Order Code RL31967

CRS Report for Congress
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The Debt Limit: The Ongoing Need for Increases

Updated July 8, 2005

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Summary

Increases in total federal debt are driven by government deficits that the government finances by selling debt to the public to raise cash (which increase *debt held by the public*) to meet its obligations. In addition, the surpluses credited to (and the accounting for) debt-holding federal accounts are converted to Treasury debt, mostly for federal trust funds such as Social Security, Medicare, Transportation, and Civil Service (which increase *debt held by government accounts*).

Surpluses generally reduce debt held by the public. The government's surpluses over the four fiscal years 1998-2001 reduced debt held by the public by $448 billion. The surpluses credited to debt-holding government accounts (which generally must invest the surpluses in federal debt), increased their holdings by $853 billion over the same period. The combination ($853 billion minus $448 billion) raised total federal debt by $405 billion. During 2002, debt subject to limit increased enough to reach the then current statutory debt limit, $5.95 trillion, twice. Legislation (P.L. 108-24) increasing the limit to $6.4 trillion became law in June 2002.

In December 2002, the Administration asked Congress for another increase in the debt limit. As the limit was approached in February 2003, the Treasury resorted to accounting measures at its disposal to avoid exceeding the limit. The adoption of the conference report on the FY2004 budget resolution by Congress, in early April 2003, triggered legislation in the House increasing the debt limit by $984 billion, which was deemed passed by the House and sent to the Senate. After further deliberations, the Senate passed the increase, which the President signed on May 27, 2003. The new limit, $7.4 trillion, was expected to provide sufficient borrowing authority for the Treasury into the summer or fall of 2004.

By the spring of 2004, the Treasury began asking for an increase in the debt limit. Congress did not act to raise the debt limit before recessing in mid-October 2004. With no debt limit increase, the Secretary of the Treasury notified Congress in mid-October that he was taking allowed actions to avoid exceeding the debt limit. He also stated that these actions would suffice only through mid-November, when the Treasury would exhaust its ability to finance all federal activities. In an after-election session, Congress passed and the President signed legislation raising the debt limit by $800 billion. The new limit, $8.184 trillion, was expected to be reached between August and December 2005.

In 2005, Congress included instructions in the FY2006 budget resolution (H.Con.Res. 95) to the House Committee on Ways and Means to report a reconciliation bill to raise the public debt limit to $8.965 trillion by September 30, 2005. In addition, the passage of the conference report on the budget resolution automatically triggered a joint resolution (H.J.Res. 47) deemed passed by the House (and sent to the Senate) that raises the debt limit to the level included in the budget resolution (8.965 trillion).

This report will be updated as events warrant.

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The statutory debt limit applies to almost all federal debt.[1] It applies to federal debt held by the public, that is debt held outside the federal government itself, and to federal debt held by the government's own accounts, with most of the internal debt held by federal trust funds such as Social Security, Medicare, Transportation, and Civil Service Retirement. The government's surpluses or deficits determine (almost exclusively) the change in debt held by the public.[2] Debt held in government accounts, on the other hand, is unaffected by the government's overall budget balance. The increases or decreases in debt held by government accounts are the product of government accounting practices and the reported surpluses (or deficits) of the accounts holding the debt.

Nearing or reaching the debt limit interferes with the Treasury's regular methods of financing federal activities or meeting government obligations. The government's income and outlays vary over the course of the year, producing monthly surpluses and deficits that affect the level of debt, whether or not the government has a surplus or deficit for the entire year. The government accounts holding federal debt also can experience monthly deficits and surpluses, even if most of them show annual surpluses. If the Treasury cannot issue new debt (the effect of reaching the limit), the government may be unable to obtain the cash needed to pay its bills (under a short-term cash flow problem or from an annual deficit) or it may be unable to invest the surpluses of designated government accounts (the federal trust funds) in federal debt as generally required by law. In either case, the Treasury is in a bind; it is required by law to continue meeting the government's legal obligations, but the debt limit may prevent it from issuing the debt that would allow it to do so.

During the four years of government surpluses, FY1998 through FY2001, the federal debt held by the government's own accounts grew by $855 billion and continues to grow; debt held by the public fell by $450 billion over the same period, but has been growing rapidly since FY2001 because of the persistent, large budget deficits (see **Table 1**). The changes in the components of debt as percentages of gross domestic product (GDP) are shown graphically in **Figure 1**. The estimates for future years are from CBO's March 2005 budget report ([http://www.cbo.gov/showdoc.cfm?index=6146&sequence=0]) analyzing the

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[1] Less than 0.5% of total the debt is excluded from debt limit coverage. On May 31, 2005, total debt was $7,778,007 million; debt subject to limit was $7,717,574 million or 99.2% of total debt.

[2] Other means of financing, including cash balance changes, seigniorage, and capitalization of financing accounts used to fund federal credit programs, has relatively little effect on the changes in debt held by the public.

President's FY2006 budget request . The historical data for fiscal years 1980 through 2004 are from OMB.[3] The CBO estimates of the President's FY2006 budget policies are one possible measure of extending current policy into the future. Changes to the assumed policies, such addressing the expanding coverage of the Alternative Minimum Tax or continued high costs for the military operations in Iraq and Afghanistan, will change future measures of debt from those shown in **Figure 1**.

Table 1. Components of Debt Subject to Limit, FY1996-May 2005
(in billions of dollars)

End of Fiscal Year (or period)	Debt Limit	Debt Subject to Limit		
		Total	Held by Government Accounts	Held by the Public
1996	$5,500.0	$5,137.2	$1,432.4	$3,704.8
1997	5,950.0	5,327.6	1,581.9	3,745.8
1998	5,950.0	5,439.4	1,742.1	3,697.4
1999	5,950.0	5,567.7	1,958.2	3,609.5
2000	5,950.0	5,591.6	2,203.9	3,387.7
2001	5,950.0	5,732.8	2,436.5	3,296.3
2002	6,400.0	6,161.4	2,644.2	3,517.2
2003	7,384.0	6,737.6	2,846.7	3,890.8
2004	7,384.0	7,333.4	3,056.6	4,276.8
May 31, 2005	8,184.0	7,717.6	3,207.2	4,510.3
Change During the Period of Surplus, FY1998 — FY2001		405.2	854.6	-449.5
Change Since FY2001 (through May 2005)		1,984.8	770.7	1,214.0

Source: U.S. Department of the Treasury, Financial Management Service, *Treasury Bulletin*, June 2001 and March 2002. Bureau of the Public Debt, *Monthly Statement of Public Debt*, September 2003 and May 2005. CRS calculations.

Note: For the fiscal years 1996 through 2000, the amounts held by government accounts and held by the public are approximations. The Treasury began producing the split into holders of debt subject to limit in its publications in 2001. The numbers in the table showing this split for 1996 through 2000 were calculated by subtracting Federal Financing Bank debt (an arm of the Treasury; its debt is not subject to limit) from total debt held by government accounts to approximate the amount of that debt subject to limit (a second subtraction, for unamortized discount, is unavailable, leaving the approximate amount too large by billions of dollars). This adjusted amount was then subtracted from total debt subject to limit to produce an approximate measure of debt held by the public subject to limit. Because the amount held by government accounts is too large, the resulting measure of debt held by the public subject to limit is too small. Nevertheless, the approximations provide adequate information to reveal the pattern of change in the two categories over the time shown in the table.

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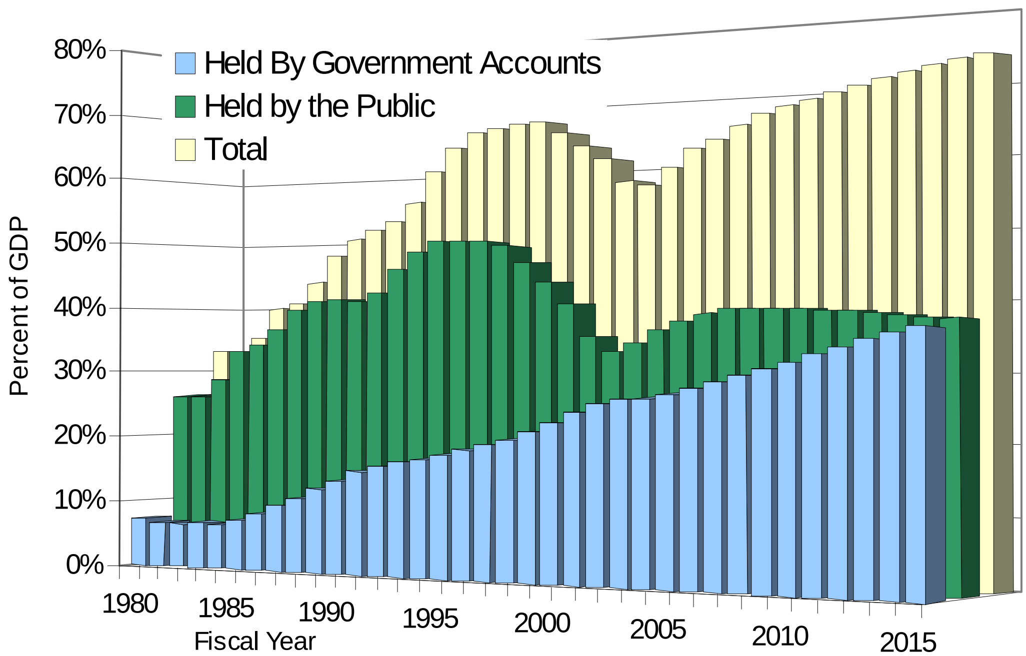
[3] CBO. *An Analysis of the President's Policy Proposals for Fiscal Year 2006*, March 2005; OMB, *Historical Tables, Budget of the U.S. Government for FY2006*, Feb. 2005.

Figure 1. Components of Federal Debt (as percent of GDP)



Data for FY2005 through FY2015 are estimated. Source: CBO, *The Budget and Economic Outlook: Fiscal Years 2006 to 2015*, Jan. 2005 and OMB, *Budget of the United States for FY2006, Historical Tables,* Feb. 2005.

Figure 1 shows the components of federal debt as shares of gross domestic product (GDP) beginning with fiscal year 1980 and running through (estimated levels) fiscal year 2005 to fiscal year 2015.[4] Federal debt held by government accounts has grown steadily since 1980, mostly because of the changes in the financing of Social Security that were adopted in 1983. Debt held by the public (which changes in response to total surpluses or deficits) grew as a share of GDP through the mid-1990s. With smaller deficits and then surpluses in the late 1990s and through FY2001, along with rapid growth in GDP, debt held by the public fell as a percentage of GDP. The return of large deficits and slower GDP growth in the early 2000s again increased debt held by the public as a share of GDP. For the years beginning with fiscal year 2005, the data are based on CBO's estimates of the President's FY2006 budget proposals. Under these policies, the deficit would decline and stabilize, slowing the growth in debt held by the public below the rate of GDP growth. This produces the slow fall in debt held by the public after FY2007. As indicated above, estimated alternative policy paths may produce larger or smaller

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[4] The data show the components of debt compared to the size of the economy, which avoids possible confusion resulting from changing price levels over time. If debt grows faster than GDP grows, its percentage increases; if it grows more slowly than GDP grows, its percentage decreases.

deficit numbers than in the estimates shown.[5] The combination of continuing growth in debt held in government accounts and the return of deficits (raising or holding stable debt held by the public as a share of GDP) produces the constant growth in total federal debt after FY2001.

The Situation in 2002

The ongoing increases in debt held by government accounts produced most of pressure on the debt limit early in 2002. The re-emergence of deficits in FY2002, which led to increases in debt held by the public, added to the pressure on the debt limit later in the first six months of 2002.[6] During the four fiscal years with surpluses (FY1998-FY2001), the increases in federally held debt and decreases in debt held by the public produced a net increase of $405 billion in total debt subject to limit. At the beginning of FY2002 (October 1, 2001), debt subject to limit was within $217 billion of the then $5.95 trillion debt limit.[7] Between then and the end of May 2002, debt subject to limit increased by another $217 billion, divided between a $117 billion increase in debt held by government accounts and a $100 billion increase in debt held by the public, putting the debt very close to the $5.95 trillion limit. **Table 2** shows debt by month for FY2002 (and through May 2005) and the month-to-month changes.

In the fall of 2001, the Administration recognized that the deterioration in the budget outlook and continued growth in debt held by government accounts was likely to lead to the debt limit being reached sooner rather than later. In early December 2001, it asked Congress to raise the debt limit by $750 billion to $6.7 trillion. As the debt moved closer to and reached the debt limit over the first six months of FY2002, the Administration repeatedly requested that Congress adopt an increase in the debt limit and warned Congress of the adverse financial consequences of not raising the limit.

On April 4, 2002, the Treasury, to avoid exceeding the limit, used authority provided through existing legislation to suspend reinvestment of government securities in the G-Fund of the federal employees' Thrift Savings Plan (TSP). he Treasury exchanged between $5 billion and $35 billion in federal securities for the same amount of credit balances. This action lowered the amount of existing debt subject to limit and allowed the Treasury to issue new debt and meet the

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[5] By FY2020, the debt held in government accounts, particularly Social Security, will no longer be growing, according to projections. At some point after that, without policy changes, the government will need to increase its borrowing from the public to cover its obligations to Social Security. This will raise debt held by the public as a share of GDP.

[6] Until 2001, government publications did not divide debt subject to limit into the portions held by the public and held by government accounts. This discussion and Table 1 use CRS calculated amounts that approximate the amounts of debt subject to limit held in these two categories for fiscal years prior to 2001.

[7] The previous increase in the debt limit was on August 5, 1997, as part of the Balanced Budget Act of 1997 (P.L. 105-33). The limit was then raised from $5.5 trillion to $5.95 trillion.

government's obligations. On April 16, after the influx of April 15 tax revenues, the Treasury "made whole" the G-Fund by restoring all of the debt that had not been issued to the TSP over this period and crediting the fund with interest it would have earned on that debt.[8] (As the Treasury awaited the influx of tax payments due on April 15, the debt subject to limit stood at $5,949,975 million, less than $25 million below the limit.) By the end of April, debt-subject-to-limit had fallen $35 billion below the limit. The Treasury continued to issue debt during May, ending the month with debt subject to limit $15 million below the statutory limit (see **Table 2**).

Resolving the Debt Limit Issue in 2002

By mid-May 2002, federal debt subject to limit effectively reached the statutory limit of $5,950 billion. The previous brush with the debt limit took place from early to mid-April. That earlier episode was short-term and resolved itself with the large tax payments received on and after April 15. When the debt limit was again reached in mid-May 2002, the Treasury, for the second time in 2002, used its available statutory authority to temporarily avoid a default on the government's obligations.

The situation that began in mid-May was more serious than the earlier episode. It required the Treasury to resort to the financing actions used earlier and, if it had lasted long enough, possibly could have led to additional actions that had not yet been used. The situation could not be relieved without an increase in the debt limit. On May 14, the Treasury issued another request to Congress to raise the debt limit or produce some other statutory change that would allow the Treasury to issue new debt. The Treasury, in a news release, stated that, "absent extraordinary actions, the government will exceed the statutory debt ceiling no later than May 16."[9] The release went on to state that

> a "debt issuance suspension period" will begin no later than May 16 [2002] .... [This] allows the Treasury to suspend or redeem investments in two trust funds, which will provide flexibility to fund the operations of the government during this period.[10]

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[8] For a short discussion of the Treasury's previous uses of its short-term ability to avoid breaching the debt limit, see CRS Report 98-805, *Public Debt Limit Legislation: A Brief History and Controversies in the 1980s and 1990s*, by Philip Winters; for a comprehensive report see U.S. General Accounting Office, *Debt Ceiling: Analysis of Actions During the 1995-1996 Crisis*, GAO/AIMD-96-130, Aug. 1996.

[9] U.S. Department of the Treasury, Treasury News, *Treasury Statement on the Debt Ceiling*, May 14, 2002.

[10] Ibid.

Table 2. Components of Debt Subject to Limit by Month, FY2002-May 2005

(in millions of dollars)

End of Month	Total	Change from Previous Period	Held by Government Accounts	Change from Previous Period	Held by the Public	Change from Previous Period
Sept. 2001	$5,732,802		$2,436,521		$3,296,281	
Oct. 2001	5,744,523	$11,721	2,451,815	$15,294	3,292,709	$-3,572
Nov. 2001	5,816,823	72,300	2,469,647	17,832	3,347,176	54,467
Dec. 2001	5,871,413	54,590	2,516,012	46,365	3,355,401	8,225
Jan. 2002	5,865,892	-5,521	2,525,755	9,743	3,340,138	-15,263
Feb. 2002	5,933,154	67,262	2,528,494	2,739	3,404,659	64,521
March 2002	5,935,108	1,954	2,528,318	-176	3,406,789	2,130
April 2002	5,914,816	-20,292	2,549,438	21,120	3,365,378	-41,411
May 2002	5,949,975	35,159	2,553,350	3,912	3,396,625	31,247
June 2002	6,058,313	108,338	2,630,646	77,296	3,427,667	31,042
July 2002	6,092,050	33,737	2,627,980	-2,666	3,464,070	36,403
Aug. 2002	6,142,835	50,785	2,620,946	-7,034	3,521,890	57,820
Sept. 2002	6,161,431	18,596	2,644,244	23,298	3,517,187	-4,703
Oct. 2002	6,231,284	69,853	2,680,812	36,568	3,550,472	33,285
Nov. 2002	6,294,480	63,196	2,680,788	-24	3,613,692	63,220
Dec. 2002	6,359,412	64,932	2,745,787	64,999	3,613,625	-67
Jan. 2003	6,355,812	-3,600	2,753,301	7,514	3,602,511	-11,114
Feb. 2003	6,399,975	44,163	2,750,471	-2,830	3,649,504	46,993
March 2003	6,399,975	0	2,722,812	-27,659	3,677,163	27,659
April 2003	6,399,975	0	2,731,042	8,230	3,668,933	-8,230
May 2003	6,498,658	98,683	2,755,895	24,853	3,742,763	73,830
June 2003	6,625,519	126,861	2,842,361	86,466	3,783,158	40,395
July 2003	6,704,814	79,295	2,835,566	-6,795	3,869,247	86,089
Aug. 2003	6,743,775	38,961	2,829,387	-6,179	3,914,388	45,141
Sept. 2003	6,737,553	-6,222	2,846,730	17,343	3,890,823	-23,565
Oct. 2003	6,826,668	89,115	2,869,493	22,763	3,957,175	66,352
Nov. 2003	6,879,626	52,958	2,879,117	9,624	4,000,509	43,334
Dec. 2003	6,952,893	73,267	2,940,736	61,619	4,012,157	11,648
Jan. 2004	6,966,851	13,958	2,951,219	10,483	4,015,633	3,476
Feb. 2004	7,049,163	82,312	2,953,123	1,904	4,096,040	80,407
March 2004	7,088,648	39,485	2,941,195	-11,928	4,147,453	51,413
April 2004	7,089,700	1,052	2,960,151	18,956	4,129,549	-17,904
May 2004	7,151,523	61,823	2,973,869	13,718	4,177,653	48,104
June 2004	7,229,320	77,797	3,039,987	66,118	4,189,334	11,681
July 2004	7,271,328	42,008	3,033,396	-6,591	4,237,933	48,599
Aug. 2004	7,305,531	34,203	3,037,149	3,753	4,268,382	30,449
Sept. 2004	7,333,350	27,819	3,056,590	19,441	4,276,760	8,378
Oct. 2004	7,383,975	50,625	3,096,207	39,617	4,287,768	11,008
Nov. 2004	7,464,740	80,765	3,087,834	-8,373	4,376,906	89,138
Dec. 2004	7,535,644	70,904	3,158,531	70,697	4,377,114	208
Jan. 2005	7,567,702	32,058	3,171,089	12,558	4,396,615	19,501
Feb. 2005	7,652,726	85,024	3,176,406	5,317	4,476,320	79,705
March 2005	7,715,503	62,777	3,175,460	-946	4,540,042	63,722
April 2005	7,704,041	-11,462	3,185,364	9,904	4,518,677	-21,365
May 2005	7,717,574	13,533	3,207,232	21,868	4,510,342	-8,335
Change, Sept 2001-May 2005		1,984,772		770,711		1,214,061

Source: U.S. Treasury, Bureau of the Public Debt, *Monthly Statement of the Public Debt*, Sept. 2001-Aug. 2004.

By reducing the amount of federal debt held by these government accounts (and replacing it with non-interest bearing, non-debt instruments), the Treasury was again able to issue debt to meet the government's obligations. The Treasury also stated that these "extraordinary" actions would suffice only, at the longest, through June 28, 2002. By that date, without an increase in the debt limit, the Treasury indicated that it would need to take other actions to avoid breaching the ceiling.[11] By the end of June and into the first days of July, with large payments and other obligations due, the Treasury stated that it would be out of all available options to issue debt and fulfill government obligations. The situation would then put the government on the verge of a default.

Congress took action over May and June 2002, that eventually led to an increase in the debt limit. The House-passed supplemental appropriations for FY2002 (H.R. 4775; May 24, 2002) included, after extended debate, language allowing any eventual House-Senate conference on the legislation to add an increase in the debt limit. The Senate did not add debt-limit-increasing language to its version of the supplemental appropriations bill, S. 2551 (incorporated as an amendment to H.R. 4775, June 3, 2002). The Senate leadership indicated a strong reluctance to include a debt limit increase in the supplemental appropriation bill. Instead, the Senate adopted a bill, S. 2578, raising the debt limit by $450 billion (to $6.4 trillion) without debate on June 11. At that time, a $450 billion increase in the debt limit was thought to provide enough borrowing authority for government operations through at least the rest of calendar year 2002 and possibly into the summer of 2003. With the warning of possible imminent default looming over it, the House passed the $450 billion increase in the debt limit (by one vote) on June 27. The President signed the bill into law on June 28 (P.L. 107-199), ending the 2002 debt limit crisis.

The Situation and Action Taken in 2003

On Christmas Eve, 2002, the Treasury sent a letter to Congress requesting an unspecified increase in the debt limit by late February 2003, indicating that the $6.4 trillion debt limit would be reached about then. The 108th Congress, just getting organized early in 2003, did not act on the near-term need to raise the limit. Through the winter and into the spring, the Treasury repeatedly requested that the debt limit be raised to avoid a serious financial problem. By February 20, 2003, the Treasury had resorted to its management of the debt holdings of certain government accounts, as it had in 2002. These actions included the replacement of internally held government debt with non-debt instruments and not issuing new debt to these accounts, which allowed the Treasury to issue additional debt to the public to acquire the cash it needed to pay for the government's commitments (or to issue new debt to other federal accounts).

[11] By June 21, 2002, the Treasury had postponed a regular auction of securities but had not announced any other actions.

Through the rest of February and into May, the Treasury held debt subject to limit $15 million below the limit.[12] The adoption of the conference report on the FY2004 budget resolution (H.Con.Res. 95; H.Rept. 108-71) on April 11, 2003, in the House triggered the "Gephardt rule" (House Rule XXVII) that deems passed legislation (H.J.Res. 51) raising the debt limit by enough — $984 billion — to meet the financing needs for the policies contained in the budget resolution.[13]

The Senate received the debt-limit legislation on the same day, but did not consider the legislation until May 23, after receiving further warnings of imminent default from the Treasury. After rejecting eight proposed amendments, the Senate adopted the legislation unchanged, sending it on to the President. The President signed the legislation on May 27, raising the debt limit to $7.384 trillion (P.L. 108-24). On the day the Senate cleared the increase in the debt limit, debt subject to limit was $25 million (or 0.4%) below the $6.4 trillion limit.

The Situation in 2004

In its January 2004 report, *The Budget and Economic Outlook: Fiscal Years 2005 to 2014*, CBO estimated that the then current debt limit, $7.384 trillion, would be reached sometime between July and September of 2004. By the spring of 2004, the Treasury was asking Congress to raise the debt limit to avoid the disruptions in government financing that have occurred in recent years. In August and again in September, the Treasury indicated that the debt limit would be reached in early to mid-October. On October 14, debt subject to limit reached $7,383.975 billion, $25 million below the existing limit. The Treasury, using the same methods employed in the past to avoid exceeding the debt limit and held the debt subject to limit at that same level. The Secretary of the Treasury informed Congress on October 14, before the break for the election, that the accounting actions he began taking on that day to avoid exceeding the debt limit, would be exhausted by mid-November. Without an increase in the debt limit, the Treasury would be unable to meet all of the government's existing obligations, and the government could find itself in default.[14]

The conference report on the FY2005 budget resolution (H.Rept. 108-498; S.Con.Res. 95: May 19, 2004) included, for the House, a debt limit increase to $8.074 trillion. If the resolution had cleared Congress, the debt limit increase would have been deemed passed, under the Gephardt rule, in the House. The House adopted the conference agreement on May 19, 2004. The Senate did not consider the

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[12] The Treasury reduced the amount of debt held by selected federal accounts while it sold an equal (or smaller) amount of debt to the public. This raised cash needed to pay for ongoing obligations and kept the debt below the limit.

[13] See CRS Report 98-453, *Debt-Limit Legislation in the Congressional Budget Process*, by Bill Heniff Jr., and CRS Report RL31913, *Developing Debt-Limit Legislation: The House's 'Gephardt Rule'*, by Bill Heniff Jr.

[14] Although not all the possible consequences of a government default are know, it would mean that the government could no longer meet all of its legal obligations. A slow resolution of a default situation would have negative repercussions on both domestic and international financial markets and economies.

resolution. Without any active legislation to raise the debt limit in October 2004 and with the debt essentially at the limit, Congress was expected to consider raising the debt limit, either through separate legislation or as an amendment to expected omnibus appropriations legislation, when it returned for its post-election session.

Earlier, in September 2004, the House adopted an amendment to the FY2005 Transportation-Treasury appropriations (H.R. 5025) to prevent the Secretary of the Treasury from taking the debt limit delaying actions (through accounting procedures) that had been and were currently being used. If these or similar restrictions on the Treasury's actions had become law, the Treasury would have no means of delaying the financial effects of reaching the debt limit. The government quickly would be in peril of defaulting on its existing obligations. The House passed the legislation, with the amendment, on September 23, 2004. The Senate did not taken action on its version of the appropriation (S. 2806).

Senator Frist introduced legislation (S. 2986) on November 16, 2004 to raise the debt by $800 billion, from $7,384 billion to $8,184 billion. The Senate approved the increase the evening of November 17, 2004. The House considered and approved the increase on November 18. The President signed the legislation into law (P.L.108-415) on November 19, 2004. Estimates made at that time anticipated the new limit would be reached between August and December 2005.

Also on November 16, as the Treasury's options were dwindling to meet the government's ongoing obligations, the Secretary of the Treasury sent a letter to Congress informing them that the Treasury was invoking a "debt issuance suspension period" as allowed by law.[15] The passage of the debt limit increase legislation three days later ended the need for the suspension period.

The Treasury delayed an auction of debt instruments in mid-November to avoid exceeding the debt limit. The passage of the debt limit increase allowed the Treasury to reschedule the auctions.

The Situation in 2005

On May 31, 2005, debt subject to limit was $7,718 billion, $467 billion below the existing $8,814 billion debt limit. Congress, recognizing the likelihood that it would need to raise the debt limit in the not-too-distant future, included reconciliation instructions in the FY2006 budget resolution (H.Con.Res. 95) for the House Committee on Ways and Means to do just that. The instructions directed the

[15] A debt issuance suspension period allows the Treasury to suspend new investment (in Treasury securities) in the Civil Service Retirement and Disability Fund (CSRDF) or to reduce the fund's holding of Treasury debt by limited amounts. The beneficiaries of this fund are held harmless. Once normal financing is restored, the fund is made whole, receiving the securities and interest it would have accumulated during the debt issuance suspension period. The suspension period allows the Treasury to sell additional securities to the public or to invest amounts credited to other trust funds without exceeding the debt limit.

committee to report a bill raising the debt limit by $781 billion (to $8.965 trillion) no later than September 30, 2005.

The adoption of the conference report on the budget resolution also triggered House Rule XXVII, which automatically produced a House Joint Resolution (H.J.Res. 47) that raised the debt limit by $781 billion. The resolution is automatically deemed passed by the House and sent to the Senate. The resolution contains the debt limit increase included in the budget resolution.

As of the end of June 2005, the Senate had not acted on the debt limit.

Concluding Comments

Between the increase in the debt limit in August 1997, to $5.95 trillion, and the beginning of FY2002, the surpluses in the budget resulted in reductions in debt held by the public. Since the beginning of FY2002 (and through October 2004), the reappearance of deficits increased debt held by the public by $972 billion. Debt held by government accounts has grown steadily throughout the period. These increases raised the debt-subject-to-limit to the current limit of $7.384 trillion in October 2004.

In early 2001, the 10-year budget forecasts had large and growing surpluses that indicated rapid reduction in debt held by the public. The same 2001 forecasts projected continuous, steady growth in debt held by government accounts. The combination of the shrinkage in debt held by the public and growth in debt held by government accounts moderated the forecasted growth in total debt. The estimates indicated that the moderate growth in total debt would delay the need to increase the debt limit late into the decade (the continued increases in debt held by government accounts would eventually overwhelm the reductions in debt held by the public, triggering the need to increase the debt limit). When the expectations of large surpluses collapsed, late in the fall of 2001, so did the expectations of reductions in debt held by the public. The return to substantial deficits meant that total debt began another period of fairly rapid growth, making an increase in the debt limit necessary much sooner than previously expected.

The persistence of deficits over most of the last half century requiring the government to borrow from the public, plus the constant growth in government held debt, particularly after FY1983, increased debt subject to limit. The growth has periodically put pressure on Congress to raise the debt limit. The need to raise the debt limit in FY2002, the year after four years of surpluses during which debt held by the public fell, was driven primarily by the continuous increases in debt held by government accounts and secondarily by the return of government budget deficits in FY2002. The debt financing of the deficit in FY2003 plus the constant rise in debt held by government accounts drove the debt against the then existing $6.4 trillion debt limit early in 2003. The Treasury was able to avoid actually breaching the limit into May. Congress adopted a debt limit increase of $934 billion on May 23, 2003, that was expected to provide enough room for the estimated growth in both publicly held and government account held debt through the summer or fall of 2004 (which it did). The increase in late 2004 was expected to accommodate the government's debt creation needs well into 2005, if not into early 2006.

Congress again faces responding to the continuing growth in federal debt with another increase in the debt limit. The increase is necessary, not to accommodate or encourage higher future spending, but to provide the government with the means to meet its existing obligations.