Change Through Cooperation

WISMUN V

Chair Report

United States Senate

Addressing the Implications of the U.S. Debt Ceiling and Budget Appropriations on Economic Stability

Rachel Wong, Sharada Samaga and Nia Fall

Message from the Chairs

Greetings delegates, or should we say, Senators!

We are Rachel Wong, Nia Fall, and Sharada Samaga, Y12, Y10, and Y12 students from King George V School, Nord Anglia International School, and Delia Memorial School (Glee Path), respectively. We are honored to welcome you as your chairs (presiding officers) for this iteration of the United States Senate at WISMUN V.

First convening in 1789, the United States Senate is the upper chamber of the United States Congress, and makes up the Legislative Branch of the US governmental system alongside the House of Representatives. In contrast to the representation in the HoR, whose representation is based on the population in each state, the Senate was formed because the smaller states were unwilling to join the nation if they would not be represented equally to the larger states.

This chair report serves as an introduction to the topic, and though we have done our best to make this report as detailed as possible, it is by no means conclusive, and hence, should not be considered the sole, comprehensive resource used in the research process. Further research is highly encouraged, as research and effort before the conference will result in more fruitful discussions and valuable learning experiences. Any use of generative AI will be strictly prohibited throughout the duration of the conference, and any senator caught using such will be automatically disqualified. Electronics are prohibited, with the exception of bill writing, so senators should print out any prepared materials beforehand.

Finally, if you have any concerns or inquiries regarding rules of procedure, preparation or the topic at hand, please feel free to contact any of us. Best of luck, and we await your arrival in June for a weekend of invigorating debate.

Best Regards,
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Glossary

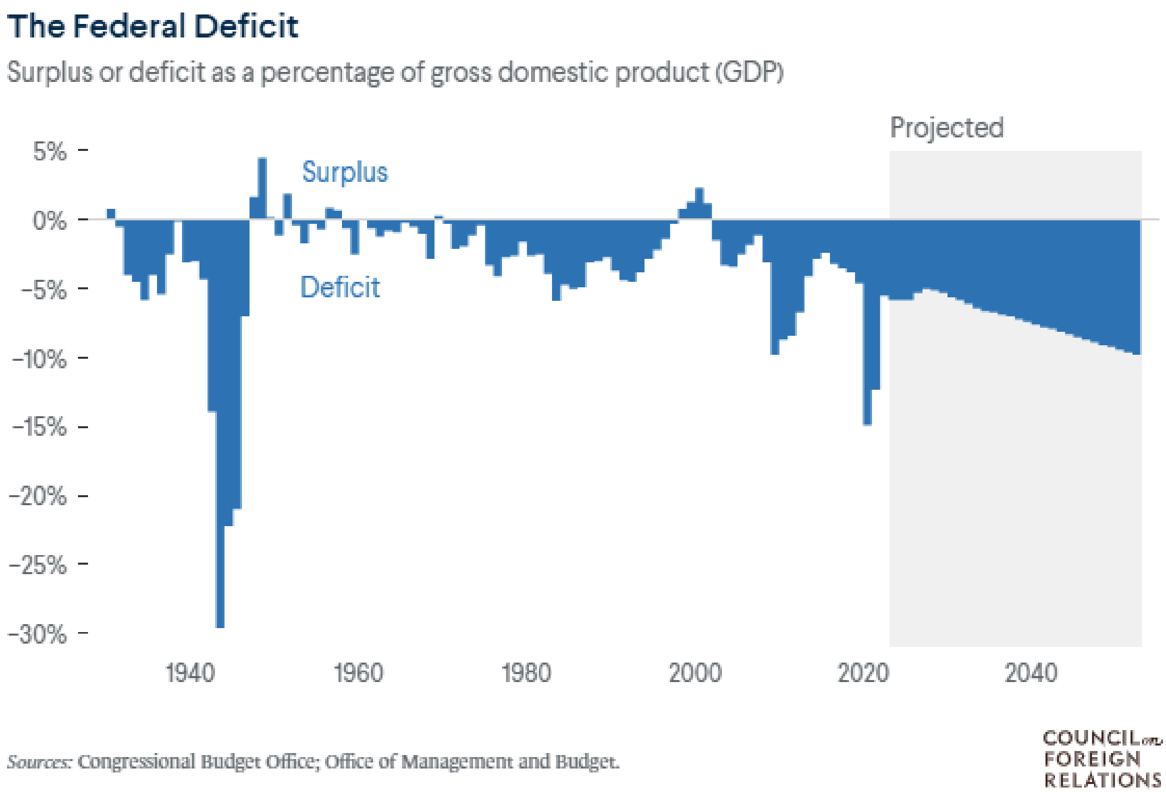
Key Terms	Definition
Federal Budget	The US government's annual budget, covering three primary spending areas (Mandatory spending, discretionary spending, and interest on the debt), that foresees expected revenues and expenditure for the following fiscal year - running from October 1 to September 30.
Budget Appropriation	Appropriation Bills are Congress' response to the President's proposal. The President submits to Congress a budget for the upcoming fiscal year, and Congress after committee hearings and debate generates a series of appropriation bills to allocate funding to the various government agencies and programs.
U.S. Debt Ceiling	The U.S. debt ceiling is a legislative limit on the amount of national debt that the federal government can incur.
Fiscal Policy	The use of government spending and taxation to influence and impact the economy.
Monetary Policy	Actions that a nation's central bank employs to regulate money supply and overall interest rates, which aims to sustain price stability, monitor inflation, and economic growth.

Sequestration	Automatic spending cuts that occur through the withdrawal of funding for certain government programs.
Mandatory Outlays	Spending that does not require an annual vote from Congress
Discretionary Outlays	Spending directed by prior law or voted in the annual appropriations process

Background Information

U.S. Economic Situation

With years of elevated budget deficits, heightened by the massive federal spending during the COVID-19 pandemic, the U.S National Debt has reached $36.22 trillion, with the debt on track to double within the next thirty years, as modeled with the following diagram.



Historical and Projected Fiscal Deficit. Retrieved from the Council of Foreign Relations.

Post WWII, after which the United States emerged as a global superpower, the debt skyrocketed to more than 100 percent of GDP in 1946, due to an increase in defense spending during the war that led to unprecedented borrowing. In the 1980s, the Reagan administration vastly increased defense spending and enacted tax cuts, which created a new period of rising debt. Furthermore, during the 1990s, a combination of tax increases, defense cuts, and an economic boom reduced the debt as a percentage of GDP. In particular, Bill Clinton's administration in 1998 oversaw the first of four consecutive years of budget surpluses which was the first in the past 40 years. However, deficits returned under the Bush administration saw a period of tax cuts, war spending in the Afghanistan and Iraq Wars, and major new entitlements, such as Medicare Part D, which added prescription drug coverage to the program. Annual deficits hit record levels (More than 1 trillion) under President Obama, who, in response to the Great Recession, continued the Bush administration's bank bailout program.

On the spending side of the ledger, the main drivers of debt increase are mandatory spending programs, namely Social Security, Medicare, and Medicaid. Their costs are expected to rise as a percentage of GDP as the U.S. population ages and health expenses climb without any corresponding increase in revenue. In the immediate future, interest payments on the debt are also expected to increase dramatically in relation to GDP. They have recently risen to their highest levels in more than twenty years as the Federal Reserve raised rates to combat inflation sparked by the pandemic and the Russian invasion of Ukraine. In fiscal year 2023, net interest payments on the national debt reached $659 billion and are projected to surge to nearly 7.5 percent over the next thirty years. On the other hand, discretionary spending is expected to remain constant as a share of GDP.

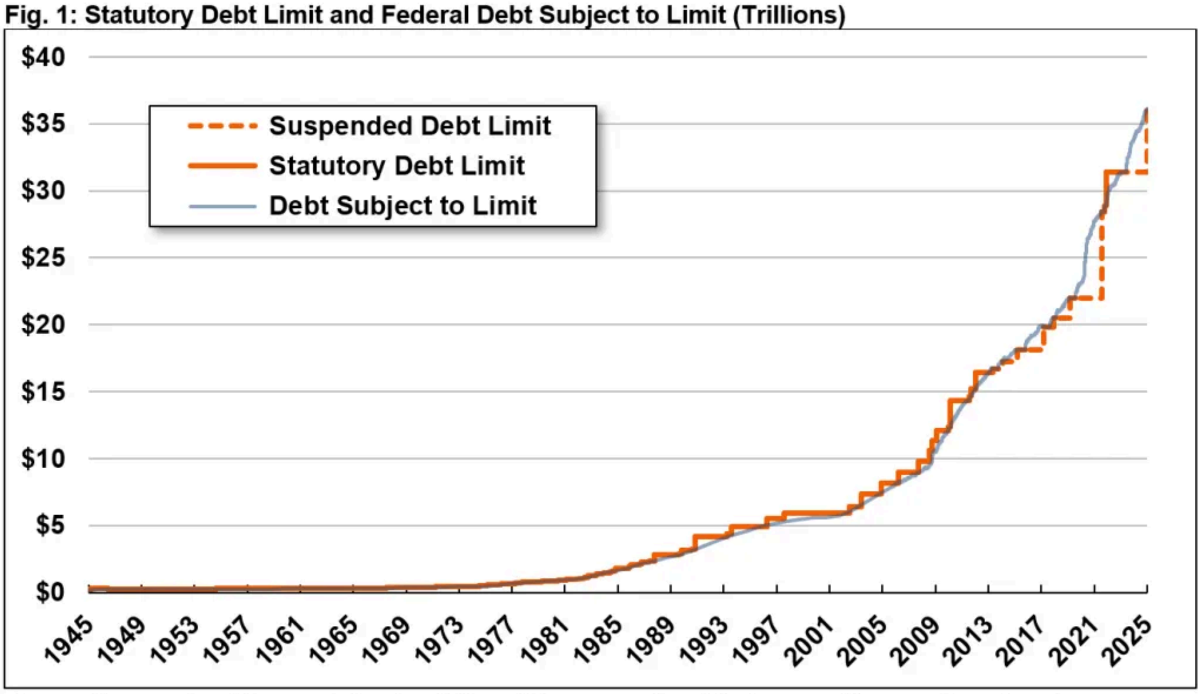
In Trump's first administration, President Donald Trump signed off on the Tax Cuts and Jobs Act in 2017, the most significant tax legislation in a generation. The intention of the bill's tax cuts would boost economic growth enough to increase government revenues and balance the budget, but many economists argued that the act would actually increase annual budget shortfalls and add another roughly $1.8 trillion to the debt over the next ten years.

U.S. Debt Ceiling

The debt ceiling is the legal limit on the total amount of federal debt the government can accrue. It is the congressionally mandated limit on how much the Treasury Department can borrow, including to pay debts the United States already owes. The limit applies to almost all federal debt, including the roughly $28.8 trillion of debt held by the public and the roughly $7.3 trillion the government owes itself as a result of borrowing from various government accounts, like the Social Security and Medicare trust funds. As a result, the debt continues to rise due to both annual budget deficits financed by borrowing from the public and from trust fund surpluses, which are invested in Treasury bills with the promise to be repaid later with interest.

Since the end of World War II, Congress and the President have modified the debt ceiling more than 100 times. During the 1980s, the debt ceiling was increased from less than $1 trillion to nearly $3 trillion. Over the course of the 1990s, it was doubled to nearly $6 trillion, and in the 2000s it was again doubled to over $12 trillion. The Budget Control Act of 2011 automatically raised the debt ceiling by $900 billion and gave the President authority to increase the limit by an additional $1.2 trillion (for a total of $2.1 trillion) to $16.39 trillion.

Fig. 1: Statutory Debt Limit and Federal Debt Subject to Limit (Trillions)



Source: Congressional Research Service, Office of Management and Budget, and Treasury Department.

Statutory Debt Limit and Federal Debt Subject to Limit. Retrieved from the Committee for a Responsible Federal Budget.

Key Stakeholders

Republican Senators

Stakeholder	Summary of Stance
Mitch McConnell (R-KY)	Senator McConnell historically supports raising the debt ceiling to avoid economic chaos, but uses it as leverage to demand spending cuts or fiscal reforms. As a previous Majority Leader, McConnell controlled strategy in debt ceiling negotiations, making him a key stakeholder in any bipartisan deal or obstruction. His decisions shape market confidence—if he blocks a deal, it risks default, but if he compromises, he faces backlash from the GOP's right flank.
Susan Collins (R-ME)	A key centrist, Collins often brokers bipartisan deals, making her critical to breaking filibusters or passing last-minute compromises. She supports raising the debt ceiling but pushes for fiscal responsibility, often advocating for budget caps or deficit-reduction measures.
Ron Johnson (R-WI)	Johnson is a vocal critic of deficit spending, Johnson represents the GOP's populist wing, which opposes "clean" debt ceiling hikes. He demands major spending cuts, often targeting entitlements or social programs, and has floated reforms like automatic spending cuts if the ceiling is breached.

Democratic Senators

Chuck Schumer (D-NY)	Schumer prefers a clean debt ceiling hike but has

	used reconciliation (as in 2021) to bypass GOP opposition when necessary. Schumer controls the Senate agenda and aims to negotiate for policies that balances progressive demands and the need for GOP votes to avoid default.
Elizabeth Warren (D-MA)	Warren argues the debt ceiling is a "political weapon" and pushes for bold solutions. A leader of the progressive wing, Warren mobilizes pressure to reject GOP demands and advocates for abolishing the debt ceiling. Her stance hardens Democratic opposition to GOP cuts, raising the stakes for intra-party unity and potential economic fallout.
Joe Manchin (D-WV)	Manchin is a critical swing vote in the Senate, known for his fiscally conservative stance and willingness to break with his party. Manchin's influence stems from his ability to sway both Democratic leadership and Republican colleagues—if he opposes a partisan approach, Democrats may be forced to negotiate with Republicans, altering the balance of power in talks.

Key Clashes

Cuts on Federal Spending vs Raising the Debt Ceiling

Continually raising the debt ceiling enables unchecked government spending, leading to long-term fiscal irresponsibility and higher national debt. Hence, it may be more beneficial for the government to reduce cuts on Federal Spending, as it reduces the potential harms of exponentially increasing debt. Cuts could come from mandatory outlays, discretionary outlays, and supplemental appropriations.

Elimination of some programs might cause inconveniences to households and businesses, but deep cuts to programs that are critical for economic functioning, financial market stability, and social well-being might be highly disruptive and materially weigh on the US economy over the next few years. In particular, democratic senators may also want concessions to align with a debt ceiling increase and spending cuts, which might include giving up some spending items in exchange for increasing others or demanding more revenues.

Moreover, discretionary outlays are an easy target for spending cuts because they encompass hundreds of programs that may not be essential for basic government functioning, economic activity, or social well-being. Currently the federal government spends roughly US$848 billion on discretionary defense outlays and US$948 billion on discretionary non defense outlays. Discretionary non defense outlays are potentially low-hanging fruit for cuts due to the fact that many projects may benefit only a small part of the US population. However, many of these programs and outlays are critical for economic functioning, financial market stability, and social well-being, including funding for air traffic control, homeland security, financial market regulation, disease control, and food for children. On the other hand, Discretionary defense outlays may be in focus by cutting the number of combat troops, reducing military involvement and defence mechanisms to allies, some military personnel with civilian employees and capping basic pay increases for military service members. The Congressional Budget Office has also proposed options for retiring some of the Air Force's fighter forces, canceling the Army's Future Long-Range Assault Aircraft and the DoD's Long-Range Stand Off Weapon, and ceasing to build the Navy's FordClass Aircraft Carriers. In the 2008 Financial Crisis, the U.S. government increased spending significantly through stimulus packages to support economic recovery, accepting higher deficits.

Past Actions

The 1985 Gramm-Rudman-Hollings Act

The Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985 implemented measures to reduce the federal budget deficit. Importantly, it created guidelines of where the deficits should be reduced and required automatic spending cuts, named "sequestrations", to be implemented when such a target had not been met. In the beginning, it saw great success. In the following years, its effectiveness decreased as the law was often swerved in order to avoid such cuts, as legislators aimed to minimize the negative effects from its harsh and indiscriminate fashion.

In 1990, the Budget Enforcement Act became its override, which formed a new system called PAYGO (Pay As You Go). This worked to ensure that any new spending or tax cuts would be balanced by equal reductions elsewhere in the governmental budget. Both Acts have been incredibly influential in the US' debt ceiling, creating financial measures that are still used presently.

The 2011 Budget Control Act (BCA)

During the 2011 debt ceiling crisis, a two-month period reaching its peak contention after the debt ceiling was reached on May 16th that year, the U.S. Treasury was led to announce that the government's borrowing authority would be depleted. The solution formed by Congress was The Budget Control Act (BCA), raising the debt ceiling by $2.1 trillion whilst limiting discretionary spending for the following decade. These limits were to minimize the federal deficit by $917 billion, with an additional $1.2-1.5 trillion in cuts planned by a bipartisan "supercommittee." However, the group failed to reach a consensus leading to the imposition of sequestrations in 2013. Consequently, US defence spending faced significant cuts, meaning military programs and personnel had rapidly reduced resources and national security was under scrutiny.

In fact, the damage led to new agreements aimed at softening its immediate effects, such as the Bipartisan Budget Act of 2013. The important takeaway is that whilst the BCA prevented a default and helped the financial market at the dire time, the sequestrations have been seen as unnecessarily harsh, suggesting that constant political and fiscal values clashing in the Senate make it difficult for bipartisan agreements to create sustainable benefits.

The 2023 Fiscal Responsibility Act

As a response to the 2023 debt ceiling crisis, where The US Treasury Department reached its debt ceiling of $31.4 trillion in January 2023, The Fiscal Responsibility Act was signed. Prior president Joseph Biden's administration met with Republican representatives to decide on a momentary suspension of the debt ceiling until January 1, 2025.

The act itself included discretionary spending caps for fiscal year 2024 at $886 billion for defense and $704 billion for non-defense, with increases planned for 2025. Given its time period, it reused unspent COVID-19 relief funds whilst introducing stricter work requirements for federal programs like Medicaid. These measures were estimated to reduce the federal deficit by about $1.5 trillion over the next decade. The act's goals were to avoid the growing fiscal crisis driven by discretionary spending, limit growth to inflation after 2025, and clampdown on national debt accumulation. While helpful in addressing immediate concerns, the FRA is merely temporary. Thus, the need to reassess fiscal policy, political and party-based decisions, and debt management as the caps are reinstated in late 2025, stay relevant.

Potential Solutions

Bipartisan Agreements

One of the most favorable solutions is for senators from both parties to raise the debt ceiling by agreeing to moderate spending reforms and/or budget caps, with the compromise serving as a standalone bill or an accompaniment to larger budget plans. Democrats might accept limits on discretionary spending or targeted cuts to a certain degree, while Republicans must agree to raise the ceiling without considerable cuts to Social Security or essential public services. Interlinked with this movement in reform would be revenue-raising measures, such as closing tax loopholes, increasing taxes on high earners, or introducing targeted levies on luxury or selected goods. A primary concern is whether these measures can offset spending cuts without harming government services. Whilst they should be supported by both parties for this solution to be wholly successful, it does align heavily with Republican fiscal policies. With past occurrences of the 2011 Budget Control Act and the 2013 bipartisan agreement in mind, such deals and similar solutions may prevent defaults and stabilize markets, especially for more neutral, peacekeeping, or politically co-operative senators. However, this may be met with dissatisfaction and deep disagreement from head-strong party members.

Mechanism Reform

An arguably more drastic solution would be to change how the debt ceiling is managed in reducing or softening crises. One option would be to abolish the debt ceiling in its entirety, allowing the government to borrow as needed or seen fit, without prior limitations, to meet obligations authorized by Congress. Advocates will likely argue that it will prevent exploitation of the ceiling for political leverage but will subsequently face strong opposition, particularly from the Republican party. Alternatively, the debt limit could be tied to responsive economic indicators like GDP growth or debt-to-GDP ratios, reflecting the overall health of the economy rather than the aggregation of conflicting political views within the Senate. Another option is shifting authority to raise the ceiling from Congress to the Treasury Department, with fitting oversight, to remove constant political deadlock. Yet, recent measures like the Fiscal Responsibility Act of 2023, which temporarily suspended the ceiling, show that while such actions avert immediate defaults and last-minute crises, they often do not resolve underlying fiscal challenges or the problem in its totality.

Sequestration Reviews, and Crisis Prevention

A supplementary solution could lie in reassessing current sequestrations, in order to minimize extensive cuts that have historically harmed national security and established programs. Delegates may advocate for replacing modern sequestrations with newly defined and specified spending reductions that prioritize certain sectors, likely those that profit greatly or are imperative such as national defense, healthcare, education and infrastructure, while still attaining to deficit goals. When evaluating the placement of cuts, there could be an underlying level of flexibility for emergencies or unforeseen economic downturns through escape clauses in spending caps. Similarly, adjustment processes tied to economic indicators, mentioned in earlier solutions, could be implemented. They would act to automatically raise or suspend the debt ceiling when fiscal thresholds are met, reducing political brinkmanship and market uncertainty.

Guiding Questions

1. What have been the major historical instances of debt ceiling crises in the U.S., and how were they resolved?

2. What were the economic consequences of the past debt ceiling standoffs (e.g., market reactions, credit downgrades)?
3. What are the key political divisions in the Senate with your delegation regarding raising the debt ceiling or budget negotiations?
4. What immediate economic risks (e.g., default, market instability) arise if the debt ceiling is not raised for your delegation?
5. How could a government shutdown (due to failed appropriations) affect economic stability, federal workers, and public services?
6. How do different political factions (Democrats, Republicans, Independents) propose to address long-term debt sustainability while ensuring economic stability?
7. What concessions might you offer to moderate Republicans to secure bipartisan support, and what red lines must your delegation hold (e.g., no cuts to social spending)?
8. What specific spending reforms or budget cuts will your party demand in exchange for supporting a debt ceiling increase?
9. What budgetary trade-offs (e.g., defense vs. domestic spending) are most viable to include in a compromise bill?
10. How does your delegation balance pressure from your party delegation's leadership with demands from your constituents (e.g., defense contractors, seniors reliant on entitlements)?
11. What specific spending cuts or balanced budget amendments would your delegation demand to support a debt ceiling increase?

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Glossary

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Potential Solutions

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Further Reading

You may find the following sources to be helpful whilst conducting your research.

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