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Debt-Limit Legislation in the Congressional Budget Process

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The gross federal debt consists of the debt held by the public plus the debt held by government accounts. Almost all of the gross federal debt is subject to a public debt limit, as set forth in statute (31 U.S.C. 3101). With a few exceptions, the Treasury Department is able to borrow funds only as the statutory debt limit permits.

As of FY1997, 70% of the gross federal debt was held by the public. The debt held by the public represents the total net amount borrowed from the public to cover the federal government's budget deficits. By contrast, the debt held by government accounts (about 30% of the gross federal debt in FY1997) represents the total net amount of federal debt issued to specialized federal accounts, primarily trust funds (*e.g.*, Social Security). Trust fund surpluses by law must be invested in special federal government securities and thus are held in the form of federal debt.

Since the statutory limit applies to the combination of both types of debt, budget deficits or trust fund surpluses may contribute to the federal government reaching the existing debt limit. Budget deficits increase the federal debt by requiring the federal government to borrow additional funds to fulfill its commitments. Trust fund surpluses contribute to the federal debt by requiring the federal government to issue securities to the trust funds. Consequently, *the federal debt may reach the existing statutory limit even when the federal budget is balanced*.

Changing the Debt Limit

So long as federal budget policy results in an increase in the federal debt, Congress must periodically enact increases to the debt limit. Legislation to raise (or lower) the debt limit is considered in the context of the congressional budget process. The annual congressional budget resolution specifies the appropriate level of the public debt for each fiscal year covered by the resolution. While the budget resolution does not become law itself, the specified debt limits serve as a guide for any necessary debt-limit legislation.

In order to change the public debt limit, legislation must be passed by both houses of Congress and signed by the President. The House Ways and Means Committee and the Senate Finance Committee have jurisdiction over such legislation. Section 303 of the Congressional Budget Act (CBA) of 1974 (P.L. 93-344) prohibits consideration of debt limit measures for the upcoming fiscal year before a budget resolution for that year has been adopted. This provision can be waived in the House or Senate by majority vote.

The House and Senate may consider debt-limit legislation in any of three ways: (1) under regular legislative procedures; (2) as part of reconciliation legislation; or (3) under House Rule XXIII (formerly Rule XLIX, referred to as the "Gephardt rule" after its author, Representative Richard Gephardt). In some cases, debt-limit legislation has been used as a vehicle for other legislation. For example, the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), referred to as Gramm-Rudman-Hollings, was attached to legislation increasing the public debt. Since 1978, 20 of the 39 debt-limit extensions were enacted as independent measures. The remaining 19 included or were part of other legislation (see CRS Report 98-805 E, *Public Debt Limit Legislation: A Brief History and Recent Controversies).*

Because raising the debt limit has been a contentious subject in Congress over the years, the House in 1979 amended its rules to engross automatically a joint resolution increasing the debt limit once a budget resolution conference report is adopted. House Rule XXIII stipulates that a joint resolution specifying the amount of the debt limit agreed to in a budget resolution is automatically deemed to have passed by the House by the same vote as the budget resolution conference report. The Senate has no comparable procedure and may consider this joint resolution under the regular legislative process. If the Senate modifies it, then the differences must be resolved with the House-passed resolution, usually in a conference committee, before being sent to the President. This automatic enrolling process has been suspended in each year since 1995. House Rule XLIX was rendered inapplicable to a conference report on the budget resolution for FY1996 (sec. 3, H.Res. 149). Further, the budget resolution for FY1996 (H.Con.Res. 67) included a sense of the House statement (sec. 313) calling for repeal of Rule XLIX. The FY1997 and FY1998 budget resolutions also were considered under special rules that rendered Rule XLIX inapplicable (see H.Res. 435 and H.Res. 152, respectively).

The most recent increase in the debt limit was included in one of the two budget reconciliation measures enacted last year, the Balanced Budget Act of 1997 (P.L. 105-33). This was the fourth time an increase in the debt limit was embedded in reconciliation legislation since the reconciliation process was established by the 1974 CBA. Debt-limit increases also were included in the reconciliation acts of 1986, 1990, and 1993.

Although the implications of increasing the debt limit may be controversial, the content of debt limit legislation itself is straightforward. The most recent increase in the debt limit, included in the Balanced Budget Act of 1997, read as follows:

> SEC. 5701. Increase in Public Debt Limit.
>
> Subsection (b) of section 3101 of title 31, United States Code, is amended by striking the dollar amount contained therein and inserting "$5,950,000,000,000".

At the time of passage, this public debt limit was considered sufficient to meet the federal government's financial needs through mid-December 1999.

A list of changes in the debt limit since 1940 can be found in the Historical Tables volume of the President's budget documents (Table 7.3 in the FY2000 Historical Tables).