Amid the political maneuvering over the federal debt ceiling, Aug. 2 has become a day of reckoning for a government running on an ever-growing pile of IOUs.

The Treasury Department estimates the United States will hit its borrowing limit of $14.3 trillion in five weeks. Bill Bosshardt, an economics professor at Florida Atlantic University, says the debt ceiling is an artificial limit, which makes the Aug. 2 deadline a self-imposed one.

“It’s an arbitrary number that was set by Congress,” Bosshardt said. “Lifting it won’t really change the situation, but both sides are using it as a political football.”

Republicans say they won’t vote to increase the nation’s borrowing without an agreement to cut spending. President Obama has warned that if Congress does not raise the debt ceiling, it could mean the first U.S. financial default in history and send economic shock waves around the world.

Although the debt ceiling is arbitrary, the cost of not raising it would be steep. Economists and market experts say that if the U.S. fails to raise the ceiling and defaults on its debt Aug. 2, stocks would crash and U.S. borrowing costs would soar.

Without the Aug. 2 deadline, the U.S. could maintain its free-spending ways without risking immediate financial calamity, Bosshardt said.

“The most sane thing would be to raise the debt ceiling and to keep negotiating,” he said. “If you don’t lift this arbitrary ceiling and you wind up defaulting on the debt, that makes things a lot worse.”

Obama on Monday plunged into deadlocked negotiations. The White House expressed confidence that it could reach a “significant” deal with Republicans, but both sides only seemed to harden their positions as the day wore on. Obama insists on some higher taxes as part of the package, but Republican leaders flatly refuse to consider that.

Obama and Vice President Joe Biden met with Senate Majority Leader Harry Reid, D-Nev., for about 30 minutes at the White House, a session that set the stage for an evening meeting of Obama, Biden and Senate Minority Leader Mitch McConnell, R-Ky.

The president wants a deficit-reduction plan that includes both spending cuts and increased tax revenue, an approach that Republicans say Congress wouldn’t approve.

McConnell said any tax increase or new spending would slow the economic recovery. He noted that Democrats failed to pass tax increases on the wealthy when they controlled both chambers of Congress last year.
“Let’s move past tax hikes, talk about what’s actually possible, and let’s talk about what has and hasn’t worked over the past two years,” McConnell said.

Obama is pushing for some tax increases on the wealthy or the elimination of tax breaks for big companies and wealthy individuals as part of a broader plan. During bipartisan negotiations led by Biden, Democrats proposed about $400 billion in additional tax revenue, including ending subsidies to oil and gas companies, an idea that has failed in the Senate.

The administration also would tax private equity or hedge fund managers at higher income tax rates instead of lower capital gains rates, change the depreciation formula on corporate jets and limit itemized deductions for rich taxpayers. It also has called for repealing a tax benefit for an inventory accounting practice used by many manufacturers.

Bosshardt said Republicans and Democrats need to agree to a combination of higher taxes and less spending.

“It’s not the greatest time to raise taxes, but it’s not the greatest time to cut spending,” the FAU professor said. “Both of them slow the economy down.”

Investors, meanwhile, would be wise to ignore the debate over the debt ceiling, at least for now, said Steve Pomeranz, a Boca Raton financial planner and host of the radio program On the Money.

“This is all a bunch of noise,” Pomeranz said. “Investors should do nothing.”

*The Associated Press contributed to this story.*