Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

Federal Debt and the Debt Limit in 2022

November 16, 2022

Federal debt is again nearing its statutory limit. The policy questions raised by federal debt and its limit in 2022 are colored by the aftereffects of the 2007-2009 financial crisis and ensuing Great Recession, as well as COVID-19 and fiscal response to the pandemic. The persistent gap between federal revenues and outlays over the past two decades has also pushed up public debt levels. That fiscal gap is projected to widen under current policies, which would push debt to historic levels.

Federal Debt

Public debt allows governments to spread costs over time, especially for major infrastructure investments or responses to natural disasters or geopolitical challenges. Higher debt levels, however, can crowd out private investment and push the fiscal burdens onto future generations.

The statutory debt limit constrains nearly all federal debt. Both debt held by the public (mostly Treasury securities sold via auctions) and intragovernmental debt (mostly held in federal trust funds) are subject to the debt limit. The gap between federal outlays and revenues is financed by issuing federal debt. In other terms, the U.S. Treasury funds the federal deficit and expansions of federal credit programs by selling various kinds of debt securities.

Federal debt has risen considerably since FY2001, the last fiscal year in which the U.S. government ran a surplus. At the end of FY2001, gross federal debt stood at $5.8 trillion, about 55% of gross domestic product (GDP). As of mid-November 2022, federal debt totaled about $31.3 trillion, about 122% of GDP, and debt held by the public—the more relevant macroeconomic measure—was 95% of GDP.

Debt service costs, however, had been mitigated by a long-term decline in interest rates since the mid-1980s. How long recent interest rate increases—which added an estimated $2.5 trillion in debt service costs over the next decade—will persist is an important macroeconomic question.

The Debt Limit

After July 31, 2021, a debt limit suspension that had been enacted as part of the August 2019 Bipartisan Budget Act (BBA 2019) lapsed. Treasury Secretary Yellen then invoked authorities to use "extraordinary measures" to help fund federal operations. As Treasury's headroom under the debt limit began to dwindle in October 2021, Congress passed and the President signed P.L. 117-50, which raised the debt limit by $480 billion.

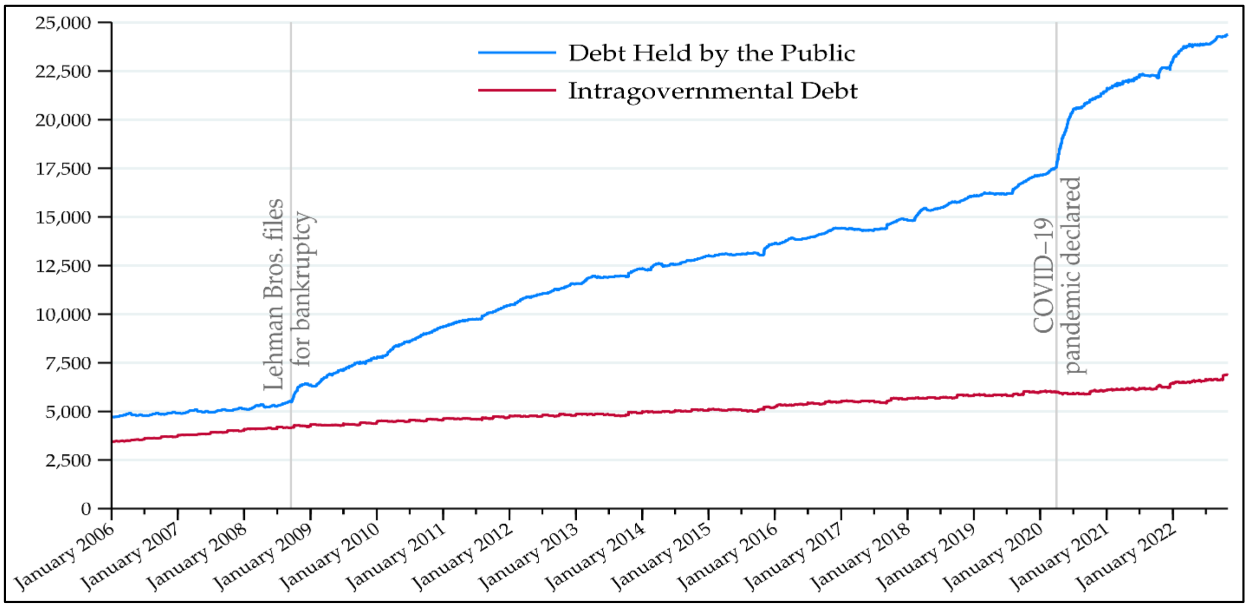
Congressional Research Service
https://crsreports.congress.gov
IN12045

The current debt limit of just under $31.4 trillion was set in mid-December 2021, when it was raised by $2.5 trillion. That increase was enabled by another measure that set up an expedited procedure in the Senate to consider a debt limit increase and delayed some cost-saving measures in Medicare and certain other health programs.

Debt held by the public accounts for most of the increase in public debt since 2001 (**Figure 1**). The rise in intragovernmental debt, which includes Social Security trust funds, Medicare trust funds, and various federal retirement trust funds, has been smoother and slower, reflecting a closer balance between trust fund revenues and benefit outlays, largely due to the transition of the Baby Boom cohorts from peak earning years toward retirement. In past decades, the share of federal spending on mandatory programs, such as Social Security and Medicare, has risen, while the share of discretionary defense and nondefense spending has fallen.

Figure 1. Federal Debt by Category, 2006-2022

Billions of current dollars



Source: CRS calculations based *on Daily Treasury Statement* data.

Notes: Debt held by the public includes open-market purchases by the Federal Reserve System.

COVID-19, declared a pandemic in mid-March 2020, confronted the federal government, like governments around the world, with extraordinary fiscal challenges. Fiscal responses to the pandemic accelerated the accumulation of federal debt.

In future decades, federal health and retirement programs are projected to pose longer-term budgetary challenges. The gap between federal outlays (estimated at 23.5% of GDP in FY2022) and revenues (estimated at 19.6% of GDP) is projected to grow, according to Congressional Budget Office current-law baseline projections. Projected federal revenues are projected to fall slightly as a share of GDP until FY2026, when certain individual income tax provisions enacted in 2017 expire. Outlays are projected to rise largely due to Social Security, Medicare, and net interest payments. The deficit, according to those projections, will be 6% of GDP in FY2032, with net interest costs accounting for 3.2% of GDP, almost double their current share.

Treasury Debt Management and the Federal Reserve

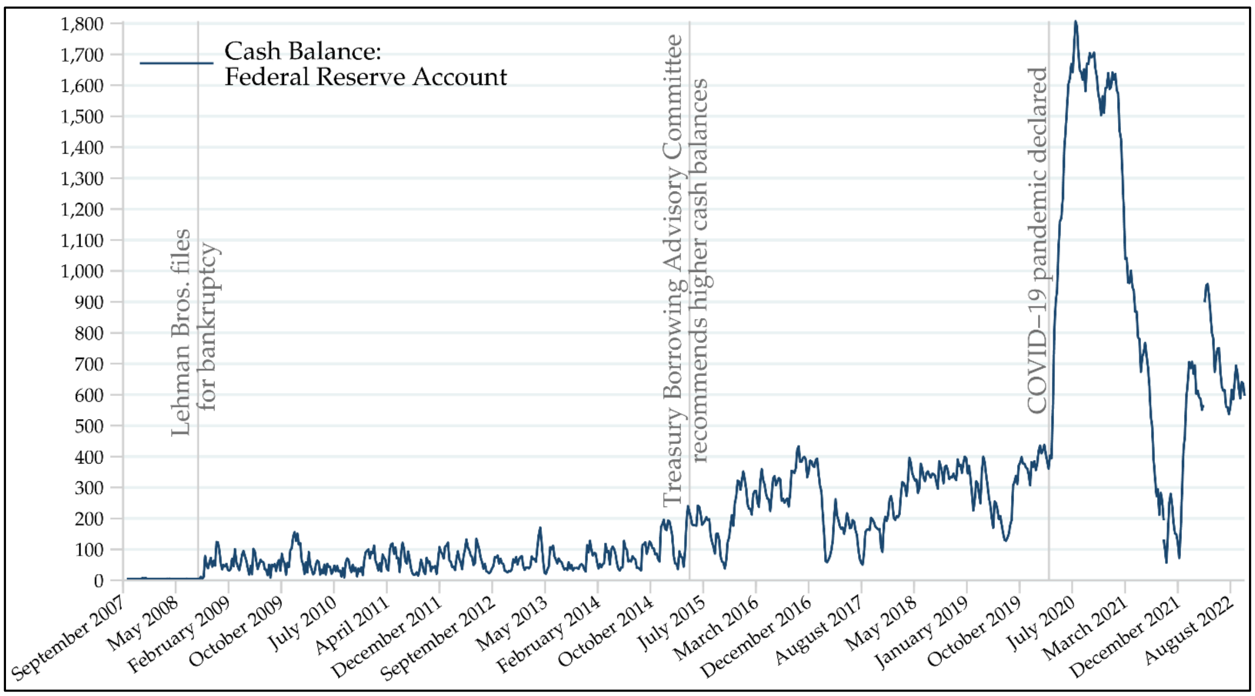
Treasury can pay obligations as long as it retains borrowing capacity, cash balances, and funds available through extraordinary measures. In 2020 and 2021, Treasury's cash balances had been much higher than a decade ago (**Figure 2**). Before the Lehman Brothers investment bank collapsed in September 2008, Treasury cash balances were kept to minimal levels. A 2015 Treasury advisory committee recommended increasing cash balances as a precaution against major financial disruptions.

Cash balances rose sharply after the March 2020 COVID-19 pandemic declaration to enable rapid disbursement of CARES Act (P.L. 116-136) payments. After a debt limit suspension lapsed at the end of July 2021, Treasury's cash balances had shrunk to $459 billion. In mid-November 2022, those cash balances have been about a half a trillion dollars.

Debt held by the public includes the Federal Reserve System (Fed) open-market purchases of Treasury securities, used to support its monetary policy. During the 2007-2009 financial crisis, the Fed conducted nonstandard monetary policies, at first mostly mortgage-backed securities (MBS). In late 2010, the Fed sought to support the economic recovery from the Great Recession by purchasing trillions of dollars of Treasuries. In 2018, the Fed began gradually selling those assets. With the arrival of the COVID-19 pandemic in March 2020, the Fed again bought large volumes of Treasuries and MBS. With the Fed again selling off those assets, including Treasuries, and with reduced liquidity in Treasury markets, some are concerned that a debt limit episode leading to a rapid reduction in Treasury cash balances could stress the wider market for Treasury securities and work at cross purposes with Fed monetary policy.

Figure 2. Treasury Cash Balances, FY2007-FY2023

Billions of current dollars



Source: CRS calculations based on *Daily Treasury Statement* data.

Notes: Before 2010, Treasury kept smaller amounts of cash balances outside of the main Treasury General Fund Account held with the Federal Reserve. The gap in 2022 represents tax deposits made on April 15, 2022.

Author Information

D. Andrew Austin
Analyst in Economic Policy

Disclaimer