democrats in passing a clean debt ceiling bill, and focus on the real long and short-term challenges facing the families and communities we serve.

Sincerely,

Patty Murray

Patty Murray
Chairman, Senate Budget Committee

United States Senate
WASHINGTON, DC 20510

Monday, September 23, 2013

Dear Colleagues,

As chairmen of the Budget Committee and the Finance Committee, we believe strongly in ending the harmful cycle of governing from crisis to crisis that we have seen far too much of recently, especially when it comes to the budget.

Democrats understand that as the economy continues to recover, our first priority must be ensuring that more Americans get back to work and regain financial security. That is why we have taken action to restore certainty to the budget process. We passed the Senate Budget and have been ready to try to resolve the differences between the two parties on fiscal issues for months. Democrats requested unanimous consent to move to a bipartisan budget conference with the House—where we could address the policy differences between the parties in an orderly, responsible way—eighteen times.

But unfortunately, Tea Party Republicans and Republican leadership are doing everything they can to pull us back into crisis mode, regardless of what that will mean for American workers and our economy. They refused to negotiate over the budget, are now pushing us closer and closer to a government shutdown, and Speaker Boehner even said he expects a "whale of a fight" over the debt ceiling. And it is very clear why: Republicans believe the only way they can advance their extreme agenda is to—once again—manufacture a crisis over the debt limit.

As you all know, they have tried this before, and the bottom line is the story always ends with a debt ceiling increase. But especially at a time when so many Americans are still struggling, dragging our workers and our economy through another round of brinkmanship and uncertainty is unacceptable.

Democrats are very interested in negotiating with Republicans over replacing sequestration, investing in economic growth, fixing our broken tax code, and tackling our long-term fiscal challenges fairly and responsibly. But President Obama has been clear that he is not going to negotiate over the debt limit, and Congressional Democrats stand behind him strongly.

The Tea Party continues to mistake its high-stakes game of chicken for economic stewardship. We need to hold them accountable for their deeply irresponsible approach, which is hurting economic growth and the economic security of all Americans. This memo will show that:

- Congress has always acted to raise the debt ceiling and pay debts the federal government has already accrued;

- Contrary to recent Republican claims, the debt ceiling has more often than not been increased without accompanying deficit reduction or budget process reforms;

- Economists on both sides of the aisle agree that default would be disastrous—and that the threat of default is so destabilizing that uncertainty around the debt ceiling alone has harmful economic consequences;

- Republican debt prioritization proposals would put foreign creditors ahead of American citizens, but do nothing to prevent the effects of default; and finally,

- The more Republicans ask for a fight over the debt ceiling and play political games such as trying to dismantle health care reform, the more they own the results—and Republicans know they can't afford to be blamed for default. Republicans should follow their own precedent from just a few months ago and join Democrats in passing a clean debt limit bill.

We hope this information is helpful to you and look forward to working with all of you in the coming weeks and months.

Sincerely,

Patty Murray

Senator Patty Murray
Chairman, Senate Budget Committee

Max Baucus

Senator Max Baucus
Chairman, Senate Finance Committee

Memorandum
To: Senate Colleagues
From: Senator Patty Murray (D-WA) and Senator Max Baucus (D-MT)
Re: The harmful consequences of Republican brinkmanship on the debt ceiling
Date: September 23, 2013

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I. The threat of default should not be used as a political football.

Democrats are committed to finding solutions to our long-term fiscal challenges. We continue to be ready to work across the aisle on a budget agreement that includes both responsible spending cuts and new revenue from the wealthiest Americans, in order to replace sequestration and deliver additional deficit reduction.

As this memo will show, however, these efforts should take place independent of raising the debt limit. Last month, Secretary Lew notified Congress that he expects Treasury will exhaust all extraordinary measures to avoid default sometime in mid-October.[1] As we approach this deadline, it is important to keep in mind that:

- Raising the debt limit does not authorize new spending. Instead, it allows the government to pay debts it already accumulated as a result of actions by both parties. Raising the debt ceiling enables the government to borrow money to manage its day-to-day operations, much in the same way businesses need credit to manage the timing gap between payments and receipts.

- Congress has always acted to raise the debt limit. Since 1960, the debt limit has been raised a total of 78 times, including 49 increases under Republican Presidents and 29 increases under Democratic Presidents.[2] President Ronald Reagan said 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." [3]

- As President Reagan explained, the threat of default should not be used as a political football. Experts agree default would be economically disastrous, and that even the threat of default has serious economic consequences. [4] As our economy continues to recover from the effects of the Great Recession, getting more Americans back to work and laying the foundation for strong economic growth in the future must be our first priority. That means we need to avoid the self-inflicted wounds that we know Tea Party brinkmanship will impose—and to do that, we must pass a clean debt ceiling bill.

II. Contrary to Republican claims, the debt limit has frequently been lifted independent of efforts to reduce the deficit or reform the budget process.

In a September 2013 *USA Today* op-ed, Speaker Boehner argued that "every major effort to deal with the deficit over the past 30 years has been tied to the debt limit."[5] A review of laws passed to increase the debt limit and reduce the deficit over the last three decades makes clear that Speaker Boehner's claim is flawed. While debt limit increases have at times been part of legislation to confront broader budget issues, the vast majority of debt limit increases have occurred

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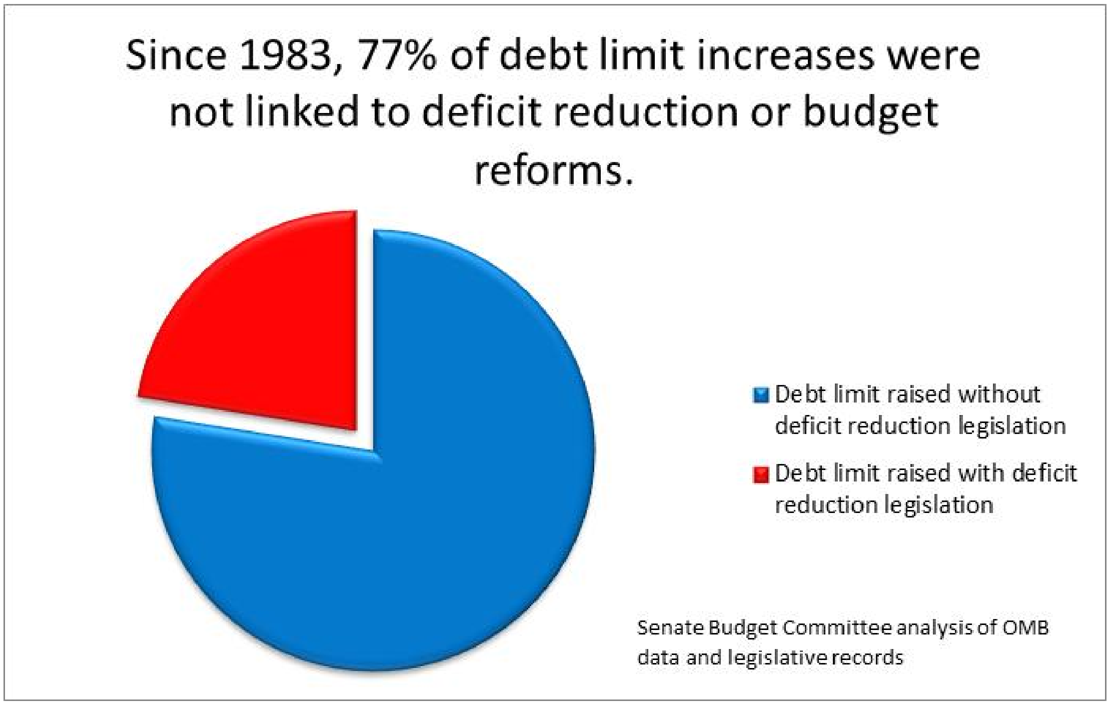
[1] Letter from Secretary Lew to Speaker John Boehner, 8/26/13.
[2] Department of the Treasury, 9/16/13.
[3] Letter to Senate Majority Leader Howard H. Baker, 11/16/83; Washington Post, 5/15/11.
[4] E.g. Reuters, 7/15/11; USA Today, 7/31/11; Washington Post, 1/18/13.
[5] Boehner Op-Ed, USA Today, 9/2/13.

independently—and until very recently, as Secretary Lew has noted, "the threat of default was not a bargaining chip in the negotiations."[6]



The majority of debt limit increases in the past three decades occurred without budget reforms or deficit reduction efforts, and Republicans strongly supported these increases. Additionally, several fiscal agreements under Democratic and Republican presidents—including the American Taxpayer Relief Act of 2012—did not include increases in the debt limit.

In the last thirty years the debt limit has, far more often than not, been increased without accompanying efforts to reduce the deficit. Of the 40 laws increasing the debt limit since 1983,[7] 77 percent occurred without accompanying deficit reduction or budget process reforms. [8]

Republicans have consistently and strongly supported debt limit increases that were not statutorily linked to deficit reduction or budget reform measures. Of 31 laws increasing the debt limit that were identified as occurring without deficit reduction or budget process reforms, 19 were passed with unanimous consent[9] (requiring the support of all 100 senators) or a roll call vote[10] while the remaining 12 were passed by voice vote. [11] Of those 19, a majority of Senate Republicans supported the increase 14 times, under the administrations of Presidents Reagan, George H. W. Bush, Clinton, and George W. Bush. Of the five times when a majority of Republicans opposed the increase, three occurred during the Obama administration.[12]

Deficit reduction agreements in the last thirty years have occurred without an accompanying debt limit increase. Speaker Boehner's claim that every major budget agreement has been tied to a debt limit increase ignores significant deficit reduction legislation, passed under Republican and Democratic presidents, which did not raise the debt limit. These include:

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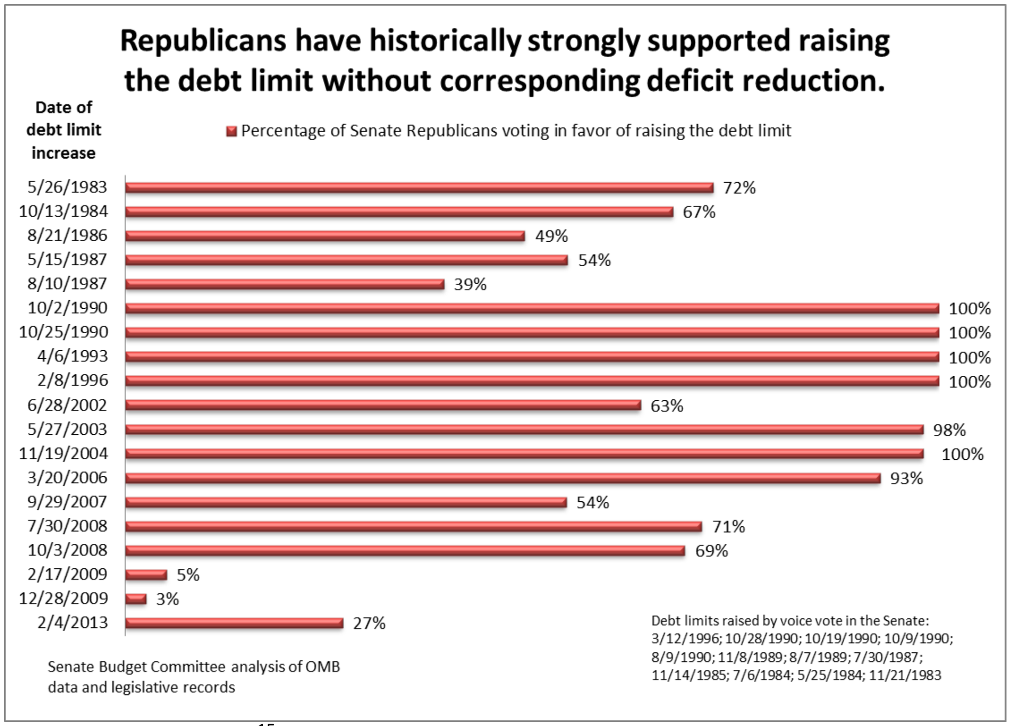
[6] Remarks by Treasury Secretary Jack Lew to the U.S. Economic Club, 9/17/13.
[7] Office of Management and Budget Historical Table 7.3.
[8] Based on Senate Budget Committee analysis using Office of Management and Budget data and legislative records.
[9] Unanimous Consent: H.R. 5755, 9/30/90; H.J.Res 681, 10/24/90; H.R. 1430, 4/5/93; H.R. 2924, 2/1/96.
[10] Roll Call: H.R. 2990, Vote 115, 5/25/83; H.J.Res 654, Vote 663, 10/12/84; H.R. 5395, Vote 636 8/15/86; H.R. 2360, Vote 111, 5/14/87; H.R. 3190, Vote 233, 8/7/87; S. 2578, Vote 148, 6/11/02; H.J.Res. 51, Vote 202, 5/23/03; S. 2986, Vote 213, 11/17/04; H.J.Res 43, Vote 354, 9/27/07; H.R. 3221, Vote 186, 7/26/08; H.R. 1424, Vote 213 10/1/2008; H.R. 1, Vote 64, 2/13/09; H.R. 4314, Vote 397, 12/24/09; H.R. 325, Vote 11, 1/31/13; H.J.Res 47, Vote 54, 3/16/06.
[11] Voice Vote: H.J.Res 308, Voice Vote 11/17/83; H.R. 5692, Voice Vote 5/24/84; H.R. 5953, Voice Vote 6/29/84; H.R. 3721, Voice Vote 11/13/85; H.R. 3022, Voice Vote 7/29/87; H.R. 3024, Voice Vote 8/4/89; H.J.Res 280, Voice Vote 8/3/90; H.J.Res 666, Voice Vote 10/8/90; H.J.Res 677, 10/19/90; H.J.Res 687, 10/27/90; H.R. 3021, Voice Vote 3/7/96.
[12] Under Obama: H.R. 1, Vote 64, 2/13/09; H.R. 4314, Vote 397, 12/24/09; H.R. 325, Vote 11, 1/31/13.

- The American Taxpayer Relief Act of 2012. At the end of last year, Congress and the administration agreed to a major budget deal that did not extend the debt limit. The American Taxpayer Relief Act (ATRA) raised revenues by roughly $600 billion over ten years compared to a current policy baseline.[13] ATRA made a significant contribution to our improved fiscal outlook in the near term and did not include a debt limit increase.[14]



- The Deficit Reduction Act of 2005. President George W. Bush signed the Deficit Reduction Act of 2005, which his administration noted "restrains federal spending." [15] The Congressional Budget Office estimated that the law would reduce direct spending by $39 billion between 2006 and 2010 and roughly $99 billion between 2006 and 2015.[16] The Deficit Reduction Act of 2005 did not include a debt limit increase. [17]

- The Deficit Reduction Act of 1984. President Reagan signed the Deficit Reduction Act of 1984, which was estimated to increase revenue by roughly $50 billion and reduce spending by $13 billion over three years.[18] The Deficit Reduction Act of 1984 did not include a debt limit increase. [19]

Notably, several deficit reduction agreements Speaker Boehner referenced as tied to debt limit increases included significant new revenue. [20] Adjusted to 2009 dollars, Treasury estimated that the Omnibus Budget Reconciliation Act of 1990 raised $126.6 billion and that the Omnibus Budget Reconciliation Act of 1993 raised $188 billion in new revenue over the first four years.[21] President Reagan's Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 also included $55.2 billion in new revenue over the first four years.[22]

[13] Deficit Reduction in the American Taxpayer Relief Act of 2012, Office of Management and Budget, accessed 9/18/13; Center for American Progress, 1/3/13.
[14] Office of Management and Budget, Table 7.3; P.L. 98-369.
[15] George W. Bush White House Press Release, 2/8/06.
[16] Congressional Budget Office, 1/27/06.
[17] Office of Management and Budget, Table 7.3; P.L. 109-131.
[18] Department of the Treasury, 6/11.
[19] Office of Management and Budget, Table 7.3; P.L. 98-369.
[20] Boehner Op-Ed, USA Today, 9/2/13.
[21] Department of the Treasury, 6/11.
[22] Department of the Treasury, 6/11.

III. Economists on both sides of the aisle agree that default is not an option—and that even the possibility of default has serious economic consequences.

Although no one can predict the precise economic impact of a default by the world's largest economy, economists agree that such an event would be disastrous and could incite financial crisis, cost millions of jobs, reduce retirement accounts, and destabilize the global economy—all while making our fiscal challenges much, much worse. Based on when we now expect the debt ceiling to be reached, the Bipartisan Policy Center estimated that default would amount to a $106 billion shortfall, or a roughly 32 percent reduction in federal spending, between October 18 and November 15, 2013.[23] A fiscal contraction this severe would be extremely damaging.

In addition to calamitous effects at home, default could jeopardize the global economy and pose serious national security risks. Default could set off a global financial crisis in the short run while calling into question the safety of U.S. debt and the dollar's status as a reserve currency going forward. [24] Reaching the debt ceiling would also cripple the government's ability to fund national defense initiatives.[25]

And, while Republicans claim that their brinkmanship over the debt limit is an attempt to rein in our debt and deficits, a default would actually worsen the United States' fiscal health. The combination of higher borrowing costs and declining G.D.P. would increase both our absolute debt load and the debt-to-G.D.P. ratio.[26] Such an event would, as Federal Reserve Chairman Bernanke testified, "make our deficit problems even more intractable."[27]

Economists and experts on both sides agree: default is not an option.

Martin Feldstein, former chairman of the Council of Economic Advisors under President Reagan: "The debt ceiling is a **very dangerous thing to play with**."[28]

Robert Rubin, former Treasury secretary under President Clinton: "Defaulting on our commitments is **unthinkable and dangerous**, and the debt ceiling should be raised now without conditions."[29]

Ben Bernanke, chairman of the Federal Reserve: "But I do hope that Congress will allow the government to pay its bills, not raise the possibility of default which would be **very, very costly to our economy**."[30]

Mark Zandi, chief economist at Moody's Analytics: "The dark scenario is **so dark I can't imagine it**."[31]

Alan Blinder, former vice chairman of the Federal Reserve: "In short, the consequences of hitting the debt ceiling are **too awful to contemplate**. … **A sane Congress wouldn't even think about it**."[32]

Bruce Bartlett, deputy assistant secretary for economic policy at the Treasury Department under President George H.W. Bush: "a potential debt **default is far more than a domestic consideration; it is a matter of foreign policy**." [33]

[23] Bipartisan Policy Center, 9/13.
[24] Council on Foreign Relations, 1/2/13, Congressional Research Service, 12/6/12.
[25] Council on Foreign Relations, 1/2/13.
[26] EconBrowser, James D. Hamilton and Menzie Chinn, 1/14/13.
[27] Wall Street Journal, 3/1/11.
[28] Interview with Martin Feldstein on Fox Business, 1/3/13.
[29] Interview with former Secretary of the Treasury Robert Rubin, Wonkblog, 5/17/11.
[30] Remarks by Federal Reserve Chairman Ben Bernanke at the University of Michigan, 1/14/13.
[31] Wall Street Journal, 6/28/11.
[32] Op-Ed by Alan Blinder, Wall Street Journal, 1/14/13.
[33] Bruce Bartlett, 5/1/11.

The consequences of default are so severe that even the specter of default, in the form of uncertainty around raising the debt limit, has harmful economic consequences. As we saw in the summer of 2011, uncertainty around raising the debt limit can hurt consumer confidence, slow job growth, and risk our country's ability to borrow at the very low interest rates we have enjoyed.[34] The Joint Economic Committee wrote recently, "another bout of debt-ceiling brinkmanship…could endanger U.S. creditworthiness and reduce market confidence in the U.S. economy."[35]

IV. Republican debt prioritization proposals are unworkable and put foreign creditors ahead of American citizens.

Republicans have put forward a variety of proposals that they claim would allow the Treasury to rank debts and pay creditors according to priority, thereby avoiding or delaying default without raising the debt limit. Economists and experts on both sides of the aisle have dismissed these debt prioritization proposals, arguing that they are completely unworkable, equivalent to default, and would put American families, seniors, veterans and businesses behind foreign creditors in line for payments they are owed.

As Tony Fratto, assistant secretary for public affairs in the Treasury Department under President George W. Bush, has explained, the Treasury Department balances revenue intake and payments on a daily basis, using short-term financing to smooth out gaps that frequently occur and ensure obligations are met on time.[36] After reaching the debt limit, the Treasury would be unable to borrow money to pay for the programs that Congress has already authorized, instead relying only on the amount of revenue on hand. Without the ability to borrow as necessary, the Treasury will be unable to meet obligations regardless of how they are prioritized.[37]

Because debt prioritization would increase the credit risk from investing in American securities, credit ratings agencies have warned that prioritization could trigger a downgrade of U.S. credit. Fitch Ratings, for example, announced on January 15, 2013 that debt prioritization could lead to a downgrade.[38] David Riley, head of Fitch's sovereign rating team said, "living hand to mouth based on robbing Peter to pay Paul" is "not what we associate with a triple-A rated government."[39]

In addition to jeopardizing our ability to borrow at low rates, debt prioritization would be devastating to millions of Americans who are owed federal payments. While debt prioritization would direct the Treasury to pay bondholders—and depending on the proposal, Social Security recipients—first, it would do nothing to protect many Americans who receive federal payments. These may include veterans, doctors who treat Medicare patients, local governments, businesses with government contracts, and struggling families who rely on food stamps and unemployment benefits.[40] Former vice chairman of the Federal Reserve Alan Blinder wrote that under H.R. 807, a debt prioritization proposal passed in the House in May 2013 and included in the latest House Republican continuing resolution, payments including "Medicare bills, wages of soldiers and air-traffic controllers, unemployment benefits and the like" may not be ensured.[41]

There is bipartisan opposition to debt prioritization. See below for examples of economists and experts from across the political spectrum who agree that debt prioritization is unworkable.

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[34] E.g. S&P, 8/5/11; Government Accountability Office, 7/23/12; Washington Post, 1/18/13; MarketWatch, 9/2/11; New York Times, 9/2/11; Center for American Progress, 7/8/11, Bureau of Labor Statistics, one month net change in nonfarm employment, accessed 9/17/13.
[35] Joint Economic Committee Democratic Staff, 9/13.
[36] Business Insider, 1/15/13.
[37] Center on Budget and Policy Priorities ,5/9/13.
[38] Reuters, 1/15/13.
[39] Wall Street Journal, 1/15/13; Center on Budget and Policy Priorities, 5/9/13.
[40] Center on Budget and Policy Priorities, 5/9/13.
[41] Op-Ed by Alan Blinder, Wall Street Journal, 5/13/13.

Bipartisan agreement from economists and experts: debt prioritization is not a workable alternative to default.

Keith Hennessey, senior economic advisor to President George W. Bush: "If The U.S. government legally commits to paying someone a benefit, or agrees to pay a firm for a good or a service, the U.S. government should fulfill that agreement in a timely fashion. To do otherwise is taking the **first step to becoming a banana republic**." [42]

Tony Fratto, assistant secretary for public affairs in the George W. Bush U.S. Treasury Department: "I don't know if I can make it any more clear: **there is no rational alternative to raising the debt ceiling, & preferably early**."[43]

Mark Hopkins, senior economist at Moody's Analytics: Debt prioritization is **"like rearranging the deck chairs on the Titanic."** [44]

U.S. Department of the Treasury: "Adopting a policy that payments to investors should take precedence over other U.S. legal obligations would merely be **default by another name**."[45]

V. Republicans say they want another manufactured crisis, but the more they ask for a fight over the debt ceiling, the more they own the results—and they know they cannot afford to be blamed for default.

Over the last few months as Democrats pushed for a conference between the Senate and House on each chamber's budget resolution, Tea Party Republicans and Republican leadership blocked bipartisan negotiations on budget issues. They made it clear they would rather negotiate in the middle of a crisis.

In other words, Republicans have taken ownership of creating fiscal chaos around the debt ceiling. Speaker Boehner recently called for a "whale of a fight" over the debt ceiling.[46] Many other Republicans have encouraged their party to use the debt ceiling as leverage,[47] even asserting that Republicans have leverage on the debt ceiling because Republicans "win if nothing is done."[48]

But despite their brinkmanship, Republican leaders understand that default would be devastating. Speaker Boehner correctly said in the past that default would be a "financial disaster, not only for us, but for the worldwide economy"[49] and has reassured the business community that he would not allow a default.[50] Republicans also know they will be blamed for default. In a recent CNN/ORC poll, 54 percent of participants said that they would hold Republicans in Congress more responsible than President Obama for a default. [51]

Tellingly, some Republicans have called their leadership's strategy into question. Senator Blunt (R-MO) admitted that "holding the debt limit hostage to any specific thing is probably not the best negotiating place."[52] Senator McCain (R-AZ) bluntly referred to the Republican debt ceiling threats as "shenanigans."[53]

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[42] Keith Hennessey, 1/14/13.
[43] Tony Fratto via Business Insider, 1/15/13.
[44] Politico, 1/16/13.
[45] Department of the Treasury, 1/21/11.
[46] Huffington Post, 8/27/13.
[47] Huffington Post, 11/30/12; Politico, 12/7/12; National Journal, 4/4/13.
[48] Washington Times, 1/8/13.
[49] The Hill, 1/30/11.
[50] Politico, 9/15/13.
[51] CNN/ORC Poll, 9/11/13.
[52] Washington Post, 7/24/13.
[53] Washington Post, 7/22/13.

The clearer Republicans are about wanting a debt ceiling fight—and they've been very clear—the more they will ultimately need to avoid default and therefore avoid blame for the damaging economic consequences. Precedent shows Republicans will join Democrats in voting for a debt ceiling increase. Earlier this year, 199 Republicans in the House and 12 Republicans in the Senate dropped their demands—including the Boehner Rule that the House has attempted to revive—and voted to suspend the debt ceiling.[54]

VI. **The responsible choice is to pass a clean debt ceiling bill, avoid a self-inflicted wound to the economy, and focus on our country's real challenges.**

Our economy has come a long way since the financial crisis that began five years ago. More Americans are getting back to work, and families are beginning to regain financial security. But there is much more progress to be made. The last thing our economy needs—and the last thing the American people want to see—is another artificial, damaging crisis over the debt limit.

We are not going to negotiate over paying the bills Congress has already accrued. Republicans—who know they cannot afford to follow through on their threats—should drop the charade, join Democrats in voting for a clean debt limit bill, and get to work on solving real problems rather than creating artificial crises.

[54] Senate Roll Call Vote #11, 1/31/13; House Roll Call Vote #30, 1/23/13.