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The Debt Limit: The Ongoing Need for Increases

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Philip D. Winters
Analyst in Government Finance
Government and Finance Division

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Summary

Two actions by the federal government drive up total federal debt. The first is the sale of government debt to the public (increasing *debt held by the public*) to finance budget deficits and acquire the financial resources needed to meet its obligations. The second is the issuing of debt to debt-holding government accounts (such as the Social Security, Medicare, Transportation, and Civil Service trust funds) in exchange for their reported surpluses (increasing *debt held by government accounts*). The combined change produces the change in total federal debt.

Surpluses generally reduce debt held by the public while deficits raise it. The government's surpluses during FY1998-FY2001 reduced debt held by the public by $448 billion. The debt-holding government accounts 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. Legislation increased the limit to $6.4 trillion 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 FY2004 budget resolution conference report by Congress in early April 2003 triggered legislation in the House increasing the debt limit by $984 billion, deemed passed by the House, and sent to the Senate. In May, the Senate passed the increase, which the President signed on May 27, 2003. (For a discussion of congressional procedures to raise the debt limit, see CRS Report RS21519, *Legislative Procedures for Adjusting the Public Debt Limit*, by Robert Keith and Bill Heniff Jr.)

By the spring of 2004, the Treasury began asking for another increase in the debt limit. Congress did not act to raise the debt limit before recessing in mid-October 2004. The Secretary of the Treasury soon notified Congress 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.

In 2005, Congress included debt limit raising reconciliation instructions in the FY2006 budget resolution (H.Con.Res. 95). The adoption of the budget resolution also triggered the automatic passage in the House of a debt limit increase (H.J.Res. 47). No action on raising the limit was taken during calendar year 2005. The Secretary of the Treasury sent letters to Congress on December 22, 2005, and February 16 and March 6, 2006, asking for a debt limit increase and warning that the Treasury would exhaust its options to avoid reaching the debt limit by mid-March. The Senate passed H.J.Res. 47 on March 16, after rejecting several amendments. The President signed it into law (P.L. 109-182) on March 20. The law increased the debt limit by $781 billion to $8.965 trillion.

This report will be updated as events warrant.

Contents

List of Figures

List of Tables

The Debt Limit: The Ongoing Need for Increases

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 currently 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 (either from 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-FY2001, the federal debt held by the government's own accounts grew by $855 billion; debt held by the public fell by $450 billion over the same period. Debt held by government accounts has continued to grow as these accounts record surpluses; debt held by the public has been growing rapidly since FY2001 because of 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 future year estimates are CBO's baseline estimates for FY2006 through FY2016 from its January 2005 budget

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[1] Less than 1% of total debt is excluded from debt limit coverage. At the end of December 2005, total debt was $8,170,414 million; debt subject to limit was $8,107,019 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.

report, *The Budget and Economic Outlook: Fiscal Years 2007-2016*, ([http://www.cbo.gov/ftpdocs/70xx/doc7027/01-26-BudgetOutlook.pdf]). The historical data for fiscal years 1980 through 2004 are from OMB.[3] The CBO baseline estimates are one possible measure of extending current policy into the future. Changes to the assumed policies, such as making the tax cuts permanent, addressing the expanding coverage of the Alternative Minimum Tax, or using alternative assumptions about the growth rate of discretionary spending by raising or lowering future deficits or surpluses, will change the debt from what is shown in **Figure 1**.

Table 1. Components of Debt Subject to Limit, FY1996-FY2005

(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
2005	8,184.0	7,871.0	3,301.0	4,570.1
Dec. 2005	8,184.0	8,107.0	3,424.3	4,682.7
Change During the Period of Surplus, FY1998 — FY2001		405.2	854.6	-449.5
Change Since FY2001 (through December 2005)		2,374.2	987.8	1,386.4

Source: U.S. Department of the Treasury, Financial Management Service, *Treasury Bulletin*, June 2001 and December 2005. Bureau of the Public Debt, *Monthly Statement of Public Debt*, December 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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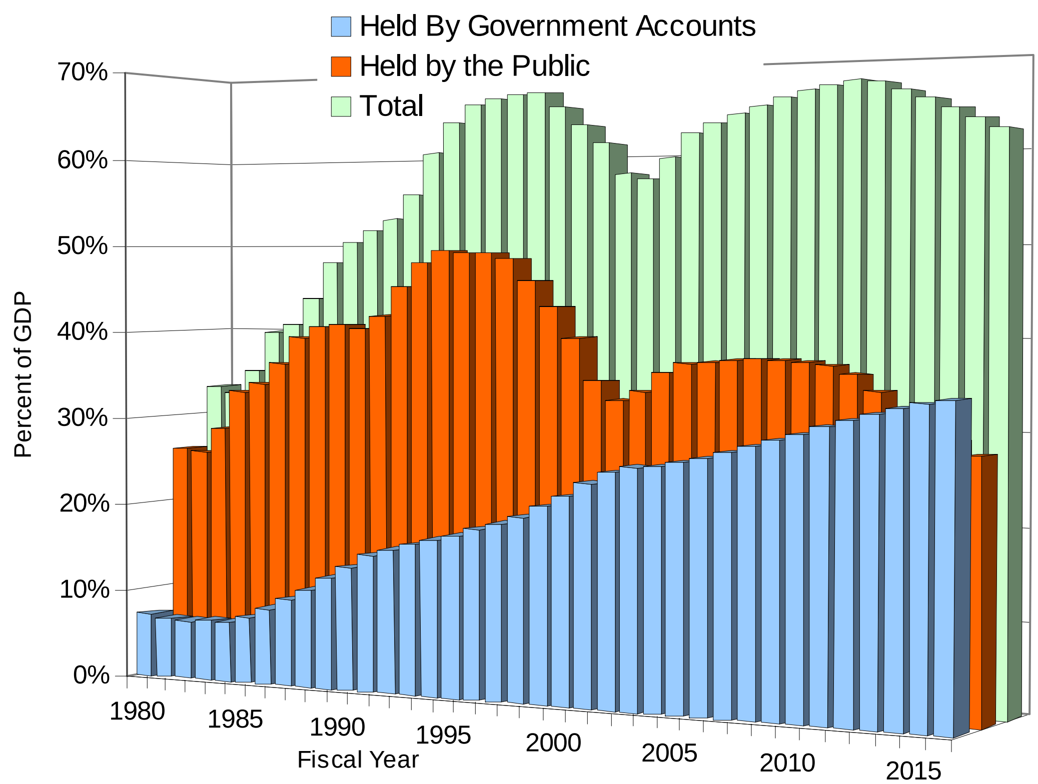
[3] OMB, *Historical Tables, Budget of the U.S. Government for FY2006*, Feb. 2005.

Figure 1 shows the components of federal debt as shares of gross domestic product (GDP) beginning with FY1980 and running through (estimated levels) FY2006 to FY2016.[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. The smaller deficits and then surpluses in the late 1990s and through FY2001, along with rapid growth in GDP, reduced debt held by the public 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.

Figure 1. Components of Federal Debt, FY1980-FY2016
(in percent of GDP)



FY2006 through FY2015 are estimated. Sources: CBO, *The Budget and Economic Outlook: FY2007-2016*, Jan. 2006; OMB, *Budget of the U.S. for FY2006, Historical Tables,* Feb. 2005; Treasury, *Final Monthly Treasury Statement*, Sept.

For the years beginning with FY2006, the data are based on CBO's January 2006 baseline estimates. Under CBO's assumptions used in its baseline estimates, the tax cuts of the early 2000s expire in 2010, raising estimated revenues substantially in the following years, resulting in smaller deficits and eventual surpluses. These produce the shown reduction in debt held by the public as a share

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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.

of GDP in the last few years in the figure.[5] If the tax cuts are extended and the Alternative Minimum Tax relief is continued, debt held by the public is unlikely to fall as a share of GDP. As indicated previously, estimated alternative policy paths may produce larger or smaller deficits and debt than in the estimates shown.[6] The combination of continued growth in debt held in government accounts and the return of deficits after FY2001 has produced the growth in total federal debt as a share of GDP since then.

The Debt Limit Issue 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.[7] 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.[8] 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 December 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

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[5] The CBO baseline, by law, assume the expiration of the Alternative Minimum Tax (AMT) relief after 2005, and the expiration of the 2001 and 2003 tax cuts in 2010. Overall, these assumptions reduce the deficit over time and lower the growth in debt held by the public. If one assumes the extension of both AMT relief and the tax cuts, the deficit and the debt held by the public will increase substantially in future years.

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

[7] 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.

[8] 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.

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). This action kept the amount of existing debt-subject-to-limit below the limit and allowed the Treasury to issue new debt and meet the 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.[9] (As the Treasury awaited the influx of tax payments due on April 15, the debt subject to limit stood at $5,949,975; 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."[10] 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,

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[9] 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.

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

> which will provide flexibility to fund the operations of the government during this period.[11]

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.[12] 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.[13]

The Debt Limit Issue 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 request 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 allowed management of the debt holdings of certain government accounts to avoid reaching the debt limit as it had in 2002. These actions included the replacement of internally held government debt with non-debt instruments in

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[11] Ibid.

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

[13] For additional details, see U.S. GAO report, *Debt Ceiling: Analysis of Actions During the 2002 Debt Issuance Suspension Period*, GAO-03-134, Dec. 2002.

certain government accounts and not issuing new debt to these accounts. These actions 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.

Through the rest of February and into May, the Treasury held debt subject to limit $15 million below the limit.[14] 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 the level specified in the budget resolution.[15]

The Senate received the debt-limit legislation on the same day (April 11), 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 existing $6.4 trillion limit.

The Debt Limit Issue and Action Taken 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 had 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, kept the debt subject to limit at that same level, $25 million below the limit. The Secretary of the Treasury informed Congress on October 14, before the break for the election, that the accounting actions he was taking 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.[16]

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[14] 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.

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

[16] Although not all the possible consequences of a government default are known, it would mean that the government could no longer meet all of its legal obligations. Not only the (continued...)

Although the House passed a budget resolution for FY2005 in the spring of 2004, it did not reach final agreement with the Senate on the measure. Without a congressionally passed budget resolution, no debt limit raising resolution (under the Gephardt rule) was automatically deemed passed by the House and sent to the Senate. As the debt approached the limit through the summer and into the fall, no legislation was moved to raise the debt limit. By October 2004, the debt was essentially at the limit and Congress was about to break for the elections. This left the Treasury to manage the debt for at least several weeks under a very tight cap (at the end of October 2004, total debt subject to limit was $25 million below the limit).

Earlier, in September 2004, the House had 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 that had been and were about to be used again. If these or similar restrictions on the Treasury's actions had become law, the Treasury would have had no means of delaying the financial effects of reaching the debt limit. The House passed the appropriation with the amendment on September 23, 2004. The Senate did not act on its (or the House's) version of the appropriation.

After the elections, 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.[17] The passage of the debt limit 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 and make whole the government account used to avoid reaching the debt limit.

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[16] (...continued)
default, but the efforts to resolve it would have negative repercussions on both domestic and international financial markets and economies.

[17] 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.

The Debt Limit Issue and Action in 2005 and 2006

On May 31, 2005, debt subject to limit was $7,718 billion, $467 billion below the existing $8,184 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 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 the Gephardt rule (House Rule XXVII), which automatically produced a House Joint Resolution (H.J.Res. 47) that, if enacted, would also raise the debt limit by the same $781 billion to $8.965 trillion. Under the rule, the resolution is automatically deemed passed by the House and sent to the Senate. This resolution included the increase in the debt limit needed to accommodate the government's borrowing needs (both from government accounts and from the public) outlined in the budget resolution. Through the end of the 1st session of the 109th Congress, the Senate had not considered H.J.Res. 47 nor had Congress considered a reconciliation bill raising the debt limit (as called for in the budget resolution).

At the end of December 2005, the Secretary of the Treasury sent a letter to Congress stating that the debt limit would be reached in mid-February 2006 and asking Congress to raise the limit. He sent two more letters to Congress (on February 19 and March 6) stating that he was taking the legal actions allowed the Treasury to delay reaching the limit and warning that these actions would only work until mid-March 2006.[18] As mid-March approached, the government was again in jeopardy of default. The Senate took up H.J.Res. 47 during the week of March 13. The Senate rejected several amendments before adopting the debt limit increase on March 16. The President signed it into law on March 20. The $781 billion increase raised the debt limit to $8.965 trillion. (Another increase in the debt limit is expected to be needed in two to three years.)

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 with the reappearance of deficits (and through February 2006), debt held by the public has increased by $1.430 trillion. Debt held by government accounts has grown steadily throughout the period, rising by $1.021 trillion. These increases in federal debt again raised the debt subject to limit close to the then current limit of $8,184 billion (at the end of February 2006, to $8,183,975 million, $25 million below the limit).

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[18] The Secretary took actions that the Treasury has taken in the past, including declaring a debt issuance suspension period.

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 overcome 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 almost 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 following four years of surpluses, was driven primarily by the continuous increases in debt held by government accounts and secondarily by the return of government budget deficits. The debt financing of the deficit in FY2003 plus the persistent 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 total federal debt through the summer or fall of 2004 (which it did). The debt limit increase passed by Congress late in 2004 was expected, at the time, to accommodate the government's debt growth well into 2005, if not into early 2006. In late December 2005, and early in 2006, the Treasury informed Congress that the limit would be reached sometime between mid-February and mid-March 2006. On March 16, 2006, the Senate passed the House-initiated debt limit increase, raising the debt limit (when signed by the President on March 20), and resolving the latest debt limit crisis.

Over the next decade, expected large deficits and growth in the debt holdings of government accounts are likely to constantly raise federal debt. Congress will repeatedly face responding to the continuing growth in federal debt with further increases in the debt limit. The increases will be necessary to provide the government with the means to meet its existing obligations.

Appendix

The table on the following pages provides data on the dollar amount of federal debt and change in these amounts by month between the end of September 2001 (the end of FY2001) and the end of December 2005. The table shows outstanding monthly balances of total federal debt, debt held by government accounts, and debt held by the public. The final row shows the change for each category for the entire period, September 2001 to December 2005.

For the period covered, all measures of debt subject to limit increased, total federal debt increased by $2,374 billion, debt held in government accounts increased by $988 billion, and debt held by the public increased by $1,386 billion. All three measures experienced periodic reductions in their reported monthly holdings. For debt held by the public this reflects the uneven flow of receipts and outlays to and from the federal government, and for debt held by government accounts it reflects the periodic deposits and withdrawals to and from these accounts.

Table 2. Components of Debt Subject to Limit by Month, FY2002-FY2006

(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
Mar. 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
Mar. 2003	6,399,975	0	2,722,812	-27,659	3,677,163	27,659
Apr. 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
Mar. 2004	7,088,648	39,485	2,941,195	-11,928	4,147,453	51,413
Apr. 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

End of month	Total	Change from previous period	Held by government accounts	Change from previous period	Held by the public	Change from previous period
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
Mar. 2005	7,715,503	62,777	3,175,460	-946	4,540,042	63,722
Apr. 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
June 2005	7,778,128	60,554	3,280,914	73,682	4,497,214	-13,128
July 2005	7,829,029	50,901	3,278,725	-2,189	4,550,304	53,090
Aug. 2005	7,868,395	39,366	3,284,696	5,971	4,583,699	33,395
Sept. 2005	7,871,040	2,645	3,300,969	16,273	4,570,071	-13,628
Oct. 2005	7,964,782	93,742	3,345,589	44,620	4,619,193	49,122
Nov. 2005	8,028,918	64,136	3,351,093	5,504	4,677,826	58,633
Dec. 2005	8,107,019	78,101	3,424,304	73,211	4,682,715	4,889
Jan. 2006	8,132,290	25,271	3,442,543	18,239	4,689,747	7,032
Feb. 2006	8,183,975	51,685	3,457,409	14,866	4,726,567	36,820
Change, Sept. 2001-Feb. 2006		2,451,173		1,020,888		1,430,286

Source: U.S. Treasury, Bureau of the Public Debt, *Monthly Statement of the Public Debt*, Sept. 2001-Jan. 2006.