PUBLIC DEBT CEILING: ITS CURRENT STATUS

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ISSUE DEFINITION

Congress raised the permanent debt limit by $30 billion to $1,520 billion on May 24, 1984. This new limit is expected to be reached around June 22, 1984. New legislation to raise the debt limit will be needed before or on that date. This issue brief refers to action occurring during the 1st and 2d sessions of the 98th Congress.

BACKGROUND AND POLICY ANALYSIS

Prior to World War I, Congress took an active role in the management of the public debt by establishing the interest rates to be paid and specifying the type and often the maturity dates of Federal Government securities to be issued. However, to simplify matters as the financial structure of the economy became increasingly complex and war preparations necessitated large-scale borrowing, Congress enacted the Second Liberty Bond Act of 1917. This law consolidated unused borrowing authorities from previous acts and authorized the Treasury to issue bonds "not exceeding in the aggregate $7,538,945,460." In addition, Congress authorized the Treasury to issue certificates of indebtedness up to the amount of $4 billion at any one time.

During World War I, the Congress simply amended the Second Liberty Act whenever new debt authority was needed. Thus, the authorized debt limit increased, and the debt of the United States Government grew to $26.9 billion before the end of World War I. This amendment procedure remains in effect.

Until 1941, the Congress authorized a public debt limit with various amounts specified for bonds, bills, certificates, notes, etc. On Feb. 19, 1941, the public debt limit authority was consolidated into one total figure for all these items. This was set at $65 billion. This remains the procedure -- to place one ceiling on all securities that may be outstanding at any given time. Subsequent adjustments have increased the permanent debt limit to $400 billion. In recent years, increases were termed "temporary" since they have been authorized only for a specific period of time. A change on May 25, 1983, eliminated the temporary portion of the limit, making the whole limit permanent at $1,389 billion.

A VERY SHORT HISTORY OF THE GROWTH OF FEDERAL DEBT

The Federal Government began with a national debt of $78 million in 1789. Primarily, these were unpaid costs of waging the Revolutionary War. This debt was reduced to a low of $53 million by 1810. The War of 1812 led to an increase in the public debt. After the War, the debt was gradually reduced until it reached an all-time low of $37,500 outstanding in 1835.

The financial panic of 1837 led to an increase in the public debt of more than $10 million by 1838. Thereafter, the debt increased to $65 million by the beginning of the Civil War. As a result of the war, the United States accumulated an outstanding debt of $2,756 million by 1866. After the Civil War, the Government gradually reduced the debt through surplus revenues in most years.

By 1893, the debt was down to $961 million; it has not since then been that low. The Depression of the 1890s, which resulted in reduced Federal Government revenue, plus the demands of the War with Spain, increased our national debt to nearly $1.5 billion. This was gradually reduced to $1.2 billion by 1915. However, with our entry into World War I, Federal expenditures shot up, amounting to $26.9 billion by 1919. After World War I, there was a sustained effort by the Federal Government to reduce the national debt. The national debt was reduced each year until 1930, when it reached $16.2 billion. Since 1930, there has been a net increase in the national debt at the end of every fiscal year except 1947, 1948, 1951, 1956, and 1957. The present debt amounts to approximately $1.4 trillion, the greatest portion of which has resulted from the financial burden of World War II and the economic conditions of the late 1970's and early 1980's. The debt limit has had to be raised substantially during these periods.

The traditional arguments for and against the debt limit are reviewed briefly below. It should be noted, however, that the validity of some of these arguments has been brought into question by the implementation of the new congressional budget procedures and the consolidation of the temporary and permanent portions of the debt limit into a permanent limit only. This is discussed in the final section of the issue brief.

ARGUMENTS SUPPORTING THE LIMIT

Advocates of the limit have argued that in a climate of increasing Congressional inability or unwillingness to control annual expenditures, the debt limit acts as an important, and perhaps the only, constraint on increased spending. They point to the large portion of the annual budget that is composed of the so-called "uncontrollable" outlays. Much of the uncontrollable spending has resulted from various methods of "backdoor financing." Such techniques enabled authorizing committees to finance programs through means that circumvent the Appropriations Committees. Thus, it is argued, the Appropriations Committees could not control the overall level of Government spending.

Supporters of the public debt limit considered it a deterrent to increased Federal spending. They argued that the national debt was already dangerously high and that further increases were harmful to the country. In addition to burdening us with high interest costs (estimated at $89.0 billion in FY83), debt limit supporters suggested that deficit financing had contributed substantially to inflationary conditions. Public debt is not like private debt: If private debt is not paid, it can be ended by liquidation. But if the cost of supporting the public debt is not paid with taxes, liquidation takes the form of disastrous inflation or national repudiation.

It was also contended that, because of the size and complexity of the Federal budget, Congress did not consider the budget as a whole. Once the President's budget was submitted in January of each year, it was sorted into 13 major appropriation requests. These requests were handled individually. Under this procedure, there was little opportunity for Congress to consider total appropriations in the context of estimated revenues. It was argued that the debt limit was the only place where such consideration of the Federal Government's overall financial position took place.

The debt limit has been also considered a method for focusing public attention on Government finances, and even though there are other such methods, each is needed in light of the failure so far to control Federal spending.

THE CASE AGAINST THE PUBLIC DEBT LIMIT

Critics of the public debt limit contend that it does not effectively control expenditures, and that it hampers Treasury's ability to manage the debt by forcing the adoption of uneconomical financing procedures when the public debt is pressing hard on the debt limit. It is emphasized that when the original public debt limit of $11 billion was enacted in 1917 we had a public debt of approximately $3 billion. Now, 65 years later, we have (as of Nov. 10, 1983) a public debt of $1,377.8 billion and a public debt limit of $1,490.0 billion. A conclusion is that the debt limit has done little to control spending or prevent the debt from increasing. Opponents of a rigid public debt limit contend either that there should be no debt limit at all, or that it should be high enough to permit the Treasury to manage the debt efficiently.

Critics emphasize that the debt limit acts less as a restraint on the growth of spending than as interference with spending during the course of the year. Congress establishes tax rates, votes laws affecting revenues, and authorizes all obligations and expenditures of the Federal Government; it takes these actions with little, if any, reference to the current debt limit. Thus, the debt limit arguably does nothing to limit spending. It may even work against expenditure controls by permitting Congressmen to register their economy-mindedness through voting for a limit on the public debt, and then voting for various spending proposals. Finally, it is argued that the debt limit is no longer needed because it is redundant as a device for calling public attention to the difficulties of balancing the budget.

BUDGET REFORM AND THE PUBLIC DEBT LIMIT

The enactment of the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344) has affected the role of the public debt limit. Several of the act's provisions have modified some of the debt limit arguments discussed previously.

The Congressional Budget and Impoundment Control Act is meant to give Congress the procedures and expertise it needs to: (1) establish its own national priorities, as reflected in the budget proposals it adopts; (2) be aware of, and accept responsibility for, the macro-economic impact of the budget; and (3) control spending more effectively.

Prior to the enactment of this act, the budget totals, and the resulting surplus or deficit, simply emerged from the summation of the various spending and revenue bills passed by Congress. The fiscal policy for a given year was the by-product of the reaction of the Appropriation Committees, and, in turn, the whole Congress, to the President's proposals.

Under these circumstances, many of the arguments supporting debt limit legislation seemed reasonable. The debt limit was, in fact, the only place where the budget as a whole, and its impact, were considered. If Congress has been unable to control spending, as the supporters of debt limit legislation have claimed, then the public debt limit did indeed have a valuable function. It seemed plausible that the debt limit provided the most significant point of control over Federal spending.

However, through the new budget process, Congress at least considers and is forced to accept responsibility for the economic implications of the budget it adopts. Accepting a budget resolution includes accepting a new debt limit in theory if not in law.

The House adopted House Rule 49 in 1979 to incorporate changes in the debt limit with passage of the budget resolutions. When the House accepts a conference budget resolution, a bill setting the debt limit to the amount in the resolution is automatically created, considered to have passed the House, and sent to the Senate. The Senate then considers the House-adopted version or its own version of a debt limit bill. If the Senate passes a debt limit increase that differs from the House version, a conference to work out the differences must be called. If the conference version also differs from the House version, the House will have to vote on the conference version of the change in the debt limit.

EVENTS IN 1983

The larger than originally forecast deficits in FY83 required a change in the debt limit before its scheduled expiration on Sept. 30, 1983. The debt limit was enacted with an expected deficit of $105.7 billion; later deficit estimates were closer to $200 billion, almost 100% higher. The larger deficits raised Federal debt faster than expected, and pushed the debt close to the limit in late spring.

The delays in adopting a 1st budget resolution for FY84 (which would have initiated a bill in the House to increase the debt limit for the rest of FY83) led to separate debt limit legislation, H.R. 2990, being introduced. This bill raised the debt limit to $1,389.0 billion and consolidated the temporary and permanent limits into one permanent limit. The House adopted the bill by voice vote on May 18 and the Senate accepted it (51 to 41) on May 25. The President signed the bill into law (P.L. 98-34) on May 26, 1983. There was little of the usual acrimonious debate on the increase in either the House or the Senate. The limit was considered large enough to last through the end of FY83.

Adoption of a 1st budget resolution for FY84 (on 6/23/83) automatically created a bill (H.J.Res. 308) in the House to increase the debt limit for FY84. The legislation was sent to the Senate (the Finance Committee), which did not take action until late October 1983. The Finance Committee reported the House-passed bill on Oct. 24, 1983 (S.Rept. 98-279). On Oct. 27, the Senate began debate on the measure. Attempts were made to attach deficit reducing measures to the debt limit bill; none were successful. An amendment to lower the increase in the debt limit to $1,450.0 billion instead of $1,614.6 billion was accepted, but the entire measure was defeated on Oct. 31, 1983.

The Government had enough available cash and receipts to continue operating through mid-November and possibly into very early December. A continuing impasse in raising the debt limit past that time would have produced uncertain, but potentially disruptive, results. Almost certainly some Federal activities would no longer be fully funded. Who has the authority to decide what activities continue and which are curtailed is also unclear.

The delay in the increase disrupted and delayed the normal Treasury sales and refinancing of Federal debt. The break in normal routine increased Federal interest costs in the hundreds of of millions of dollars over several years.

As the 1st session of the 98th Congress drew to a close the Senate adopted a modified version of H.J.Res. 308, again calling for a debt limit of $1,450 billion, and other amendments, on Nov. 16, 1983. An immediate conference was called with the House. Later, on Nov. 17, the Senate adopted a modified version of the legislation in the conference report (H.Rept. 98-566) which set the debt limit at $1,490 billion and dropped the other provisions of the Senate-passed bill. The House adopted the conference report on Nov. 18, 1983, ending the imminent financing squeeze of the Federal Government. The President signed the legislation on Nov. 21, 1983 (P.L. 98-161).

EVENTS IN 1984

The Department of the Treasury informed Congress in early May 1984 that the debt ceiling would be reached on or about May 24, 1984. At that time the Federal Government would no longer be able to meet its financial obligations if the debt limit remained unchanged. The Senate Finance Committee acted first by reporting a bill (S. 2651) raising the debt limit by $262.6 billion to $1,752.6 billion on May 9, 1984. The Treasury estimated this limit would be reached around June 28, 1985. The House Ways and Means Committee followed shortly with a bill (H.R. 5665) increasing the debt limit temporarily through June 15, 1984 by $30 billion to $1,520.0 billion. This version was expected to coincide with completion of conference committee work on several pieces of budget-related legislation, including the FY85 budget resolution. (Because a conference agreement on the 1st budget resolution for FY85 was not accomplished by the time the debt limit was reached, House Rule 49 -- see above -- was not applicable. This led to the separate House and Senate debt limit bills.)

The House voted on the legislation first, May 22, 1984, rejecting a slightly amended bill that would have extended the temporary increase through June 22, 1984. The Ways and Means Committee hastily approved a second debt limit, H.R. 5692, that was identical to the one rejected on May 22. On May 24 the House adopted the bill. The Senate then adopted the bill but dropped the June 22 temporary increase provision which made the increase permanent. Later that day the House agreed to the Senate amendments. The limit is likely to be reached in mid to late June.

LEGISLATION

P.L. 98-34, H.R. 2990

Increases the debt limit to $1,389.0 billion and consolidates the temporary and permanent limits into one permanent limit. Passed House May 18, Senate May, 25, 1983. Signed into law May 26, 1983.

P.L. 98-161, H.J.Res. 308

Increases the debt limit to $1,490 billion. Signed into law Nov. 21, 1983.

H.R. 5665 (Rostenkowski)

Temporarily raises the debt limit by $30 billion through June 22, 1984. Rejected by the House on May 22, 1984 (H.Rept. 98-785).

H.R. 5692 (Rostenkowski)

Increases the permanent debt limit by $30 billion. Passed the Senate and House on May 24, 1984.

S. 2651 (Dole)

Raises the permanent debt limit by $262.6 billion. Reported by the Senate Finance Committee on May 9, 1984 (S.Rept. 98-434).

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