S. HRG. 104–197

DEBT LIMIT

HEARING

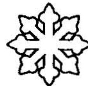
BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

JULY 28, 1995



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DEBT LIMIT

FRIDAY, JULY 28, 1995

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Bob Packwood (chairman of the committee) presiding.

Also present: Senators Grassley, Simpson, Nickles, and Moynihan.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order, please. We will start with Secretary Hawke.

I apologize. It is one of those situations where the schedule is beyond our control. I know the Secretary has to be at another hearing at 11:00. I think we have enough time between votes to at least finish with the Secretary.

And Congressman Nick Smith is now stuck with a number of House votes on the House Floor and may or may not get here. He is here. I am sorry, Congressman. I thought they said you were not coming. Good to see you.

Mr. Secretary, I apologize for the delay. I know you have an 11:00 hearing. We will take you right away and get you out of here, and put on the Congressman.

STATEMENT OF HON. JOHN D. HAWKE, JR., UNDER SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary HAWKE. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before you today. I commend you, Mr. Chairman, for bringing this matter up for hearing sufficiently in advance of the time that the current debt ceiling will be reached so the committee will have an opportunity to deliberate in a thoughtful and orderly manner about this.

My testimony will address, in sequence, each of the questions that you posed in your letter to me of July 24th. The first, is the issue of the need to increase the debt limit.

On July 17th, Secretary Rubin wrote to the Congressional leadership pointing out that the Treasury's current estimates show that the permanent ceiling of $4.9 trillion will be sufficient to provide

cash for government operations and payment obligations until sometime in October.

The exact date when the Treasury will run up against the limit is difficult to pinpoint since it will depend on a number of factors, including the timing of receipts and expenditures, which could deviate from our estimates over short periods of time.

Since this process deals with numbers of very large magnitude, estimates in percentage terms can translate into very large changes in actual dollars, but we will provide more information to the Congress and the committee as our estimates are refined and the need for a debt limit increase becomes more pressing.

With regard to the size of a debt limit increase, the conference report on the concurrent resolution on the budget for fiscal 1996 recently passed by the Congress called for a permanent increase in the debt ceiling to not more than $5.5 trillion.

We estimate that a ceiling increase to this level would not be reached until sometime in 1997 and adoption of clean legislation that would increase the limit to that number would allow ample time to revisit the debt limit in a well-considered and orderly fashion.

The committee also asked that I address the impact on the Treasury and financial markets of a delay in raising the debt limit. Even modest delay threatens market dislocations which could generally hamper Treasury borrowing operations and increase the government's cost of financing.

More extensive delay could precipitate a debt limit crisis that could significantly interrupt government operations, delay millions of Federal payments, and spread fear and uncertainty about the government's ability to pay its obligations.

With respect to the disruption relating to borrowing from the public, I should say that when there has been a delay in Congressional action in the past to increase the debt limit it has generated market uncertainty about Treasury financing schedules. This uncertainty has tended to cause Treasury borrowing costs to be higher than they otherwise would have been.

The Treasury will conduct its regular mid-quarter refunding operation in November when the Treasury is scheduled to sell 3- and 10-year notes. If uncertainty related to an enactment of an increase in the debt limit caused an increase of just five basis points in the interest rate on an issue of 10-year notes, the size of the issue we did in May, the increased cost to the taxpayer would be some $62 million.

Disruption in Treasury borrowing operations were acute during the debt limit impasse in 1990, when six temporary increases in the limit were enacted before it was increased permanently. The Treasury announced regularly scheduled auctions, but was forced to postpone them.

Large back-logs of borrowing operations resulted from the delays, and when debt limit increases were enacted, auction schedules were compressed. This meant that investors did not have time to plan acquisitions of Treasury securities, nor did the dealer community have time to distribute securities to their customers during the pre-auction period.

In addition to disruptions of auctions of marketable Treasury securities, sales of savings bonds were suspended, which meant notifying 45,000 issuing agents to stop accepting applications, and notifying them again to begin applications when there was room under the debt limit.

Moreover, the Treasury was not able to follow normal procedures in issuing non-marketable State and local government series securities, which may have caused would-be buyers to purchase government securities in the open market instead, with a resulting decline in Treasury sales of the lower yield, non-marketable securities.

There would also be disruption in borrowing from government accounts. About 165 government accounts have statutory authority to invest with the Treasury. Under normal investment procedures, the Treasury invests net receipts in non-marketable Treasury securities and reinvests proceeds of maturing securities to the extent that a particular fund does not need the proceeds for program purposes. When the debt limit is reached, the Treasury may be unable to invest or reinvest these funds, which may cause them to lose interest earnings.

The most profound impact in protracted delay, of course, would be to cause apprehension in the markets about a potential default on Treasury obligations. The United States has never defaulted on its public debt and, while we are confident that Congress would not purposefully put Treasury in jeopardy of a default, a failure to address the debt limit in a timely manner would, in itself, generate uncertainty in the markets that would be harmful to the national interest.

Finally, the committee has asked that I address the role of the debt limit in deficit reduction. As a practical matter, the debt limit itself does not have an impact on deficit reduction.

The critical revenue raising and spending decisions are made during the Congressional budget process and budget resolutions proposed levels of debt limit that are consistent with the budget deficit, investments of the government accounts in Treasury securities, and borrowing to fund Federal lending programs.

Balancing the Federal budget can only be accomplished by changing revenue and spending policies. The administration, in the strongest possible terms, urges you to decouple the issues of raising the debt ceiling and reaching our mutual goal of a balanced budget.

Balancing the budget must be done in an orderly, careful and thoughtful manner, allowing for a full and open policy debate. It should not be subject to last-minute efforts to complete reconciliation just before hitting the debt ceiling. Such a rush, which threatens the shut-down of vital services to our citizens and the financial integrity of the market for Treasury securities, is in no one's interest.

In conclusion, we look to Congress to act in a timely manner to avert a debt limit crisis that could prevent the government from meeting its obligations. The United States has never in its over 200-year history defaulted on any of its debt obligations, nor has it ever had its checks returned for insufficient funds. The consequences of either type of default would be enormously expensive and far-reaching.

The public has a right to expect that this important issue will be addressed in a timely, orderly, and thoughtful manner, and we are pleased that this committee has opened up the consideration of the matter in this spirit.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Hawke appears in the appendix.]

The CHAIRMAN. Mr. Secretary, thank you. I would like to say we have always passed the debt ceiling, and usually clean. Not always, but usually. This is certainly bipartisan. It does not matter who the President is, it does not matter who the Treasury Secretary is.

When we are right up against it, all administrations say, please, please, and they make the same statement you do, and we usually pass it clean. As a matter of fact, since 1980, we have extended the debt ceiling 33 times, sometimes for a day or two, sometimes long-term.

But, much to my surprise, I was thrown in to the conference negotiations on the Gramm-Rudman-Hollings bill because it was attached to a debt ceiling when I was Chairman of this committee. I did not know anything about how that operated, and I had to go negotiate it.

So it is not always clean. There are going to be some that are going to use it for political purposes. Having voted for all of the expenditures, they will now vote against the debt ceiling to pay for the expenditures that we have refused otherwise to pay for, by either raising the taxes or cutting the spending. So, one way or another, we will get the debt ceiling extended.

But I would ask you this question. The Congressional Budget Office seems to think that Treasury can handle short-term breaks in the ceiling easier than Treasury does. I wonder if you might comment. I do not mean long-term, but short-term breaks.

Secretary HAWKE. Short-term breaks in the debt ceiling?

The CHAIRMAN. Well, we are right up against it, and we do not do it, and you have got a 3- or 4-day break where you cannot go beyond, and then we extend it. But you have got three or 4 days when it is not extended.

Secretary HAWKE. Well, Mr. Chairman, as the committee knows well from its experience with past debt limit crises, when a crisis arises there are actions that the Treasury can take on a very temporary basis to provide some very short-term mitigation.

We would hope that we are not put in that position because coming up against the debt ceiling limit that way causes tremendous apprehension in the markets and is costly. As I say, there are things that have been done in the past that provide some temporary amelioration to the problem, but we would hope that we would get a clean increase that avoids that.

The CHAIRMAN. My guess is that markets are pretty savvy. If we did not do this, if there is a 3- or 4-day hiatus, or even a week hiatus, they would know that we are going to make good on the bonds. I think the ultimate day beyond which we could not stretch it would be the day that you finally could not send Social Security checks out.

At that stage, my hunch is we would all come to a bipartisan President/Congress conclusion very, very rapidly. I hope we do not

get to that stage, but I will bet you the markets would understand the intra-politics that were going on and would not discount bonds, or it would not cause that much of a panic.

Senator MOYNIHAN. I bet you the markets would figure out a way to make some money out of it.

The CHAIRMAN. You are probably right, upon which we would probably then have hearings. [Laughter.]

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Joe Gale just reminds me that in 1987 the markets did not figure out that we would, in fact, straighten out the debt ceiling, and that crash was a memorable event.

Can I just ask, Mr. Secretary, is there another Nation of our size and disposition in the world that has this problem?

Secretary HAWKE. I cannot answer that, Senator. I wish I knew.

Senator MOYNIHAN. Why do you not call around? Call Ottawa and ask them, do they go through this every year? I think the answer is, they do not. I think the answer is that the Federal Republic of Germany, France, the United Kingdom just do not put themselves through this embarrassment, and we do.

Is it not a rather recent event? Was the debt ceiling an annual drama 30 years ago? I do not recall it was such.

Secretary HAWKE. It has not been annual, but it has been repetitive.

Senator MOYNIHAN. In 1924?

Secretary HAWKE. Well, I do not know if it goes back that far, Senator.

Senator MOYNIHAN. Well, the Treasury does, Mr. Secretary.

Secretary HAWKE. I do not even go back that far, Senator.

Senator MOYNIHAN. We would like to have some sense, is this a phenomenon that has been associated with the strategy of fiscal crisis which began in the 1970's, as I read it, the strategy that—well, one of our most distinguished economists used to advise people. He said, by all means cut taxes. Just keep cutting taxes. Do not worry about deficits, because sooner or later there will be a crisis and they will have to cut the size of government.

I mean, I would just plead with the Treasury to know that there is something besides an invisible hand here. There are political strategies. These crises are the result of a notion of how to move the direction of government away from the centralizing tendencies of the 20th century. Among other things, they have continued in a Nation which, in two centuries, has never defaulted even in circumstances of economic frailty.

What would Alexander Hamilton think of us? We make a spectacle of ourselves. Dr. Podoff is just giving me some information. Since the second Liberty Bond Act was passed in 1917, the Congress, by statute, set an overall dollar ceiling. Previously there was none. So this is a 20th century phenomenon. We went into the first World War. without a debt ceiling limit. Well, wish us well. [Laughter.]

Secretary HAWKE. I certainly do, Senator. I just want to emphasize that the process of short-term extensions of the debt limit, well, I think the market understands that the Congress is not going to put us in the position of imminent default on Treasury ob-

ligations, but the process of short-term extensions is still enormously disruptive to markets.

When Treasury auctions have to be postponed there is a market effect, and the cost of borrowing ultimately is raised by that. It ameliorates the pressure perhaps for a day or so, but it does not solve the overall problem.

Senator MOYNIHAN. It would be interesting to know whether the debt ceiling, as a measure of the Congress had to act upon, is a relatively modern phenomenon. Would you let us have a note on that? Because, I mean, the Federal Financing Bank—an institution which I cannot comprehend but I know is there—is not always affected by this debt ceiling at all. They went through the 1985 period without interrupting their activities, whatever. Maybe you could include a page on the Federal Financing Bank.

Secretary HAWKE. We would be happy to, Senator.

Senator MOYNIHAN. I think it would terrify most members of Congress if they knew it existed. Maybe you had better not.

The CHAIRMAN. Mr. Secretary, thank you very much for coming. We apologize for delaying you.

Secretary HAWKE. Thank you, Mr. Chairman. My pleasure.

The CHAIRMAN. Now, Congressman, are you ready?

Congressman SMITH. Yes, sir.

The CHAIRMAN. We will take Hon. Rick Smith, who is a Representative from the 7th District of Michigan. Good to have you with us today.

STATEMENT OF HON. NICK SMITH, REPRESENTATIVE FROM THE 7TH DISTRICT OF MICHIGAN

Congressman SMITH. Mr. Chairman, Senator, thank you very much.

If I may comment on some of the previous testimony. During Alexander Hamilton's day, Congress was required to pass separately on every debt issue. In 1917, we started a more general limitation by imposing the debt ceiling. I have included with my testimony all of the debt ceiling increases since the 1940's.

Senator MOYNIHAN. Yes. Thank you.

Congressman SMITH. In 1985, of course, during the Gramm-Rudman debate, as the Chairman indicated, we did use the debt ceiling. At that time, beginning in early September of 1985, the Treasury under-invested the trust funds. In late September, it cut auctions. In October it issued debt through the Federal Financing Bank, as you mentioned, Senator. By the way, there is no more money in that fund at this time; we used up the $15 billion in borrowing authority at that time.

In early November, the Treasury disinvested trust funds. The Federal Financing Bank was created in 1973 and we used its authority at that time as a fudge factor.

It seems to me that the real issue that I am very interested in, and many of my colleagues, is: Should we use the debt ceiling as a partial leverage, as a hammer, to help assure that Congress and the administration moves us on an absolute glide path towards a balanced budget? Congressman Shays, Christensen, Scarborough, and myself asked other members, and we collected approximately 160 additional signatures in the letter that you have before you

that we sent to the President and to Secretary Rubin suggesting that we would withhold our votes on increasing the debt ceiling until we were on an absolute glide path to a balanced budget. Precisely, this could be several issues, but the one we mentioned was the reconciliation bill.

I am a farmer from Addison, Michigan. It has not been the habit of legislators to take away programs from people. Their tendency has been to expand programs. So I have seen it is very difficult for many of my colleagues to cut down on budget expenditures and take away money from these programs.

I think our experience in the last 15–20 years, I am sure, indicates that our efforts at Gramm-Rudman 1, Gramm-Rudman 2, even the 1990 Budget Act Agreement with its pay-as-you-go provision, have been somewhat less effective than hoped.

Maybe another consideration that we might be looking at is updating the 1990 Budget Act Agreement to expand it past the 1998 limit that is now in that bill and make it consistent with the Budget Resolution that the Senate and the House have now passed.

As we look at the possible consequences of using the debt limit as pressure to help us achieve a balanced budget eventually, I think it is much less disruptive, much less drastic than withholding appropriations that could close down government.

Treasury has initiated those practices that I mentioned earlier that can gradually react, at least temporarily, to not having an increase in the debt limit, from disinvestment of trust funds to not investing that money when it comes in.

Senator MOYNIHAN. Which happened in 1985.

Congressman SMITH. I am sorry?

Senator MOYNIHAN. The disinvestment of trust funds happened in 1985.

Congressman SMITH. Yes, that is correct. Also, the under-investment of trust funds happened again during 1990 during those agreements. In fact, during the 1990 negotiations with President Bush there were six different occasions that we held off on increasing the debt limit, so it was sort of piecemeal.

Let me just conclude with a short comment on my perception of the seriousness of not getting on a glide path to a balanced budget.

Mr. Chairman, I hope it is permissible for my printed statement to appear in the record as I summarize some of my concerns about the seriousness of the situation.

Right now, the Federal Government borrows 42 percent of all of the money that is lent out in the United States. That is money that could otherwise be used by people who want to buy a home, buy a car, or send their kids to school, or maybe most importantly, money that could be used by business to expand job opportunities in this country.

Because the Federal Government is borrowing approximately $300 billion a year, it not only takes money away from those that otherwise might use it to expand the economy, but also that increased borrowing drives up interest rates. Our top banker, Chairman Greenspan, suggests that if we are able to achieve a balanced budget we could see interest rates go down between 1–2 percent.

It seems to me that that stimulation Mr. Greenspan indicated, because of the underlying strength of our economy, would cause

American industry and jobs take off like never before if we are able to achieve a balanced budget. If we are not, we can expect and plan on seeing our children and grandchildren having a lower standard of living than we have.

So, many of us think it is crucial to balance the budget. Many of us think it is reasonable to use the debt ceiling as one of the levers to help ensure that we get on this glide path to a balanced budget by 2002 or sooner.

Mr. Shays and I have also introduced legislation giving Treasury a greater amount of flexibility in determining the priority of payment of bills if there is a lack of cash flow because the debt ceiling has not been increased.

Thank you, Mr. Chairman.

[The prepared statement of Congressman Smith appears in the appendix.]

The CHAIRMAN. Congressman, thank you. You are in your second term, right?

Congressman SMITH. Yes, sir.

The CHAIRMAN. I think if you stay here 20 years you will probably not see a more exciting time than the next three or 4 months as we attempt this battle. Even intra our own party it is going to be an exciting time to see if we can hold everybody.

Congressman SMITH. Yes, I am sure that is very true.

The CHAIRMAN. I have no questions.

Senator Moynihan?

Senator MOYNIHAN. Well, sir, I would want to thank Representative Smith. That is a fascinating chronology you have in the back there. We have arranged our affairs so we are in a protracted crisis. It can serve no purpose.

We did address deficit reduction in 1993 in Mr. Clinton's first year in this committee and in Ways and Means on the other side. We reduced the deficit over the 5-year period by $500 billion. Then just to confirm what you have said, interest rates dropped. The phrase Mr. Greenspan used for this was, the deficit premium on interest rates.

Last Friday, just a week ago, Mr. Summers, who will be the Deputy Secretary of the Treasury, said, in consequence of that action in 1993, interest rates have dropped 100 basis points, which is a very fancy way of saying one percent. But 1 percent sounds like 1 percent of a hundred. No, 1 percent is maybe 10–20 percent of the actual interest rate. We could anticipate more of this.

If the Federal Government accounts for 43 percent of all borrowing, it is clearly crowding out other borrowers and raising rates for them. It is a tax which we impose, hidden, but no less real.

Congressman SMITH. Yes.

Senator MOYNIHAN. So I thank you, sir.

Congressman SMITH. Gentlemen, thank you.

The CHAIRMAN. Senator Nickles.

Senator MOYNIHAN. You cannot get away that easy.

Senator NICKLES. Congressman, also, I appreciate his suggestion. I think we may be looking at a, the administration used the word, train wreck, or something. I like the idea of the legislation that you and Congressman Shays have dealing with allowing the President

to prioritize government payments. I think that that makes good sense.

I have been in a business when you could not pay all of the bills, and you do have to prioritize and you do have to make some decisions. So I think that would help maybe alleviate some of the real hot points for that period of time until we are able to resolve our problems.

I also understand you to say that you really do not think we should have numerous short-term extensions of the debt limit. Am I correct in that?

Congressman SMITH. Well, the effectiveness of a political strategy of passing short-term debt limit extensions, I guess, would have to be seen. I am not sure of the best way to accomplish that. It seems to me that, as we approach maybe a controversy on passing the appropriation bills, that kind of consideration would be possible.

I have contacted some of the financial market people out of New York. They are guessing the debt ceiling is going to be reached and we are going to hit the $4.9 trillion current debt ceiling sometime around the first few days of November. November 15th is when the big quarterly payments are made on interest, which is a bigger bunch.

But to answer your question, Senator Nickles, I am not sure how we should work that. I just feel quite strongly that, in absence of a Congressional mandate to balance the budget or limit spending, that we need to consider the debt limit as additional pressure on all of us to make sure we achieve something substantial.

Senator NICKLES. I appreciate what you said.

One final comment, Mr. Chairman. I told this to the President when we had a leadership meeting two weeks ago, because he was talking about the need for possibly having continuing resolutions for the appropriation bills, and maybe a debt limit extension if we are not able to resolve the disagreements on reconciliation.

I informed the President, I remember some of us told President Reagan that we would not support a debt limit extension unless we had something—it turned out that something at that time was Gramm-Rudman—that showed that we were on a glide path towards balancing the budget. That is the reason why Gramm-Rudman passed, and it passed on debt limit extension. It may well be, most of the signals we are getting from the administration is that they will veto a reconciliation bill. I hope that does not happen, but I think it is almost presumed that it is going to happen now.

Again, many of us do not want to pass a debt limit extension unless we can show something—that means a reconciliation bill; it may not be exactly the bill as now conceived, but we have to pass something—that we are going to balance the budget, or many of us will not support a debt limit extension.

So, anyway, thank you, Congressman Smith.

Congressman SMITH. Thank you.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. During the speeches yesterday honoring Senator Byrd because he cast his 14,000th vote in the Senate, he spoke about a couple of votes that he wished he had voted the other way.

It did not have anything to do with the issue you are talking about, but it reminds me of one vote I cast in 1981 that I think, if I had to do over again, would have done over. It was probably the first time, and maybe the only time, that I voted to increase the debt limit.

I know you can make a case for being irresponsible if you do not vote to increase the debt limit, but at that particular time Reagan was just a new President and it had to be increased early in his first year in office.

We, as Republicans, had taken over the Senate for the first time in 26 years and we were urged by our leaders to vote to increase the debt limit because it was going to hurt the new President's ability to govern, and we had to show that we could govern, and this was a responsible vote, to vote to increase the debt limit.

But we started down a path of fiscal irresponsibility, in the sense of not balancing the budget the way we said we were going to do in the first 4 years of the administration. So I look back at that as a missed opportunity to make the points that I suppose we are trying to make now, 16 years later.

So, I see what you are doing as an effort, no more—and I do not want to put words in your mouth—to make sure that we perform an office commensurate with the rhetoric of our last campaign.

Congressman SMITH. Yes.

Senator GRASSLEY. And I do that with more enthusiasm now because I see the mistakes we made in 1981 because we did not perform an office commensurate with the rhetoric of that campaign, which was to balance the budget by the year 1984.

Congressman SMITH. May I just make a very brief response? Twenty years ago, our total budget for this country was $371 billion. This year, the interest on the public debt will be $339 billion. We have tremendously expanded government. In 1948, we were at 12 percent of GDP for our Federal budget. Now that has climbed to 22 percent of our GDP for the Federal budget.

Senator GRASSLEY. It just proves that spending more money or borrowing more money is not going to solve all of our problems because, by political definition, we probably have more problems today than before.

Congressman SMITH. Thank you very much.

The CHAIRMAN. Congressman, thank you very much for coming over. We apologize for the delay.

Now, if we could have a panel of James Blum, Susan Hering, and Richard Kelly.

We will start with Mr. Blum, first, who is the Deputy Director of the Congressional Budget Office. As I recall, for some short period of time you were the Acting Director, were you not?

Mr. BLUM. That is correct, Mr. Chairman.

The CHAIRMAN. Good to have you with us again.

STATEMENT OF JAMES L. BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC

Mr. BLUM. Thank you. It is a pleasure to be here to discuss the Federal debt limit. I have a prepared statement that, with your permission, I will submit for the record and summarize.

The CHAIRMAN. Without objection.

Mr. BLUM. The first point I would like to make is about Federal deficits and debt held by the public.

The large budget deficits of the 1980's and 1990's have caused Federal debt held by the public to soar, a trend that would continue under current laws and spending practices. At the end of this fiscal year, debt held by the public will be $3.6 trillion. If there are no changes in Federal taxing and spending policies, CBO estimates that debt held by the public will amount to $5.6 trillion by the year 2002. As a share of Gross Domestic Product, it would rise to nearly 57 percent, up from 51 percent at the end of this fiscal year and a post-World War II low of 24 percent in 1974.

The Budget Resolution adopted by the Congress in June seeks to reach balance by 2002 and to stem this rise in borrowing from the public in the meantime. There would be deficits, however, so the debt held by the public would continue to grow, reaching $4.4 trillion by the end of 2002. This is illustrated graphically in Figure 1 of my prepared statement.

Congressman Smith has pointed out that the Congress, by statute, has been setting overall limits on the amount of debt that the Treasury can issue since 1917. The key thing to remember here though, is that this limit applies to nearly all the debt of the Federal Government, including the special securities that are issued to trust funds and government accounts.

This is internally held debt, but it has also grown quite rapidly in recent years as Social Security and other trust funds have run large surpluses. At the end of fiscal year 1995, we estimate that government-held debt will amount to $1.3 trillion, compared with only $200 billion at the end of 1980. This is illustrated in Table 3 on page 12 of my prepared statement.

Together, the deficit in the budget and the trust fund surplus easily explain the growth in debt subject to limit, and that is shown in Table 1 of my prepared statement.The deficit largely determines what the Treasury must borrow in the credit markets.

The trust fund surplus drives the issuance of debt to Federal Government accounts because the income—mostly earmarked revenues such as the Social Security taxes and interest—that go to these trust funds is likely to continue to exceed their outlays.

Debt subject to limit will continue to grow, even after the budget is brought into balance. I think that is a key point to remember. Even if budget balance is reached in the year 2002, debt subject to limit will continue to grow.

At one time, the debt ceiling may have been an effective control on the budget when spending was subject to annual appropriations. But discretionary spending—that is, the money made available each year through the appropriation process—is now a much lower proportion of total spending, amounting to only 36 percent in 1995.

Under the recently adopted Budget Resolution, discretionary outlays will continue to fall further to 27.5 percent by the year 2002. It is the rise in mandatory spending and the growth of the trust fund surplus that has turned the statutory limit on Federal debt into an anachronism.

The point was made by Secretary Hawke earlier this morning; through the regular budget process the Congress already has ample opportunity to vote on overall revenues, outlays and deficits.

Voting separately on the debt is ineffective as a means of controlling deficits because the decisions that necessitate borrowing are made elsewhere. By the time the debt ceiling comes up for a vote, it is too late to balk at paying the Government's bills without incurring the kind of drastic consequences that Secretary Hawke talked about.

As a result, as came out in the discussion with Congressman Smith, the debt limit in recent years has served mainly as a vehicle for other budgetary and unrelated legislation because raising the ceiling is considered to be must-pass legislation. As was observed, this happened a number of times during 1990.

The consequences of not raising the debt limit would be explained in greater detail by the other people on this panel, as was described by Secretary Hawke, and they will elaborate on that.

When is the drop-dead date? I think Congressman Nick Smith indicated that November 15th is clearly a day when the cash flow that has to go out to meet the quarterly interest payments would be a hurdle that could not be overcome.

With that, Mr. Chairman, I will conclude my oral remarks.

[Mr. Blum's prepared statement appears in the appendix.]

The CHAIRMAN. Thank you.

Now we will take Susan Hering, who is the director of Economic and Market Analysis Group for Solomon Brothers.

Ms. Hering?

STATEMENT OF SUSAN HERING, DIRECTOR, ECONOMIC AND MARKET ANALYSIS GROUP, SALOMON BROTHERS, INC., NEW YORK, NY

Ms. HERING. Good morning. Thank you very much for having Salomon Brothers today. We appreciate the opportunity to express our opinions on what happens during debt ceiling crises in the debt markets.

When we think about debt ceilings we think about four separate stages of debt ceiling crisis. The first stage comes when the Treasury shuts off sales of savings bonds and securities to State and local governments. This is an inconvenience to people who want to buy savings bonds for their grandchildren, but does not have much effect on the public markets so it is not much of a problem for us.

A second stage is when the Treasury, very often, or has in the past, disinvested trust funds or failed to invest their surpluses in trust funds. This, too, is not something that is particularly important to debt markets in terms of its effect for us.

It starts getting critical for the debt markets when the Treasury runs up against the debt ceiling and finds that it cannot issue new debt. It can roll over existing debt, but it cannot issue new securities. That means that Treasury must either reduce the size of planned auctions to the Treasury market or delay those options completely.

This is a problem for the markets because what the debt markets thrive on is regularity and predictability. They can cope with any government supply sent their way as long as they know when it is coming.

We auction Treasury debt in the United States, and the dealers are usually warned about a week ahead of time that they have to

sell it. If you give them that week, they will probably find ample buyers for the debt.

But what happens very often in debt ceiling circumstances is that the Treasury has to shorten the period between when it announces debt and when it sells it, so instead of having a week's notice, the market has only a day or two.

The problem is that they do not have enough buyers lined up, the public does not know, perhaps, when the auction is, the dealers cannot build up enough of a book before the auction, and the result is very often that you may end up paying a higher coupon or interest rate on that debt than you otherwise would.

I cannot give you a figure about how much it would be, but just keep in mind that if you raise the interest rate on a 10-year security by 1/100ths of a percent, just 1/100ths of a percent, that is like the difference between——

Senator MOYNIHAN. That is one basis point.

Ms. HERING. One basis point. Yes. That would add $12.5 million to the interest cost for that security over its 10-year life, which sounds like a lot of money to me.

So who suffers here, really, are the taxpayers. The people in the debt markets are very worried. They are worried about whether they can roll over maturing securities, they are worried about when the auctions will be, they are worried about whether they are going to get stuck with a position that they do not. But the real people who suffer in the end, I think, are the taxpayers, by having higher interest costs.

The fourth stage in the debt ceiling crisis is when the Treasury does not just run out of room under the debt limit, but actually reaches the end of its cash reserves. If the Treasury stops raising new money, within a very short period of time it runs out of money.

Well, that could mean, of course, that government workers get sent home because there is no money in the till to pay them, possibly. But the real problem for the debt markets is two-fold.

First of all, if you run out of cash you cannot meet interest payments on the public debt. Those interest payments are very large. November 15th has been mentioned several times here. On November 15th, Treasury has to pay $22 billion in interest payments, $22 billion to private investors alone, on 1 day.

What happens if those interest payments are not made? Well, my parents, who own Treasury securities, will not, perhaps, be able to have the money to pay their rent. Insurance companies who are counting on those interest payments may not be able to pay disability payments. Banks may not be able to meet their payrolls.

The problem is that, when each of those institutions do not get their money, the next institution that was counting on receiving it cannot get it either, so you set off, basically, a payments crisis in the banking system by not paying that interest.

In a broader context, keep in mind that the Federal Government spends about $1.4 trillion a year. That is 22 percent, roughly, of all the payments made in the economy made every year, 22 percent of every single payment made. So if the Federal Government starts going out of business, that is going to create a big problem in the banking system.

The final problem, obviously, is that if we were ever to default on our debt we would find that we would have to pay a higher interest rate in the future. You might ask Mexico about that kind of response in the debt market.

Thank you.

[The prepared statement of Ms. Hering appears in the appendix.]

The CHAIRMAN. Thank you very much.

We will conclude with Richard Kelly, who is the chairman of the board of Aubrey G. Lanston & Company, testifying on behalf of the Public Securities Association.

STATEMENT OF RICHARD M. KELLY, CHAIRMAN OF THE BOARD, AUBREY G. LANSTON & CO., INC., NEW YORK, NY, ON BEHALF OF THE PUBLIC SECURITIES ASSOCIATION

Mr. KELLY. Thank you, Mr. Chairman.

PSA's members take an active interest in issues related to Federal Government finance, including the debate over the Federal debt limit. As you know, the Treasury Department recently estimated that, in the absence of an increase in the debt limit, it is likely to run out of cash and room under the debt limit sometime during October.

If Congress fails to act in a timely manner, government financing operations will be interrupted, uncertainty in global financial markets will occur, and the government's cost of borrowing will likely increase.

Speculation regarding the outcome of debt limit debate already is beginning to evoke uncertainty among financial market participants. I am hopeful that Congressional attention to the issue will dispel that growing uncertainty. We, therefore, commend your leadership, Mr. Chairman, in calling this hearing and we appreciate the opportunity to comment.

It is possible that the debt limit debate could have far-reaching consequences for the Federal Government's overall fiscal management. Certainly, such issues are of interest to the capital markets and to PSA.

However, I would like to confine my comments this morning to the potential effects of debt limit debate on the Treasury securities market and on the government's borrowing.

As you know, Mr. Chairman, Treasury distributes its securities through a competitive auction process. In order to assure or ensure market stability, the Treasury distributes a regular and widely-publicized auction schedule for issuing securities.

Market participants depend on this information to anticipate and plan for the placement of large amounts of securities, often in the tens of billions of dollars, over a short period of time.

The predictability of the Treasury security offerings reduces market uncertainty and, thus, contributes to the efficiency of the market and helps reduce the Federal Government's cost of borrowing.

During the past two decades, and certainly longer, there have been several or more delays in timely Congressional action on the debt limit; some episodes have been more serious than others. All delays have resulted in unnecessary confusion and uncertainty among financial market participants.

As a result of past delays, Treasury has been forced to take a number of actions with regard to its financing activities, and Secretary Hawke has elaborated a number of those for you.

Treasury has also been forced to postpone, or even cancel, new security offerings. In most instances, these new securities are intended to refund outstanding securities which are held by domestic and international investors.

Many of these investors exchange their maturing securities for the Treasury's newly-issued debt. Postponement or cancellation of regularly-scheduled new security offerings may deny these investors this reinvestment opportunity. Other investors rely on the predictability of Treasury financings to invest expected cash inflows. Here again, delays in security offerings can be disruptive.

Unforseen delays in Treasury's financing schedule can be particularly confusing for foreign private investors. These investors have far less knowledge of the intricacies of the budget process in the United States, and the unusual manner in which a debt limit delay can affect the Treasury's securities offerings. At the end of March 1995, total foreign holdings of Treasury securities approximated $730 billion, or about 15 percent of Treasury debt outstanding.

Disruptions in the Treasury's financing pattern resulting from debt ceiling inaction can be potentially costly to the Treasury. Treasury financings allow a period of time between the announcement of a new security offering and the actual auction of that security. This period generally varies from several days to one week.

During this period, the particular security to be auctioned is eligible to be traded by financial market participants. Dealers such as my company are able to satisfy investors' demand by selling short to them.

The cumulative amount of distribution to investors prior to the actual auction of a security is substantial. The end result is more aggressive auction bidding by dealers to replace securities already distributed to investors, and, in turn, a lower financing cost for the Treasury.

Delays in passing a debt ceiling increase will generally interrupt this orderly and predictable process. Past experience shows that pre-auction trading periods have been abruptly shortened following enactment of a debt limit, as Treasury sought to quickly raise funds to prevent a default. At least on one occasion the announcement, auction, and settlement of a particular security occurred on the same day.

This reduction of pre-auction distribution places a greater underwriting burden on primary dealers, which potentially increases the Treasury's cost of borrowing.

More seriously, if Federal Government missed a timely payment of interest or principal as a result of a debt ceiling confrontation, the consequences seem almost imponderable. Even the mere risk of default by the world's most credit-worthy public borrower, for whatever reason, cannot be tolerated.

Some see a debt ceiling confrontation as the financial market's equivalent to a high-stakes game of chicken. If a similar situation was faced by a less credit-worthy borrower, their ability to obtain financing at a reasonable cost could be significantly impaired.

The ability of the Federal Government to consistently borrow substantial amounts of new money with virtually no financial market disruption is a precious asset that is not well understood and little appreciated. Care should be taken to ensure that this financing ability, which ultimately result in a significant savings for the taxpayer, is not disrupted.

In summary, PSA has been a long and avid supporter of responsible approaches to deficit reduction. Senator Grassley, in listening to your comments, I voted for Ronald Reagan in 1980 because I was convinced that, in 4 years, he was going to eliminate the budget deficit. I was horrified at the budget deficit experience during the 1980's.

A smaller Federal Government deficit is beneficial for private borrowers in the capital markets and conducive to sustained, noninflationary growth. We support the Joint Budget Resolution recently passed by Congress because it reflects a responsible and expedient approach to deficit reduction. We are also sensitive to the challenges associated with implementing such monumental legislation.

However, we hope that Congressional consideration of the Federal debt limit will not become embroiled in a debate over more farreaching and controversial issues. If it does, the result would likely be significant market disruption, increased Federal borrowing costs, and, ironically, possibly a larger Federal deficit.

We are hopeful that all parties to the debate will work together in good faith to resolve this issue before we are faced with these undesired consequences.

Thank you.

[The prepared statement of Mr. Kelly appears in the appendix.]

The CHAIRMAN. Mr. Kelly, you voted for Ronald Reagan in hopes that the deficit would go down, or at least the debt would go down and we would have a balanced budget. We did not. Everything we have tried has not worked. Gramm-Rudman did not work. We could sequester $20 billion, but we could not sequester $200 billion, basically, and we were not going to sequester $200 billion.

What happens if we get to November 10th—and this may be the situation—and there are not enough votes to pass a debt ceiling increase unless the President will sign the reconciliation bill, which puts us on the glide path to the goal that you say is a very desirable goal?

The President says, I do not like the policy decisions in the reconciliation bill. He may not quarrel with the figures. My hunch is the figures will be good, he just will not like the policy. And there are not the votes to pass the debt ceiling unless he signs it.

What is your advice then?

Mr. KELLY. It is a difficult problem, Senator. I really do not see the logic between linking together the debt ceiling and a reconciliation bill. Even though there is a loose linkage, if budget decisions are made by the Congress and ratified by the President, the Congress then, in timely fashion, should pass a debt ceiling to allow the borrowing to occur for the money that has already been spent.

You raised an issue concerning what happens in late October or early November. PSA and I personally am solidly supportive of con-

sistently lower budget deficits, to zero, as fast as we can possibly get there that is reasonable.

The CHAIRMAN. But the debt ceiling may be the hammer that gets us there.

Mr. KELLY. Is it really? If you are the Secretary of the Treasury, while you do not have a statutory obligation to protect the country's fiscal integrity, you certainly have a moral obligation. It is hard for me to believe that Bob Rubin would allow a default on timely principal or interest payments, no matter what happened.

The CHAIRMAN. That poses an interesting constitutional question. You mean, even if we do not increase the debt ceiling, he has to find some way—you used the word morally—legally, to pay the interest as it comes due.

Mr. KELLY. Any Secretary of the Treasury, in reading the history of the United States and seeing that we have not defaulted on an obligation in our 200-year history, would have a very difficult time being that Secretary of the Treasury on whose watch default occurred, and I think you probably would do the same thing. He will use all means necessary, perhaps including sale of Federal buildings or loan assets, to raise the money necessary to make a timely paying of interest and principal, in my judgment.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, there is a vote on, as you know. I want to thank Ms. Hering and Mr. Kelly for their very clarifying statements, and you, Mr. Blum, for yours. I had not previously seen the figure that 15 percent of the debt is held by foreign investors. Treasury gave that to you, did they?

Mr. KELLY. Yes.

Senator MOYNIHAN. They would never give it to me.I am glad to have friends in New York who have access to that. You said you would not sell their bonds unless they tell you who has bought them? They do not seem to have a very good tracking mechanism because the bonds are sold in world markets, and no one necessarily knows who owns them.

I would simply make the point that we did lower the deficit path in 1993, and interest rates, in consequence, went down. Obviously we have to do more. But the markets are supposed to have a little sensitivity to political realities.

If you really thought, in 1980, that the new administration was going to bring the budget into balance, gosh, is my money safe with you, Mr. Kelly? [Laughter.]

Mr. KELLY. Senator, I have learned some things over the intervening 15 years.

Senator MOYNIHAN. All right. So I guess I will not change brokers after all. But we have to do something and I know the Chairman would very much wish that we not create a crisis in this manner. We can resolve our budget issues on their own.

The CHAIRMAN. Ms. Hering, do you compete with Mr. Kelly?

Ms. HERING. I suppose there are markets in which we compete, sure.

Mr. KELLY. Friendly competition.

Ms. HERING. Right.

The CHAIRMAN. But Senator Moynihan could switch his broker.

Ms. HERING. We are just a wholesale dealer, though.

The CHAIRMAN. All right.

Senator MOYNIHAN. They have all got it carved up there in the New York Federal Reserve. It is a wonderful way to make a living. You cannot lose if you are one of the 28 dealers. There are about 28.

Ms. HERING. 37.

Senator MOYNIHAN. I am sorry?

The CHAIRMAN. 27.

Ms. HERING. 37.

The CHAIRMAN. Oh.

Senator MOYNIHAN. 37. Well, if you can get one of those, or maybe add one to make 38, you are set. Do not tell that to Senator Simpson. He would suspect that the New Yorkers are up to something.

Mr. KELLY. Senator Moynihan, you would not want to see the Aubrey Lanston profit and loss statement this year.

Ms. HERING. Or Salomon Brothers.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Well, Senator Packwood asked a very basic question. We cannot ask much more about it, but I suppose, just to build on it a little bit, I would say this, and then maybe end with a question.

If what Senator Packwood says happens, it will only be because there are not compromises worked out with the White House ahead of time, which I think there will be attempts to do, but they probably, and could, fail.

If they fail because the Republicans do not feel that they could agree with what the White House wants, it would be obvious from the standpoint of our feeling of what the last election meant in this country of a very dramatic shift in people's opinions of how the government ought to be more fiscally responsible in revising the role of government in our society, which is automatically done when you cannot do endless borrowing for the functions of government.

So then the basic question that Senator Packwood gets is whether at some point we decide that the last election is irrelevant, or it meant something, and the results of the last election ought to result in public policy, at least from a budget standpoint, and other public policy as well.

So we have to balance that against the things you say happen if we disturb the market by not orderly providing for the rolling over of debt and the borrowing of money. So my question would be this: have you thought in terms of what you see as an immediate hassle for you in the disruption to your markets because we do not immediately pass it? What will just one basis point mean in costs in future years, versus the confidence that is built and the lower interest rates that are going to come if the last election is carried out in public policy, which means a balanced budget? At least the Federal Reserve says it is going to reduce interest rates.

Are you not really asking us in your testimony to be very short-term in our view versus the long-term benefits that come, where the confidence is going to be built when we balance the budget and the vehicle for doing that is our reconciliation and getting the President to sign it, because if he does not sign it we do not have the two-thirds vote to override his veto?

Ms. HERING. I think you would need to draw a distinction between using the debt ceiling as a tool in the short-run to accomplish a deal with the President and, as a result, simply delaying government auctions. Draw a distinction between that and actually defaulting on the debt, because I think that nobody can tell you what the consequences of defaulting on the debt are. We have not been there.

Senator GRASSLEY. I would draw that distinction.

Ms. HERING. They are very, very substantial.

Senator GRASSLEY. Yes.

Ms. HERING. I think temporary delays in coupon auctions are not dramatically costly to the government.

Senator GRASSLEY. By the way, you were correct in drawing that distinction and I would associate myself with that.

Ms. HERING. I think it is a very important distinction to make.

Senator GRASSLEY. Yes. But I am not sure that I heard in your testimony that that was the main point you were making about defaulting versus just whether or not we should not have any delay whatsoever in the debt ceiling.

Ms. HERING. I think, Senator, that perhaps you are in a better position than I am to do a benefit cost analysis on this question. I can tell you, in rough terms, what delaying a given auction would cost you. You have to calculate how much the budget deficit is going to go down based on the action.

Senator GRASSLEY. But you have got people in your organization that are calculating the impact of a balanced budget and the increased confidence that comes with it, do you not? In your organization you have got people that are predicting that.

Ms. HERING. We can make rough estimates. I think the CBO has done an analysis that showed a 100-200 basis point decline in long-term interest rates if you were to balance the budget.

The CHAIRMAN. Senator Simpson.

Senator SIMPSON. Thank you, Mr. Chairman. We do have a vote there, and I appreciate that.

Let me just say, in my 16 years here, all we have ever done with regard to the debt limit extension is use it as a political horror story on each other. If the Republicans are in power we say we need some Democrats to help us here, and the Democrats say, you guys go vote for it, the same if the Democrats are in power; it is who goes off the cliff to vote on the debt limit. Then if they do, they just say, think of it. This guy voted to increase the debt limit of the United States to $4 trillion, or $4.2 trillion. All right.

That is politics. We understand that. You understand economics. Both of us are suspicious of each other. The politicians are suspicious of the number crunchers on Wall Street, and the Wall Street guys are thinking, those guys are real work. Real, real pieces of work. All right. So we have all figured out how to do that.

Now, when you go back to your town meetings and you tell them that the interest on the national debt is more than the defense budget and that it is this huge figure, and that we are going to vote on a $5 trillion debt limit before October and it is totally "unproductive" money, just out there, down the black hole, the rat hole. It means nothing, just this interest on the debt. And they say in

their good old American way, well, we owe it to ourselves, so why not just forget it?

Now, that is an interesting point. Then you get into things that politicians are not good at. Well, if you forgot it, what would happen? You monetize the debt, but what does that mean? Does that mean we could play with the Federal Reserve? If we can ever learn as Congresspersons the mysteries of M–1, M–2, and M–3, I mean, we will really have stuff to play with. Big bucks, if we can just figure that out.

So what happens then when you monetize a debt, or scrub off that amount of interest which is totally unproductive and which people are going to continue to say, as they get hit in this budget process. Am I not correct that whatever you do—and if you could describe that to me in a minute as to what you do when you do that, whatever that exercise is—then tell the American people that those who will suffer the most are the senior citizens, the people on fixed income, the union pension fund, the business pension fund will lose tremendous amounts, 15 percent of its values.

So where are you when you really deal, not on your level or our level, when the American people do not understand what a $5 trillion debt is, and it is going to go to $6 trillion, and $7 trillion, and in the year 2005, to $6.5 trillion. Come on. Where are we? Anybody.

Mr. KELLY. Well, I do not think that you are going to find any disagreement, certainly at this table and probably in this room, about your comments and about our apprehension of continued Federal budget deficits. I do not think that the American people will continue to tolerate this, and that is the message that they have registered loudly and clearly in the last year or more.

But we have to remember, what is past is past. We cannot turn back the clock. We have made spending and borrowing decisions over the last 15 years, Congress and the administration, that cannot be reversed. We have to look forward, and that is what this Congress is doing. It is looking forward. We are trying to get on a glide path to fiscal prudence, to fiscal responsibility. We have to, I think, be somewhat careful of rhetoric and deal with the reality and work on solving the problem, which is what you are doing.

Senator SIMPSON. Well, you can see how difficult it is. Politically, it is almost impossible. And the real vexing one, all of us on this committee surely understand, is that we have chosen, Democrats and Republicans alike, to "leave off the table" a little package that is worth $360 billion a year, which is called Social Security.

So I decided in my gay abandon that I would have a hearing on Social Security and its insolvency, and I could have starved to death in here. No one came. There was no water, no food pushed under the door. [Laughter.]

That very day, several people went out on the Floor of the U.S. Senate and said, do not let them touch Social Security. And I said, well, we were talking about that this morning and you never showed up. Then they run like rats for the hole.

So it is very interesting work as we leave off the table $360 billion worth of stuff and cannot even address how to get a start on doing something for those under 50 who will be cremated in this process. Do you agree with that?

Ms. HERING. I certainly think that balancing Social Security is probably the most important thing that someone my age can see Congress doing. First, Medicare and then Social Security. Sure.

Senator SIMPSON. Well, as I say, I just regret, and yet I am pleased and excited, that I was stuck on the Entitlements Commission because I learned too much, and then came here to see if we could bring some of it into fruition.

Thank you very much. I do read what you provide. If you would furnish me, please, your ideas on monetizing the debt or doing whatever you do to a debt when people say, well, we are paying it to ourselves, so why do we not just scrub it? I know that is terribly simplistic, but it is real American logic.

Thank you.

The CHAIRMAN. I apologize for our hurrying. Both Alan and I are now late for the vote. Hopefully they will hold it. Thank you very much for coming this morning. We apologize for the delay.

We are adjourned.

[Whereupon, at 11:10 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF JAMES L. BLUM

Mr. Chairman, I am pleased to appear before this Committee to discuss the federal debt limit. In my statement today, I will give some background information on the debt limit, including its relation to the deficit and its impact on financial markets. I will also discuss the Congressional Budget Office's (CBO's) projections of when we will reach the current debt ceiling; describe the pertinent dates regarding federal borrowing, cash inflows, and cash outlays that debt watchers should be concerned with; and outline potential Treasury action to cope with a borrowing crisis.

FEDERAL DEFICITS AND DEBT HELD BY THE PUBLIC

The large budget deficits of the 1980s and early 1990s have caused the federal debt to soar, a trend that would continue under current laws and spending practices. At the end of this fiscal year, debt held by the public will be $3.6 trillion. If there are no changes in federal taxing and spending policies, CBO estimates that debt held by the public will amount to $5.6 trillion by 2002. As a share of gross domestic product (GDP), it will rise to nearly 57 percent, up from 51 percent at the end of fiscal year 1995 and a post-World War II low of 24 percent in 1974 (see Figure 1).

The budget resolution adopted by the Congress in June seeks to reach balance by 2002 and stem the rise in borrowing from the public. In the meantime, there would be deficits, so debt held by the public would continue to grow, reaching $4.4 trillion by the end of 2002. Debt held by the public relative to GDP, however, would decline to 44 percent.

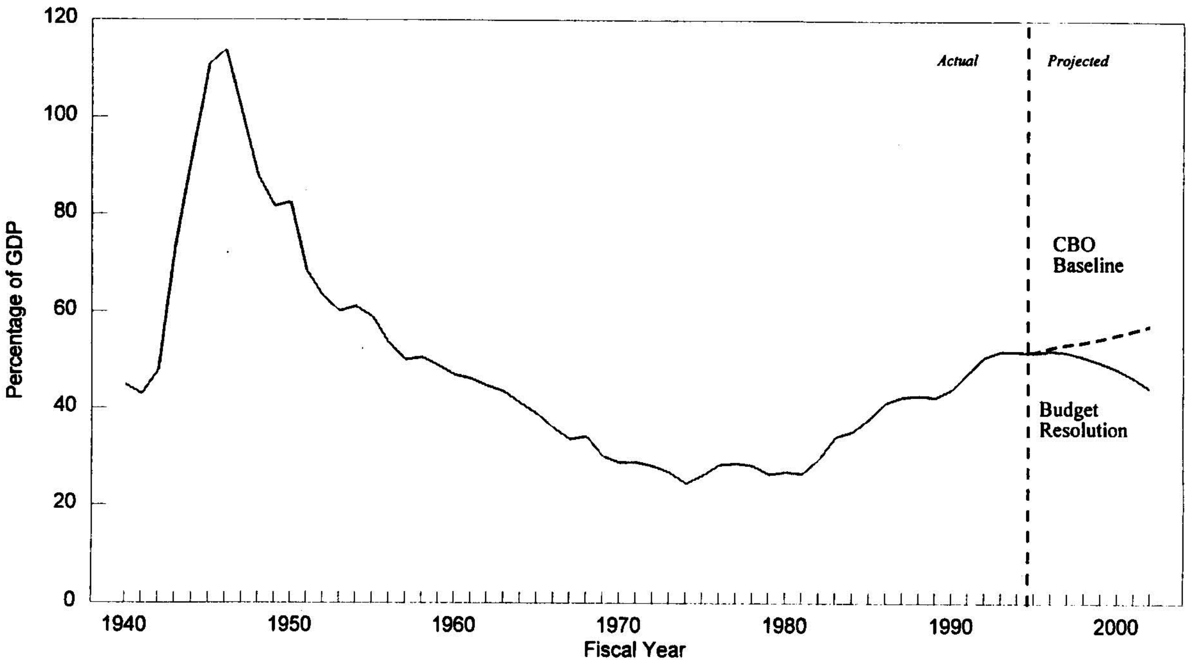
WHAT IS THE DEBT LIMIT AND WHY DO WE HAVE ONE?

Since the Second Liberty Bond Act was passed in 1917, the Congress, by statute, has set an overall dollar ceiling on the amount of debt that the Treasury can issue. The limit applies to nearly all debt of the federal government, including the special securities (Government Accounts Series) issued to trust funds and other government accounts. That internally held debt has grown quite rapidly in recent years as Social Security and other trust funds have run large surpluses. At the end of fiscal year 1995, CBO estimates, government-held debt will amount to $1.3 trillion compared with only $200 billion in 1980.

With rare exceptions, the limit on debt does not apply to debt issued by other federal agencies, which the Treasury does not control. However, few federal agencies have authority to conduct their own borrowing. The statutory limit also does not apply to debt issued by the Federal Financing Bank, which used its full authority during an interruption in the debt ceiling in 1985.

Debt subject to limit generally counts the face value of federal debt. Special rules, however, apply to securities that are sold at a discount. Savings bonds, Treasury bills, and zero-coupon bonds are all discount securities, meaning that holders of those securities collect no income at all from them until maturity, when they receive the face amount that reflects the initial purchase price plus accrued interest. If maturity is far in the future, the face amount of those securities greatly exaggerates their current worth. Hence, such securities are included in the debt subject to limit at their purchase price when they are first sold and then at gradually greater amounts until they mature.

FIGURE 1.
DEBT HELD BY THE PUBLIC AS A PERCENTAGE OF GDP



SOURCES: Office of Management and Budget for 1940-1994; Congressional Budget Office for 1995-2002.
NOTE: Projections based on June 1995 conference resolution and CBO April 1995 baseline.

Together, the deficit and the trust fund surplus easily explain most of the growth in debt subject to limit (see Table 1). The deficit largely determines what the Treasury must borrow in credit markets. The trust fund surplus drives the issuance of debt to federal government accounts. Because the income—mostly earmarked revenues (such as Social Security taxes) and interest—of trust funds is likely to continue to exceed their outlays, debt subject to limit will continue growing even after the budget is brought into balance. Under the budget resolution, the debt subject to limit would rise from its current ceiling of $4.9 trillion to nearly $6.7 trillion at the end of 2002.

TABLE 1.—PROTECTIONS OF DEBT SUBJECT TO LIMIT UNDER THE BUDGET RESOLUTION

[By fiscal year, in billions of dollars]

	1996	1997	1998	1999	2000	2001	2002
Debt Subject to Limit, Start of Year	4,890	5,197	5,497	5,767	6,026	6,276	6,490
Changes:							
Deficit	170	152	116	100	81	33	−6
Trust fund surplus	121	127	134	139	151	162	173
Other changes [1]	17	20	20	20	18	19	19
Total	308	299	270	259	250	215	185
Debt Subject to Limit, End of Year	5,197	5,497	5,767	6,026	6,276	6,490	6,675

[1] Mostly investments by government accounts that are not trust funds and net outlays of credit financing accounts.

Source: Congressional Budget Office.

Notes: The current statutory ceiling is $4,900 billion. Numbers may not add up to totals because of rounding.

The figures shown here are based on the outlay and revenue levels reported in the budget resolution. Those reported levels do not include the effects of a contingent tax cut the resolution provides for or the effect of the so-called fiscal dividend that CBO estimates would result from balancing the budget.

At one time, the debt ceiling may have been an effective control on the budget when most spending was subject to annual appropriations. But discretionary spending is now a much lower proportion of total spending, amounting to only 36 percent in 1995. Under the recently adopted budget resolution, discretionary outlays will continue to fall further to 27.5 percent by 2002. The rise in mandatory spending and growth of the trust fund surplus has turned the statutory limit on federal debt into an anachronism. Through its regular budget process, the Congress already has ample opportunity to vote on overall revenues, outlays, and deficits. Voting separately on the debt is ineffective as a means of controlling deficits because the decisions that necessitate borrowing are made elsewhere. By the time the debt ceiling comes up for a vote, it is too late to balk at paying the government's bills without incurring drastic consequences.

As a result, the debt limit in recent years has served mainly as a vehicle for other budgetary and unrelated legislation because raising the ceiling is considered to be "must pass" legislation. The debt limit is frequently used as a device to force action to obtain some other legislative goal. For example, in 1990, the Congress voted seven times on the debt limit between August 9 and November 5 as the budget summit meetings progressed and the Congress considered the resulting budget resolution and reconciliation bill.

WHAT ARE THE CONSEQUENCES OF NOT RAISING THE DEBT LIMIT?

Financial markets find the debt limit a periodic source of anxiety. The government has never defaulted on its principal and interest payments, nor has it failed to honor its other checks. However, even a temporary default—that is, a few days' delay in the government's ability to meet its obligations—could have serious repercussions in the financial markets. Those repercussions include a temporary rise in the overall level of U.S. interest rates relative to foreign rates, a temporary decline in the value of the dollar, and a permanent increase in federal borrowing costs relative to yields on other securities as investors realize that Treasury instruments are not immune to default.

Failing to raise the debt ceiling will not bring the government to a screeching halt the way that not passing appropriation bills would. Employees would not be sent home, and checks would continue to be issued. If the Treasury is low on cash, however, there could be delays in honoring checks and disruptions in the normal flow

of government services. Carried to its ultimate conclusion, defaulting on payments would have much graver economic consequences—such as loss of confidence in government and a higher risk premium on Treasury borrowing—than failing to pass a continuing resolution for discretionary appropriations.

CURRENT PROJECTIONS OF DEBT SUBJECT TO LIMIT

As of the end of June, debt subject to limit was $4.861 trillion, narrowly close to the current ceiling of $4.9 trillion. However, redemptions of some Government Account Series and State and Local Government Series debt have brought debt subject to limit down to $4.85 trillion today.

So when will the Treasury hit the ceiling? It is still too early to determine the particular week that the debt ceiling will be reached, much less a specific day. With the 1995 deficit now expected to total between $160 and $165 billion, the federal government should be able to squeak through September with a small amount of borrowing authority remaining.

After that point, when exactly the Treasury uses up its available authority will depend on the size and timing of upcoming cash drains and on the Treasury's cash balance at the beginning of the fiscal year. Normally, the Treasury enters a new fiscal year with a cash balance of $40 billion or so. Drawing on those cash reserves and using any remaining borrowing authority, the Treasury should be able to hold out until mid-October. Note, however, that those projections do not presuppose any unusual action by the Treasury. With a little ingenuity, the Treasury may even be able to hold out into early November.

IMPORTANT UPCOMING DATES

The date on which the debt ceiling is reached depends on the Treasury's borrowing schedule, which in turn is based on the government's cash outflows and cash inflows. The Treasury tries to maintain a predictable borrowing calendar to minimize uncertainty in the market and help reduce costs. Many receipts and outlays also follow a predictable pattern, which helps in projecting the Treasury's cash needs.

Borrowing

Treasury securities are generally issued according to a regular schedule, except cash management bills, which are issued when needed to temporarily cover shortfalls in cash balances (see Table 2 for expected issue dates from September through November). Three-month and six-month bills are auctioned on a weekly basis, with 52-week bills offered every four weeks. As for longer-term securities, two-year and five-year notes are sold at the end of each month, with three-year and 10-year notes auctioned quarterly and 30-year bonds sold twice a year.

TABLE 2.—CALENDAR OF TREASURY BORROWING, SEPTEMBER TO NOVEMBER 1995

Auction Date	Type of Issue	Settlement Date [1]
September 5	3-month bills	September 7
September 5	6-month bills	September 7
September 11	3-month bills	September 14
September 11	6-month bills	September 14
September 14	52-week bills	September 21
September 18	3-month bills	September 21
September 18	6-month bills	September 21
September 25	3-month bills	September 28
September 25	6-month bills	September 28
September 26	2-year notes	October 2
September 27	5-year notes	October 2
October 2	3-month bills	October 5
October 2	6-month bills	October 5
October 10	3-month bills	October 12
October 10	6-month bills	October 12
October 12	52-week bills	October 19
October 16	3-month bills	October 19
October 16	6-month bills	October 19
October 23	3-month bills	October 26
October 23	6-month bills	October 26
October 24	2-year notes	October 31

TABLE 2.—CALENDAR OF TREASURY BORROWING, SEPTEMBER TO NOVEMBER 1995—Continued

Auction Date	Type of Issue	Settlement Date[1]
October 25	5-year notes	October 31
October 30	3-month bills	November 2
October 30	6-month bills	November 2
November 6	3-month bills	November 9
November 6	6-month bills	November 9
November 7	3-year notes	November 15
November 8	10-year notes	November 15
November 9	52-week bills	November 16
November 13	3-month bills	November 16
November 13	6-month bills	November 16
November 20	3-month bills	November 23
November 20	6-month bills	November 23
November 21	2-year notes	November 30
November 22	5-year notes	November 30
November 27	3-month bills	November 30
November 27	6-month bills	November 30

[1] Date when debt is actually issued and the Treasury collects money.

Source: Congressional Budget Office based on regularly announced schedule of the Department of the Treasury.

Note: Does not include cash management bills.

The sizes of note and bond auctions are generally stable from one issuance to the next, usually varying in size by no more than $0.5 billion, if they change at all. Fluctuations in financing requirements are therefore made up through bill auctions. The predictability of Treasury issues, as well as the market's liquidity, helps the Treasury to borrow at the lowest cost possible.

Debt issued to trust funds plays an important role in calculating the debt limit. As shown in Table 3, debt held by government accounts represents over one-quarter of all outstanding debt subject to limit. Social Security, Medicare, and federal retirement trust funds account for the bulk of those holdings.

Purchases and sales of debt by trust funds are handled within the Treasury and do not flow through credit markets. Similarly, interest on those securities is simply an intragovernmental transfer: it is paid by one part of the government to another part and adds nothing to the deficit. Thus, participants in the financial markets view those investments accurately enough as a bookkeeping entry, an intragovernmental I.O.U. Nevertheless, transactions in Government Account Series debt accrue against the debt ceiling. Moreover, continued investment of trust fund surpluses may cause the Treasury to bump against the debt limit even without a major payment to the public or auction scheduled on that day. Indeed, a Civil Service Retirement lump sum payment of around $20 billion on September 30 and a Military Retirement lump sum payment of around $11 billion on October 1 will involve large issuances of Government Account Series debt.

TABLE 3.—RELATIONSHIP BETWEEN DEBT HELD BY THE PUBLIC AND DEBT SUBJECT TO LIMIT

[End of fiscal year, in billions of dollars]

	Actual			Projected
	1980	1985	1990	1995
Debt Held by the Public	710	1,500	2,411	3,605
Trust Funds:				
Social Security[1]	31	37	215	489
Medicare[2]	19	32	110	143
Civil Service Retirement	74	127	236	375
Military Retirement	0	12	65	110
Unemployment Insurance	13	17	51	48
Highway	11	12	17	17
Airport and Airways	5	7	14	12
Railroad Retirement	3	4	9	13
Federal Deposit Insurance Corporation[3]	10	16	([3])	([3])

TABLE 3.—RELATIONSHIP BETWEEN DEBT HELD BY THE PUBLIC AND DEBT SUBJECT TO LIMIT—Continued

[End of fiscal year, in billions of dollars]

	Actual			Projected
	1980	1985	1990	1995
Other	14	23	39	51
Subtotal	180	287	755	1,258
Other Government Accounts:				
Deposit insurance agencies[3]	5	7	11	29
Other[4]	14	24	29	38
Subtotal	19	31	41	67
Total	199	318	796	1,325
Gross Federal Debt	909	1,818	3,207	4,930
Exclusions from Debt Limit[5]	([6])	6	−45	−40
Debt Subject to Limit	909	1,824	3,161	4,890

[1] Old-Age and Survivors Insurance and Disability Insurance.

[2] b. Hospital Insurance (Medicare Part A) and Supplementary Medical Insurance (Part B).

[3] Until August 1989, the Federal Deposit Insurance Corporation Fund was classified as a trust fund. Its successor, the Bank Insurance Fund, is not a trust fund and is thus included in "other government accounts." Other deposit insurance funds include the Federal Savings and Loan Insurance Corporation (FSLIC) Fund and its successor, the FSLIC Resolution Fund; the Savings Association Insurance Fund; and the Credit Union Share Insurance Fund.

[4] Beginning in 1989, includes Treasury securities purchased in the open market by the Tennessee Valley Authority.

[5] Mostly debt issued by the Federal Financing Bank and debt issued by federal agencies other than the Treasury.

[6] Less than $500 million.

Source: Congressional Budget Office based on information from the Department of the Treasury and the Office of Management and Budget.

Note: Numbers may not add up to totals because of rounding.

Cash Inflows

If the Treasury is barred from borrowing, it can count only on taxes and other current receipts to replenish its cash balances. Withheld income and employment taxes are the backbone of the Treasury's deposits, accounting for the majority of all non-debt-related deposits. Withheld taxes flow in fairly smoothly at about $3 billion to $4 billion per day. By contrast, corporate income taxes are concentrated around four major payments dates: April 15, June 15, September 15, and December 15. Given today's large budget deficits, though, the Treasury cannot count on such inflows to cover its cash drains for very long.

Cash Outflows

Two large drains on the Treasury—cash benefit payments and cash interest payments—are particularly noteworthy. Nearly all cash benefit payments for Social Security and other retirement and disability programs go out between the first and third of the month. Currently, those programs drain the Treasury's cash by about $37 billion in the first week of the month.

Cash interest payments to owners of Treasury notes and bonds take place on fixed dates. The biggest spikes occur on midquarter refunding settlement dates: February 15, May 15, August 15, and November 15. Interest payments on those dates total around $25 billion. Smaller spikes (of $4 billion to $5 billion or so) occur on other semiannual cycles, mostly at the end of each month.

Other cash withdrawals for purposes as varied as federal employees' pay, defense contracts, grants to states and localities, and Medicare are less lumpy and average about $4 billion to $6 billion per day.

The November 15 interest payment date will present a very high hurdle for the Treasury to jump and may turn out to be the actual day of reckoning. October and November are both low-revenue—and therefore high-deficit—months. The Treasury borrowed more than $27 billion in the market last October and almost $37 billion in November to meet cash needs. Even if the Treasury manages to avoid cash flow problems into early November, it is unlikely to be able to raise enough money to pay note and bond holders their interest without an increase in the debt limit before November 15.

TREASURY OPTIONS TO COPE WITH INTERRUPTIONS IN BORROWING AUTHORITY

During an interruption in borrowing authority, the Treasury's main objectives are to avoid default, honor government obligations, and keep operations running. To do so, in the past the Treasury has adopted various tactics to cope with interruptions in the debt ceiling (see Table 4). Among the most common responses have been:

- *Suspending Sales of Nonmarketable Debt.* Suspending the sales of savings bonds, state and local government series, and other nonmarketable debt for the duration of the interruption is a more or less routine response.
- *Trimming or Delaying Auctions of Marketable Securities.* If the Treasury is unsure whether it can legally issue bills, notes, and bonds on the settlement date, it will not auction them.
- *Underinvestment of Government Trust Funds.* This practice has frequently proved unavoidable. In many cases, the Treasury could not invest trust fund receipts fully when it was up against the debt limit. The trust funds were properly credited, but they simply held large amounts of so-called uninvested balances. Upon the passage of a new debt ceiling, the Congress has routinely voted to invest those balances and replenish any trust funds that lost interest income as a result of the interruption.

Only once did the underinvestment of trust funds go a step further: in November 1985, the Treasury redeemed trust fund securities a few days early to create room under the debt ceiling to auction regular, marketable securities. The money raised in those auctions permitted the payment of benefits to Social Security recipients, otherwise imperiled by the Treasury's razor-thin cash balances. During a period when issuing debt has been suspended, the Treasury retains the option to disinvest particular trust funds.

TABLE 4.—RECENT INCREASES IN THE DEBT LIMIT

Enactment Date [1]	Amount of Limit (billions of dollars)	Expiration Date	Treasury Actions at Close [2]
Sept. 30, 1982.	1,290.2	Sept. 30, 1983.	Deteriorated budget outlook necessitated action well before expiration. Increase enacted May 1983 as a consequence of Social Security rescue package.
May 26, 1983.	1,389.0	Permanent .	Beginning late October 1983, delayed auctions; underinvested trust funds.
Nov. 21, 1983.	1,490.0	Permanent .	Beginning late April 1984, trimmed auctions; underinvested Social Security.
May 25, 1984.	1,520.0	Permanent .	Beginning late June 1984, trimmed auctions; underinvested Social Security.
July 6, 1984	1,573.0	Permanent .	Delayed auctions (beginning late September 1984); underinvested trust funds (beginning early September); cash situation not critical.
Oct. 13, 1984.	1,823.8	Permanent .	Prolonged interruption associated with debate over Balanced Budget and Emergency Deficit Control Act (commonly known as Gramm-Rudman). Underinvested trust funds beginning early September 1985; cut late-September auctions, worsening cash situation; issued debt through FFB in October; actively disinvested trust funds in order to pay benefits in early November.
Nov. 14, 1985.	1,903.8	Dec. 6, 1985	More or less timely increase.
Dec. 12, 1985.	2,078.7	Permanent .	Used FFB temporarily to credit Social Security and preserve regular auctions August 1–15, 1986; otherwise timely.
Aug. 21, 1986.	2,111.0	Permanent .	Used FFB authority; underinvested trust funds beginning September 30, 1986; delayed or cut auctions beginning late September; cash situation not critical.
Oct. 21, 1986.	2,300.0	May 15, 1987.	Timely increase at expiration.
May 15, 1987.	2,320.0	July 17, 1987.	Postponed some auctions beginning July 20, 1987; cash situation not critical.
July 30, 1987.	2,320.0	Aug. 6, 1987.	Postponed auctions normally held in early August but settling on August 15, 1987 (midquarter refunding).

TABLE 4.—RECENT INCREASES IN THE DEBT LIMIT—Continued

Enactment Date [1]	Amount of Limit (billions of dollars)	Expiration Date	Treasury Actions at Close [2]
Aug. 10, 1987.	2,352.0	Sept. 23, 1987.	Part of Balanced Budget and Emergency Deficit Control Reaffirmation Act (commonly known as Gramm-Rudman 11) package. Rescheduled auctions normally held September 21–24, 1987; otherwise timely.
Sept. 29, 1987.	2,800.0	Permanent .	More or less timely increase associated with savings and loan bill.
Aug. 7, 1989	2,870.0	Oct. 31, 1990.	Boosted auction sizes and accelerated settlements to build up cash balances in late October.
Nov. 8, 1989	3,122.7	Permanent .	More or less timely increase before Congressional recess.
Aug. 9, 1990	3,195.0	Oct. 2, 1990	Very short term increase associated with 1990 budget summit's conclusion.
Sept. 30, 1990.	3,195.0	Oct. 6, 1990	Very short term increase as 1990 budget summit agreement underwent modifications.
Oct. 9, 1990	3,195.0	Oct. 19, 1990.	Borrowed up to limit on October 19 while awaiting next increase.
Oct. 19, 1990.	3,195.0	Oct. 24, 1990.	Delayed several auctions normally held October 18–22, 1990, but settling after scheduled expiration of ceiling.
Oct. 25, 1990.	3,195.0	Oct. 27, 1990.	Compressed auctions and settlements into the period between October 25 and 27, 1990.
Oct. 28, 1990.	3,230.0	Nov. 5, 1990	Temporary limit until reconciliation bill (including Budget Enforcement Act) was signed.
Nov. 5, 1990	4,145.0	Permanent .	Postponed several auctions pending last-minute increase before Congressional recess.
April 6, 1993.	4,370.0	Sept. 30, 1993.	Next increase enacted August 1993 comfortably before expiration as part of OBRA–93.
Aug. 10, 1993.	4,900.0	Permanent .	Not yet expired.

[1] Date signed into law, typically one to seven days after passage by the Congress.

[2] Actions listed do not include suspension of sales of savings bonds and state and local government series, which are more or less routine responses to an interruption in the debt ceiling (especially after expiration of a temporary ceiling). From 1983 through 1990, the Social Security trust funds enjoyed a special arrangement under which they were credited on the first of the month with all revenues expected during that month. If fully invested, this credit caused the debt subject to limit to spike between $15 billion and $20 billion. On occasion, when constrained by the debt limit, the Treasury credited the trust funds as required but was unable to invest the resulting balances fully.

Source: Congressional Budget Office based on information from the Department of the Treasury and various news items.

Note: FFB = Federal Financing Bank.

CONCLUSIONS

Limiting the Treasury's borrowing authority is not a productive method of achieving deficit reduction. Significant deficit reduction can best be accomplished by legislative decisions that reduce outlays or increase revenues. Failing to raise the debt limit in a timely manner, while perhaps bringing a difficult vote on legislation to a head, only serves to make the Treasury's job of paying the government's bills more difficult. An extended delay could have a significant effect on the government's credibility and the interest rates that it must pay on future borrowing.

PREPARED STATEMENT OF JOHN D. HAWKE, JR.

I appreciate the opportunity to appear before you today to discuss issues relating to the debt limit. I commend you, Mr. Chairman, for bringing this matter up for hearing sufficiently in advance of the time the current ceiling will be reached so that this Committee will have an opportunity to deliberate in a thoughtful and orderly manner. My testimony will address in sequence each of the questions posed in the Chairman's letter to me of July 24, 1995.

THE NEED TO INCREASE THE DEBT LIMIT

On July 17, Secretary Rubin wrote to the Congressional leadership pointing out that the Treasury's current estimates show that the permanent ceiling of $4.9 trillion will be sufficient to provide cash for Government operations and payment obli-

gations until sometime in October. The exact date when the Treasury will run up against the limit is difficult to pinpoint, since it will depend upon a number of factors, including the timing of receipts and expenditures, which can deviate from our estimates over short time periods. Since this process deals with numbers of very large magnitude, even small deviations from estimates in percentage terms can translate into large changes in actual dollars. Also, the Office of Management and Budget is releasing additional details for the Midsession Review of the Budget for FY 1996 on Monday. As the cash flows estimated in the Midsession Review actually occur, our estimates of cash and debt may need to be refined. We will provide more information to Congress later this summer, as the need for a debt limit increase becomes more pressing.

With regard to the size of a debt limit increase, the Conference Report on the Concurrent Resolution on the Budget for FY 1996—recently passed by Congress—called for a permanent increase in the debt ceiling to not more than $5.5 trillion. We estimate that a ceiling increased to this level would not be reached until sometime in 1997. This would allow ample time to revisit the debt limit in a well-considered, orderly fashion.

IMPACTS OF DELAY—BORROWING DISRUPTIONS

The Committee has asked that I address the impact on the U.S. Treasury and the financial markets of a delay in raising the debt limit. Even modest delay threatens market dislocations, which could generally hamper Treasury borrowing operations and increase the Government's cost of financing. More extensive delay could precipitate a debt limit crisis that could significantly interrupt Government operations, delay millions of Federal payments, and spread fear and uncertainty about the Government's ability to pay its obligations.

Borrowing from the public. When there has been a delay in Congressional action to increase the debt limit in the past, it has generated market uncertainty about Treasury financing schedules. This uncertainty has tended to cause Treasury borrowing costs to be higher than they otherwise would have been. The Treasury will conduct its regular midquarter refunding operation in November, when the Treasury is scheduled to sell 3- and 10-year notes. If uncertainty related to enactment of an increase in the debt limit caused an increase of just 5 basis points (five one-hundredths of one percentage point) in the interest rate on the 10-year notes, the interest cost to the taxpayer would increase by $62.5 million.[1]

Disruptions in Treasury borrowing operations were acute during the debt limit impasse in 1990, when six temporary increases in the debt limit were enacted before it was increased permanently on November 5, 1990. The Treasury announced regularly scheduled auctions, but was forced to postpone them.[2] Large backlogs of borrowing operations resulted from the delays and, when debt limit increases were enacted, auction schedules were compressed. This meant that investors did not have time to plan acquisitions of Treasury securities, nor did the dealer community have time to distribute securities to their customers during the pre-auction period.

For example (shown in the table attached to my testimony), the Treasury announced an emergency issue of cash management bills on October 18, 1990, when we were assured of enactment of one of the six temporary increases in the limit. The bills were auctioned and issued on October 19. There usually is a week of pre-auction trading and another several days between the auction and issue dates.

In addition to disruptions of auctions of marketable Treasury securities, sales of savings bonds were suspended, which meant notifying 45,000 issuing agents to stop accepting applications and notifying them again to begin applications when there was room under the debt limit. Moreover, the Treasury was not able to follow normal procedures in issuing nonmarketable state and local government series securities, which may have caused would-be buyers to purchase government securities in the open market instead, with a resulting decline in Treasury sales of the lower yield nonmarketable securities.

Borrowing from Government accounts. About 165 Government accounts, including the social security trust funds, have statutory authority to invest with the Treasury. Under normal investment procedures, the Treasury invests net receipts in nonmarketable Treasury securities and reinvests proceeds of maturing securities to the extent that a particular fund does not need the proceeds for program purposes.

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[1] Based on $12.5 billion, the amount of 10-year notes offered in the May 1995 refunding, over the life of the notes.

[2] The Treasury cannot auction a marketable security unless it has assurance that there will be sufficient room under the debt ceiling to issue the security on the settlement date. Secondary market trading, which usually begins when a Treasury security is announced, cannot begin until enactment of debt limit legislation is assured.

Investments may be redeemed by the investing agencies to meet program needs, such as payment of social security benefits. Net investment increases the public debt.

When the debt limit is reached, the Treasury may be unable to invest or reinvest these funds, which may cause them to lose interest earnings[3] unless Congress ultimately acts to restore lost interest earnings of the Government accounts as part of its action increasing the permanent debt limit.

The most profound impact of protracted delay, of course, would be to cause apprehension in the markets about a potential default on Treasury obligations. The United States has never defaulted on its public debt, and while we are confident that Congress would not purposefully put Treasury in jeopardy of a default, a failure to address the debt limit in a timely manner would in itself generate uncertainty in the markets that would be harmful to the national interest.

ROLE OF DEBT LIMIT IN DEFICIT REDUCTION

Finally, the Committee has asked that I address the role of the debt limit in deficit reduction. As a practical matter, the debt limit itself does not have an impact on deficit reduction. The critical revenue-raising and spending decisions are made during the Congressional budget process, and budget resolutions propose levels of debt limit that are consistent with the budget deficit, investments of the Government accounts in Treasury securities, and borrowing to fund Federal lending programs.

Balancing the Federal budget can only be accomplished by changing revenue and spending policies. The Administration, in the strongest possible terms, urges you to de-couple the issues of raising the debt ceiling and reaching our mutual goal of a balanced budget.

Balancing the budget must be done in an orderly, careful, and thoughtful manner allowing for a full and open policy debate. It should not be subject to a last-minute effort to complete reconciliation just before hitting the debt ceiling. Such a rush, which threatens the shutdown of vital services to our citizens and the financial integrity of the market for Treasury securities, is in no one's interest.

CONCLUSION

We look to Congress to act in a timely manner to avert a debt limit crisis that could prevent the Government from meeting its obligations. The United States has never in its over 200-year history defaulted on any of its debt obligations, nor has it ever had its checks returned for insufficient funds. The consequences of either type of default would be enormously expensive and far-reaching. The public has a right to expect that this important issue will be addressed in a timely, orderly, and thoughtful manner, and we are pleased that this Committee has opened up the consideration of the matter in this spirit.

1990 Debt Limit: Market Disruptions

1. On August 1, Treasury announced the quarterly refunding (3-, 10-, and 30-year securities) with a caveat that the auctions would occur only if there was assurance of debt limit authority to issue them on August 15.
2. On August 6, Treasury announced that it would proceed with the refunding auctions. A temporary debt limit was signed on August 9. There was little pre-auction when-issued trading of the new issues between August 1 and August 6, which truncated the normal refunding distribution period.
3. On October 9, the temporary debt limit was extended through October 19.
4. On October 12, Treasury announced 52-week bill auction for October 18 with settlement on October 25, only if there was assurance of debt limit authority to issue them.
5. On October 16, Treasury announced regular weekly bills for auction on October 22, and settlement on October 25, with the debt limit caveat.
6. On October 17, Treasury announced the 2-year note for auction October 24 with the debt limit caveat.

[3] Exceptions are the Civil Service Retirement Fund and the Thrift Savings Fund of the Federal Employee Retirement System, which have automatic earnings restoration language in their statute.

7. On October 18, Treasury postponed auction for 52-week bills.
8. On October 18, Treasury, with assurance the temporary debt limit would be extended on October 19, announced $12.5 billion of 69-day cash management bills for auction and settlement on October 19.
9. On October 19, the temporary debt limit was extended through October 24.
10. On October 22, Treasury postponed auction of weekly bills.
11. On October 23, Treasury announced regular weekly bills for auction on October 29, with the debt limit caveat.
12. On October 24, Treasury postponed the 2-year auction because there was no assurance that the Treasury could settle on October 31.
13. On October 25, the temporary debt limit was extended through October 27. The Treasury rescheduled the 13-, 26-, and 52-week bill auctions for settlement prior to the expiration of the temporary debt limit. The 13- and 26-week bills were auctioned at 10:00 a.m. and settled the same day.
14. On October 26, the 52-week bills were auctioned at 10:00 a.m. and settled before close of business.
15. On October 26, Treasury rescheduled the 2-year auction for October 30, with the same debt limit caveat.
16. On October 28, the temporary debt limit was extended through November 5.
17. On October 29, the Treasury released two separate press releases: (1) reaffirming the October 30 date for the 2-year auction, which was just one day before the settlement date and (2) reaffirming the October 29 date for the weekly bill auction, in accordance with its announcement of October 23.
18. On November 5, a permanent debt ceiling was enacted.

DEPARTMENT OF THE TREASURY
WASHINGTON

October 3, 1995

UNDER SECRETARY

The Honorable Daniel P. Moynihan
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senator Moynihan:

It was a pleasure to appear before the Senate Finance Committee on July 28 to begin formal discussion of the need for an increase in the statutory debt limit this fall. I am replying to questions that arose at the hearing regarding the history of amendments to the debt limit and the ability of the Federal Financing Bank (FFB) to lend money during a debt limit impasse.

I am enclosing tables that display temporary and permanent changes in the debt limit since 1917. The statutory debt limit was originally enacted in 1917 to provide the Executive Branch with greater flexibility to borrow to finance U.S. participation in World War I. Previously, Congress had approved each bond issue. The 1917 Act predated by more than a half century the enactment of statutes that provide for the current budget framework, which requires consideration of the budget as a whole.

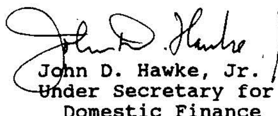
The FFB is a Government corporation under the general supervision of the Secretary of the Treasury. The purpose of the FFB is to reduce the costs of Federal and federally assisted borrowings from the public and to assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions. The FFB is able to meet these goals by borrowing funds from the Treasury Department and lending them to Federal or federally assisted borrowers.

If the Treasury ran out of cash and borrowing room under the debt limit, the Department would be unable to borrow from the public and would be unable to lend money to the FFB. The FFB would, in turn, be unable to lend money to its borrowers (which include rural electric and telephone cooperatives, the General Services Administration (GSA), Postal Service and SBA).

The FFB Act[1] authorizes the FFB to have outstanding debt obligations to the public in an amount not to exceed $15 billion. This authority was fully used during the debt limit impasse in 1985 to issue securities to the Civil Service Retirement Trust Fund. These securities are still outstanding and have maturities ranging from June 30, 2002 to June 30, 2004. Accordingly, there is no additional authority left for the FFB to issue obligations to the public.

I hope this information will be helpful. I am sending a similar letter to Chairman Roth.

Sincerely,



John D. Hawke, Jr.
Under Secretary for
Domestic Finance

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[1] 12 U.S.C. 2288(a).

TABLE 32.—*Debt limitation under the Second Liberty Bond Act, as amended, beginning 1917*

Date and act	History of legislation	Amount of limitation
Sept. 24, 1917		
40 Stat. 288	Sec. 1 authorized issuance of *bonds* in the amount of	$7,538,945,460
40 Stat. 290	Sec. 5 authorized *certificates* of indebtedness outstanding	4,000,000,000
Apr. 4, 1918		
40 Stat. 502	Amended sec. 1, increasing *bond* issuance authority to	12,000,000,000
40 Stat. 504	Amended sec. 5, increasing authority for *certificates* outstanding to	8,000,000,000
July 9, 1918		
40 Stat. 844	Amended sec. 1, increasing *bond* issuance authority to	20,000,000,000
Mar. 3, 1919		
40 Stat. 1311	Amended sec. 5, increasing authority for *certificates* outstanding to	10,000,000,000
40 Stat. 1309	Added sec. 18, authorizing issuance of *notes* in the amount of	7,000,000,000
Nov. 23, 1921		
42 Stat. 321	Amended sec. 18, providing limit on *notes* outstanding	7,500,000,000
June 17, 1929		
46 Stat 19	Amended sec. 5, authorizing *bills* in addition to certificates of indebtedness outstanding	10,000,000,000
Mar. 3, 1931		
46 Stat. 1506	Amended sec. 1, increasing *bond* issuance authority to	28,000,000,000
Jan. 30, 1934		
48 Stat. 343	Amended sec. 18, increasing authority for *notes* outstanding to	10,000,000,000
Feb. 4, 1935		
49 Stat. 20	Amended sec. 1, providing limit on *bonds* outstanding	25,000,000,000
49 Stat. 21	Added sec. 21, consolidating authority for *certificates* and *bills* (sec. 5) and authority for *notes* (sec. 18) outstanding	20,000,000,000
May 26, 1938		
52 Stat. 447	Amended sec. 21, consolidating authority for bonds, notes, certificates of indebtedness, and bills outstanding (*bonds* limited to $30 billion)	45,000,000,000
July 20, 1939		
53 Stat. 1071	Amended sec. 21, removing limitation on *bonds* without changing authorized total of bonds, notes, certificates of indebtedness, and bills outstanding	45,000,000,000
June 25, 1940		
54 Stat. 526	Amended sec. 21, adding new authority for issuance of $4 billion National Defense Series obligations outstanding	49,000,000,000
Feb. 19, 1941		
55 Stat 7	Amended sec. 21, eliminating authority for $4 billion of National Defense Series obligations and increasing limitation to	65,000,000,000

Excerpt from the Statistical Appendix to the Annual Report of the Secretary of the Treasury for FY 1980

HISTORICAL TABLES

Table 7.3—STATUTORY LIMITS ON FEDERAL DEBT: 1940–CURRENT

Date and Act	History of Legislation	Dollar Amount of Limit
June 25, 1940 54 Stat. 526	Amended sec. 21, adding new authority for issuance of $4 billion National Defense Series obligations outstanding	49,000,000,000
February 19, 1941 55 Stat. 7	Amended sec. 21, eliminating authority for $4 billion of National Defense Series obligations and increasing limitation to	65,000,000,000
March 28, 1942 56 Stat. 189	Amended sec. 21, increasing limitation to	125,000,000,000
April 11, 1943 57 Stat. 63	Amended sec. 21, increasing limitation to	210,000,000,000
June 9, 1944 58 Stat. 272	Amended sec. 21, increasing limitation to	260,000,000,000
April 3, 1945 59 Stat. 47	Amended sec. 21, including obligations guaranteed as to principal and interest by the United States and increasing limitation to	300,000,000,000
June 26, 1946 60 Stat. 316	Amended sec. 21, defining face amount of savings bonds to be current redemption value and decreasing limitation to	275,000,000,000
August 28, 1954 68 Stat. 895	Increasing sec. 21 limitation by $6 billion during period beginning August 28, 1954, and ending June 30, 1955	281,000,000,000
June 30, 1955 69 Stat. 241	Amended act of August 28,1954, extending increase in limitation until June 30, 1956	281,000,000,000
July 9, 1956 70 Stat. 519	Increased sec. 21 limitation by $3 billion during period beginning July 1, 1956, and ending June 30, 1957 Temporary increase terminated July 1, 1957, and limitation reverted to	278,000,000,000 275,000,000,000
February 26, 1958 72 Stat. 27	Increased sec. 21 limitation by $5 billion during period beginning February 26, 1958, and ending June 30, 1959	280,000,000,000
September 2, 1958 72 Stat. 1758	Amended sec. 21, increasing limitation to $283 billion, which with temporary increase of February 26, 1958 made limitation	288,000,000,000
June 30, 1959 73 Stat. 156	Amended sec. 21, increasing limitation to $285 billion and increased sec. 21 limitation by $10 billion during period beginning July 1, 1959, and ending June 30, 1960	295,000,000,000
June 30, 1960 74 Stat. 290	Increased sec. 21 limitation by $8 billion during period beginning July 1, 1960, and ending June 30, 1961	293,000,000,000
June 30, 1961 75 Stat. 148	Increased sec. 21 limitation by $13 billion during period beginning July 1, 1961, and ending June 30, 1962	298,000,000,000
March 13, 1962 76 Stat. 23	Increased sec. 21 limitation by $2 billion (in addition to temporary increase of $13 billion in act of June 30, 1961) during period beginning March 13, 1962, and ending June 30, 1962	300,000,000,000
July 1, 1962 76 Stat. 124	Increased sec. 21 limitation during the periods: (1) beginning July 1, 1962, and ending March 31, 1963, to (2) beginning April 1, 1963, and ending June 24, 1963, to (3) beginning June 25, 1963, and ending June 30, 1963, to	 308,000,000,000 305,000,000,000 300,000,000,000
May 29, 1963 77 Stat. 90	Increased sec. 21 limitation during the periods: (1) beginning May 29, 1963, and ending June 30, 1963, to (2) beginning July 1, 1963, and ending August 31, 1963, to	 307,000,000,000 309,000,000,000
August 27, 1963 77 Stat. 131	Increased sec. 21 limitation during the period beginning September 1, 1963, and ending November 30, 1963, to	309,000,000,000
November 26, 1963 77 Stat. 342	Increased sec. 21 limitation during the periods: (1) beginning December 1, 1963, and ending June 29, 1964, to (2) ending June 30, 1964, to	 315,000,000,000 309,000,000,000
June 29, 1964 78 Stat. 225	Increased sec. 21 limitation during the period beginning June 29, 1964, and ending June 30, 1965, to	324,000,000,000
June 24, 1965 79 Stat. 172	Increased sec. 21 limitation during the period beginning July 1, 1965, and ending June 30, 1966, to	328,000,000,000
June 24, 1966 80 Stat. 221	Increased sec. 21 limitation during the period beginning July 1, 1966, and ending June 30, 1967, to	330,000,000,000
March 2, 1967 81 Stat. 4	Increased sec. 21 limitation during the period beginning March 2, 1967, and ending June 30, 1967, to	336,000,000,000

Table 7.3—STATUTORY LIMITS ON FEDERAL DEBT: 1940–CURRENT—Continued

Date and Act	History of Legislation	Dollar Amount of Limit
June 30, 1967 81 Stat. 99	Sec. 21 amended to increase limitation on aggregate outstanding at any time to	358,000,000,000
	Sec. 21 amended also to increase the limitation temporarily, beginning July 1, 1968, and each July 1 thereafter for the period beginning July 1 and ending June 29 of each succeeding calendar year by $7 billion, providing an operating limitation of	365,000,000,000
April 7, 1969 83 Stat. 7	Amended sec. 21, increasing limitation to $365 billion, and increased sec. 21 limitation by $12 billion during period beginning April 7, 1969, and ending June 30, 1970	377,000,000,000
June 30, 1970 84 Stat. 368	Amended sec. 21, increasing limitation to $380 billion, and increased sec. 21 limitation by $15 billion during period beginning July 1, 1970, and ending June 30, 1971	395,000,000,000
March 17, 1971 85 Stat. 5	Amended sec. 21, increasing limitation to $400 billion, and increased sec. 21 limitation by $30 billion during period beginning March 17, 1971, and ending June 30, 1972	430,000,000,000
March 15, 1972 86 Stat. 63	Amended sec. 21, to further increase the limitation temporarily by $20 billion during period beginning March 15, 1972, and ending June 30, 1972	450,000,000,000
July 1, 1972 86 Stat. 406	Amended act of March 15, 1972, striking out June 30, 1972, and inserting in lieu thereof October 31, 1972	450,000,000,000
October 27, 1972 86 Stat. 1324	Increased sec. 21 limitation during the period beginning November 1, 1972, and ending June 30, 1973	465,000,000,000
July 1, 1973 86 Stat. 1324	Amended act of October 27, 1972, striking out June 30, 1973, and inserting in lieu thereof November 30, 1973	465,000,000,000
December 3, 1973 87 Stat. 691	Increased sec. 21 limitation during the period beginning December 3, 1973, and ending June 30, 1974	475,700,000,000
June 30, 1974 88 Stat. 285	Increased sec. 21 limitation during the period beginning June 30, 1974, and ending March 31, 1975	495,000,000,000
February 19, 1975 89 Stat. 5	Increased sec. 21 limitation during the period beginning February 19, 1975, and ending June 30, 1975	577,000,000,000
June 30, 1975 89 Stat. 246	Increased sec. 21 limitation during the period beginning June 30, 1975, and ending November 15, 1975	577,000,000,000
November 14, 1975 89 Stat. 693	Increased sec. 21 limitation during the period beginning November 14, 1975, and ending March 15, 1976	595,000,000,000
March 15, 1976 90 Stat. 217	Increased sec. 21 limitation during the period beginning March 15, 1976, and ending June 30, 1976	627,000,000,000
June 30, 1976 90 Stat. 793	Increased sec. 21 limitation during the periods:	
	(1) beginning July 1, 1976, and ending September 30, 1976, to	636,000,000,000
	(2) beginning October 1, 1976, and ending March 31, 1977, to	682,000,000,000
	(3) beginning April 1, 1977, and ending September 30, 1977, to	700,000,000,000
	Temporary increase terminated October 1, 1977, and limitation reverted to	400,000,000,000
October 4, 1977 91 Stat. 1090	Increased sec. 21 limitation by $352 billion during the period beginning October 4, 1977, and ending March 31, 1978	752,000,000,000
March 27, 1978 92 Stat. 185	Amended act of October 4, 1977, striking out March 31, 1978, and inserting in lieu thereof July 31, 1978	752,000,000,000
	Temporary increase terminated August 1, 1978, and limitation reverted to	400,000,000,000
August 3, 1978 92 Stat. 419	Increased sec. 21 limitation by $398 billion during the period beginning August 3, 1978, and ending March 31, 1979	798,000,000,000
	Temporary increase terminated April 1, 1979, and limitation reverted to	400,000,000,000
April 2, 1979 93 Stat. 8	Increased sec. 21 limitation by $430 billion during the period beginning April 2, 1979, and ending September 30, 1979	830,000,000,000
September 29, 1979 93 Stat. 589	Increased sec. 21 limitation by $479 billion during the period beginning September 29, 1979, and ending May 31, 1980	879,000,000,000
May 30, 1980 94 Stat. 421	Amended act of September 29, 1979, striking out May 31, 1980, and inserting in lieu thereof June 5, 1980	879,000,000,000
June 6, 1980 94 Stat. 439	Amended act of September 29, 1979, striking out June 5, 1980, and inserting in lieu thereof June 30, 1980	879,000,000,000
June 28, 1980 94 Stat. 598	Increased sec. 21 limitation by $525 billion during the period beginning June 28, 1980, and ending February 28, 1981	925,000,000,000
December 19, 1980 94 Stat. 3261	Increased the total debt limit (composed of $400.0 billion of permanent ceiling, $535.1 billion of temporary ceiling) to	935,100,000,000

Table 7.3—STATUTORY LIMITS ON FEDERAL DEBT: 1940–CURRENT—Continued

Date and Act	History of Legislation	Dollar Amount of Limit
February 7, 1981 95 Stat. 4	Increased the temporary portion of the debt limit to $585.0 billion through September 30, 1980, raising the total debt ceiling to	985,000,000,000
September 30, 1981 95 Stat. 955	Increased the temporary portion of the debt limit to $599.8 billion for one day—September 30, 1981	999,800,000,000
September 30, 1981 95 Stat. 956	Increased the temporary portion of the debt limit to $679.8 billion through September 30, 1982	1,079,800,000,000
June 28, 1982 96 Stat. 130	Increased the temporary portion of the debt limit to $743.1 billion through September 30, 1982	1,143,100,000,000
September 30, 1982 96 Stat. 1156	Increased the temporary portion of the debt limit to $890.2 billion through September 30, 1983	1,290,200,000,000
May 26, 1983 97 Stat. 196	Eliminated the distinction between permanent and temporary limit with the enactment of a single permanent limit. Raised the debt limit to	1,389,000,000,000
November 21, 1983 97 Stat. 1012	Increased the debt limit to	1,490,000,000,000
May 25, 1984 98 Stat. 211	Increased the debt limit to	1,520,000,000,000
July 6, 1984 98 Stat. 313	Increased the debt limit to	1,573,000,000,000
October 13, 1984 98 Stat. 475	Increased the debt limit to	1,823,800,000,000
November 14, 1985 99 Stat. 814	Increased the debt limit temporarily through December 6, 1985 to	1,903,800,000,000
December 12, 1985 99 Stat. 1037	Increased the debt limit to	2,078,700,000,000
August 21, 1986 100 Stat. 818	Increased the debt limit to	2,111,000,000,000
October 21, 1986 100 Stat. 1874	Increased the debt limit temporarily through May 15, 1987 to	2,300,000,000,000
May 15, 1987 101 Stat. 308	Increased the debt limit temporarily through July 17, 1987 to	2,320,000,000,000
July 30, 1987 101 Stat. 542	Increased the debt limit temporarily through August 6, 1987 to	2,320,000,000,000
August 10, 1987 101 Stat. 550	Increased the debt limit temporarily through September 23, 1987 to	2,352,000,000,000
September 29, 1987 101 Stat. 754	Increased the debt limit to	2,800,000,000,000
August 7, 1989 103 Stat. 182	Increased the debt limit temporarily through October 31, 1989 to	2,870,000,000,000
November 8, 1989 103 Stat. 830	Increased the debt limit to	3,122,700,000,000
August 9, 1990 104 Stat. 403	Increased the debt limit temporarily through October 2, 1990 to	3,195,000,000,000
October 2, 1990 104 Stat. 878	Increased the debt limit temporarily through October 6, 1990 to	3,195,000,000,000
October 9, 1990 104 Stat. 894	Increased the debt limit temporarily through October 19, 1990 to	3,195,000,000,000
October 19, 1990 104 Stat. 1030	Increased the debt limit temporarily through October 24, 1990 to	3,195,000,000,000
October 25, 1990 104 Stat. 1075	Increased the debt limit temporarily through October 27, 1990 to	3,195,000,000,000
October 28, 1990 104 Stat. 1086	Increased the debt limit temporarily through November 5, 1990 to	3,230,000,000,000
November 5, 1990 104 Stat. 1388	Increased the debt limit to	4,145,000,000,000
April 6, 1993 107 Stat. 42	Increased the debt limit temporarily through September 30, 1993 to	4,370,000,000,000
August 10, 1993 107 Stat. 312	Increased the debt limit to	4,900,000,000,000

PREPARED STATEMENT OF SUSAN HERING

Mr. Chairman and members of the committee, I am happy to be here today to offer Salomon Brothers' thoughts on a how a failure to raise the debt ceiling in a timely fashion would affect capital markets. I understand that under the normal course of events, the Treasury will hit the debt ceiling sometime late in October. This event inevitably will lead to disruptions in the normal pattern of debt issuance. Typically, there are four stages of disruption in a debt ceiling crisis. The first two stages are almost unnoticed by debt markets. The third stage causes modest difficulties for markets, but measurable costs for taxpayers. The fourth stage, which we have never experienced, would involve a full-blown crisis in which the Treasury defaults on its obligations. The crisis stage involves unknowable risks and should be avoided at all costs.

In the first stage, the Treasury is likely to suspend sales of savings bonds and securities sold directly to state and local governments. These suspensions typically do not create meaningful problems for our day-to-day trading in Treasuries. The securities in question are not publicly traded and whether the Treasury sells them or not will make little difference to public Treasury market participants. Of course, individuals and municipalities who might wish to buy these securities will be inconvenienced. In addition, the Treasury might miss the opportunity to sell securities to them altogether, placing a slightly bigger burden on the securities market that Salomon Brothers trades.

In the second stage, the Treasury would be unable to invest fully the surplus of trust funds, such as the Social Security trust fund. These surpluses as you know generally are invested in IOUs of the Federal Government that cannot be traded in public markets. Eventually, Treasury might even be forced to dis-invest funds previously invested in these securities. Once again, public debt markets will not be inconvenienced if this should occur. Indeed, they might not even know that it had occurred. The affected trust funds would notice, of course, including the Social Security trust fund, and the beneficiaries of those trust funds could always register a protest. The public debt markets would not be affected, however.

In the third stage, the Treasury, in an effort to keep its obligations under the existing debt ceiling, would begin to alter the normal size and timing of its publicly traded debt offerings. For example, on October 23, the Treasury might normally be expected to sell about $27 billion of three- and six-month Treasury bills. The issue would pay off maturing debt of about $25 billion and raise $2 billion of new cash. Without an ample debt ceiling, Treasury would be forced to reduce its offering by $2 billion. Consequently, the supply of Treasury bills might become a bit tighter. In a $750-billion bill market, however, the absent supply would barely be missed.

In addition, in this environment, the Treasury very likely would delay any longer-term debt auction, such as an issue due to mature in ten years, if the auction would raise a substantial sum of new funds for the Government. The Treasury would delay the security offering in hopes that it could sell the full amount once a new debt ceiling was in place.

This alternative begins to cause disruptions in the public debt markets, although they are generally mild. The first effect is to reduce trading activity slightly. Typically, Treasury dealers begin to trade a new debt issue as soon the Treasury announces an auction date. This is called when issued trading. But, dealers cannot trade a security if they do not know when, or even if, it will be auctioned or when they must pay for it. Consequently, when an auction is announced contingent on approval of a new debt ceiling, or postponed when a new ceiling is not approved, government dealers will not trade the security.

When the auction finally is rescheduled, the gap between the announcement and the selling date tends to be shorter than usual. As a result, traders have less opportunity to prepare for the auction. There is less time to track down buyers for the issue. In addition, it may be harder for individual investors to participate in these auctions, because they may not be certain when the sale will occur. Consequently, when the time comes to bid on the security on auction day, traders will bid less aggressively than is normal and fewer individual bids will be received. That means the new issue will carry a higher interest rate than it otherwise would have. If the delay adds just one one-hundredth of one percent to the yield on a 10-year note offering, the Treasury might pay an additional $12.5 million in interest on the issue over its 10-year life. The more securities that are delayed the more it costs the Treasury. Of course, it is the tax payer who ultimately foots the bill.

The U.S. Treasury market often has experienced the first three stages of a debt ceiling delay. Although confusion and frustration run high in the third stage, the debt market typically has survived with modest damage. In part, of course, the damage is limited because the delays have never turned into defaults. Market players

generally believe that the Treasury will not fail to pay interest or principal as it comes due. If participants thought that default was a possibility, this third stage of a debt crisis probably would become more painful in the future.

The final stage in a debt ceiling crisis would come if the Government ever ran out of cash and thus could no longer meet its legal obligations. Although the Treasury could continue to issue new debt as old debt matured, there would be more demands for the newly borrowed funds than there would be funds available. To be sure, the Treasury theoretically could pay off the old debt as new issues were sold. But that would force the Treasury to choose to honor debt holders over other legitimate claims such as interest payments, government salaries, Social Security payments or food stamps.

Failure to pay government salaries would not trouble debt markets directly, at least not right away. In fact, some market participants might cheer if government agencies were shuttered for a few days. But failure to make timely interest payments or even delay them temporarily would be highly detrimental to the Treasury market. Indeed, catastrophic might not be too strong a term to use.

Failure to redeem maturing debt or to meet interest payments would have several consequences, all unfavorable. First, failure to pay interest or principal would have severe ripple effects in the U.S. payments system. The Treasury's omission would cascade throughout the economy. Recall that Treasury securities are viewed as cash equivalents that are perfectly liquid. People and institutions structure their lives on that assumption. Pension funds, insurance companies, banks and individuals who are counting on those debt payments would likely face cash shortages. A retiree who lived on his interest income would be caught short. A pension fund manager would be unable to pay pension benefits. An insurance company would not be able to pay claims. Do not forget that the sums involved can be huge and the ripple effects easily could turn into tidal waves. Consider that on November 15, the Treasury must pay more the $22 billion of interest to private investors. This is still a huge sum of money.

Equally critical, a debt default would jeopardize the preeminent status of the U.S. Government as a risk-free debtor. In response to a missed interest payment or an outright default, investors could downgrade the credit quality of U.S. Treasury debt. That debt now enjoys the highest credit rating in the nation, and probably in the world. There is no guarantee that the U.S. credit will always be top-rated. In the country's early history, the U.S credit rating lagged behind the British rating, even though the U.S. carried a relatively light debt load. With a national debt that now exceeds 50% of GDP, the country must be considered more vulnerable to shifting sentiment. Any whiff of default would introduce substantial doubt about U.S. creditworthiness. and in debt markets, doubt is expressed in basis points. The longer the delay in passing a new debt ceiling, the longer the government delayed a debt or interest payment, the higher the interest rate that the Government might need to pay once it resumed normal debt sales.

Traders in foreign exchange markets also would lose confidence in the United States as a safe haven. The dollar likely would decline in value as foreign investors voted with their feet. This would raise the price of all imported goods, and levy a tax on all U.S. citizens.

It is impossible to predict by how much interest costs would rise or by how much the dollar would fall. Nor can any one can estimate how long it would take to restore investors' confidence. Remember that the United States has not defaulted since the 1780s. Thanks to prudent management, the U.S. Treasury market is esteemed worldwide for its regularity, its predictability, its liquidity and its credit worthiness. The Treasury market is the model mimicked by developing nations and established economies alike as they try to build more liquid, more efficient government debt markets. The confidence we have in the world's eyes is a priceless asset. Failing to make timely interest payments, or even worse, failing to pay off maturing debt in a timely fashion would blemish that status irrevocably.

Foreign investors in particular may be disturbed by a default, or even a temporary delay in interest payments. And foreign entities own more than $1 in $5 of U.S. Treasury debt. Foreign creditors can be particularly heartless in a crisis period. A key characteristic of highly efficient, global capital markets is that capital can be shifted across national boundaries in an instant.

Recall the example of Mexico's December devaluation crisis: Mexican interest rates rose into the stratosphere when the country's credit worthiness became doubtful. And Mexico was not the only victim. In a clear instance of guilt by association, markets downgraded many developing nations along with Mexico, particularly those in South America. Indeed, the United States suffered as well; interest rates rose temporarily and the dollar slid.

If the Treasury defaults, guilt by association could damage private U.S. borrowers, as well as the government. Corporations, municipalities and individuals likely would all face higher borrowing costs. Do not imagine that the U.S. would escape unscathed in the event of a default because the source of the default would be short-term political disputes rather than long-term fiscal difficulties. Countries can be downgraded for political unreliability as well as financial difficulty.

It might be instructive, to consider what happens to private corporations when they fail to meet their debt obligations. Typically, they are downgraded by debt rating agencies such as Moody's. A debt default easily could take a rating down by several notches. Even a single notch can add substantially to interest costs. For example, when Standard and Poor downgrades a top-rated corporation from AAA to AA status, the company probably will begin to pay another 10 basis points on long-term issues. That would boost a 5% interest rate to 5.1%. If, for just 12 months, the Treasury had to pay an additional 10 basis points on all of its newly issued debt with maturities of more than a year, the nation's annual debt service would rise by $500 million.

In summary, we cannot tell you the price of a default. Be assured, however, that it would be high. It would be ironic if Congress, in an effort to cut the deficit, raise U.S. saving and reduce interest rates, adopted a confrontational strategy that forced the government to pay higher interest rates.

PREPARED STATEMENT OF RICHARD M. KELLY

Thank you, Chairman Packwood, and good morning. My name is Dick Kelly, and I appear before you this morning as a member of the Board of Directors of the Public Securities Association ("PSA"). I am also Chairman of Aubrey G. Lanston & Co., Inc., a securities firm specializing in underwriting and dealing in U.S. government securities. In addition, I am a former Treasury Department Deputy Assistant Secretary for Debt Management.

PSA is the international trade organization of securities firms and banks that participate in the bond markets. PSA counts among its members all major dealers in U.S. government securities, including my own and 38 others that are recognized as primary dealers by the Federal Reserve Bank of New York.

PSA's members take an active interest in issues related to federal government finance, including the debate over the federal debt limit. As you know, the Treasury Department recently estimated that in the absence of an increase in the debt limit, it is likely to run out of cash and room under the $4.9 trillion debt ceiling sometime in October. If Congress fails to act in a timely manner, government financing operations will be interrupted, uncertainty in global financial markets will occur and the government's cost of borrowing will likely increase. Speculation regarding the outcome of the debt limit debate is beginning to evoke uncertainty among financial markets participants. I am hopeful that congressional attention to the issue will dispel that growing uncertainty. We therefore commend your leadership in calling this hearing, Chairman Packwood, and we appreciate the opportunity to comment.

It is possible that the debt limit debate could have far-reaching consequences for the federal government's overall fiscal management. Certainly, such issues are of interest to the capital markets and to PSA. However, I would like to confine my comments this morning to the potential effects of the debt limit debate on the Treasury securities market and on the government's borrowing.

THE TREASURY SECURITIES MARKET

The market for U.S. Treasury securities is the largest, most liquid and most active securities market in the world. It is the cornerstone of the world's money and capital markets. As of June 30, there were approximately $4.86 trillion of Treasury securities outstanding.[1]

Approximately $3.25 trillion consists of marketable securities. Approximately $190 billion of Treasury securities trade in the market on an average day.[2] The Treasury securities market is worldwide, encompassing investors from virtually every nation. Millions of Americans buy Treasury securities either directly or beneficially through pension funds, mutual funds or other vehicles. Investors have come

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[1] U.S. Department of the Treasury, *Monthly Statement of the Public Debt,* June 30, 1995, page one, Total Public Debt subject to limit.

[2] Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, July 1995, page A31.

to depend on Treasury securities as the most sound and stable investment instruments in the world. They are characterized by the market as free of credit risk.

In 1994, the Treasury issued approximately $2.11 trillion in new securities, both to redeem maturing debt ($1.95 trillion) and to raise new cash to finance the budget deficit ($163 billion).[3] Given the enormous size of the federal government's borrowing, market efficiency is vital to minimizing the Treasury's cost of borrowing. Based on the volume of government securities issued last year, if the Treasury had faced borrowing rates just one basis point (0.01 percentage point) higher than it did, interest payments associated with last year's issuance would have increased by $211 million annually.

As you know, the Treasury distributes its securities through a competitive auction process. In order to ensure market stability, the Treasury distributes a regular and widely publicized auction schedule for issuing securities. Market participants depend on this information to anticipate and plan for the placement of large amounts of securities—often in the tens of billions of dollars—over a short period of time. The predictability of the Treasury's security offerings reduces market uncertainty, and thus contributes to the efficiency of the market and helps reduce the federal government's borrowing costs.

DELAY IN TIMELY ACTION ON THE DEBT LIMIT

Daring the past two decades there have been several delays in timely Congressional action on the debt limit. Some episodes have been more serious than others. All delays have resulted in unnecessary confusion and uncertainty among financial market participants.

As a result of past delays, the Treasury has been forced to take a number of actions with regard to its financing activities. Sales of savings bonds have been suspended. Issuance of non-marketable securities to federal trust funds as well as official foreign institutions has also been halted. This would have resulted in a loss of interest income by the trust funds if Congress had not subsequently passed legislation to restore their earnings.

The Treasury has also been forced to postpone or even cancel new security offerings. In most instances, these new securities are intended to refund outstanding securities which are held by domestic and international investors. Many of these investors exchange their maturing securities for the Treasury's newly issued debt. Postponement or cancellation of regularly scheduled new security offerings may deny these investors this reinvestment opportunity. Other investors rely on the predictability of Treasury financings to invest expected cash inflows. Here again, delays in security offerings can be disruptive.

Unforeseen delays in the Treasury's financing schedule can be particularly confusing for foreign private investors. These investors have less knowledge of the intricacies of the budget process in the U.S. and in the unusual manner in which a debt limit delay can affect the Treasury's securities offerings At the end of March 1995, total foreign holdings of Treasury securities approximated $730 billion, or about 15 percent of total outstanding Treasury debt.[4]

Disruptions in the Treasury's financing pattern resulting from debt ceiling inaction can be potentially costly to the Treasury. Treasury financings allow a period of time between the announcement of the offering and the actual auction date of the security. This period generally varies from several days to one week. During this period, the particular security to be auctioned is eligible to be traded by financial market participants. Dealers, such as Lanston, are able to satisfy investors' demand by selling the security short to them. The cumulative amount of distribution to investors prior to the actual auction of the security is substantial. The end result is more aggressive auction bidding by dealers to replace securities already distributed to investors and, in turn, a lower financing cost to the Treasury.

Delays in passing a debt ceiling increase will generally interrupt this orderly and predictable process. Past experience shows that pre-auction trading periods have been abruptly shortened following enactment of the debt limit as the Treasury sought to quickly raise funds to prevent a default. On at least one occasion, the announcement, auction and settlement of special cash management bills occurred on the same day. The reduction of pre-auction distribution places a greater underwriting burden on dealers, which potentially increases the Treasury's borrowing cost.

More seriously, if the federal government missed a timely payment of interest or principal as a result of a debt ceiling confrontation, the consequences seem almost

[3] Source: Federal Reserve Bank of New York.
[4] Source: U.S. Treasury Department.

imponderable. Even the mere risk of default by the worlds most creditworthy public borrower, for whatever reason, cannot be tolerated.

Some see a debt ceiling confrontation as the financial market's equivalent to a high stakes game of chicken. If a similar situation was faced by a less creditworthy borrower, their ability to obtain financing at a reasonable cost could be significantly impaired. The ability of the federal government to consistently borrow substantial amounts of new money with virtually no financial market disruption is a precious asset that is not well understood or appreciated. Care should be taken to insure that this financing ability, which ultimately results in a significant savings for the taxpayer, is not disrupted.

SUMMARY

PSA has long been an avid supporter of responsible approaches to deficit reduction. A smaller federal deficit is beneficial for private borrowers in the capital markets and conducive to sustained, non-inflationary economic growth. We support the joint budget resolution recently passed by Congress because it reflects a responsible and expedient approach to deficit reduction. We are also sensitive to the challenges associated with implementing such monumental legislation.

However, we hope that congressional consideration of the federal debt limit will not become embroiled in a debate over more far-reaching and controversial issues. If it does, the result would likely be significant market disruption, increased federal borrowing costs, and ironically, a larger federal deficit. We are hopeful that all parties to the debate will work together in good faith to resolve the issue before we are faced with these undesired consequences.

Again, thank you for the opportunity to present my views. I look forward to your questions.

PREPARED STATEMENT OF NICK SMITH

Mr. Chairman, members of the Committee:

The real issue before the committee today is: "Are we willing to use the debt ceiling as leverage to ensure that we achieve a balanced budget by 2002?" As we are all aware, the United States government has grown to gigantic proportions. Federal outlays in fiscal year 1996 will be nearly $1.6 trillion. Only twenty years ago, they were $371 billion, barely one-fifth of what we expect to spend next year. Since 1948, outlays have grown from slightly more than 12% of Gross Domestic Product to 22% in FY 96.

We are here today because the public debt is approaching $4.9 trillion, its statutory limit. This enormous figure does not include the more than $13 trillion of unfunded liabilities for Social Security, Medicare, and government pensions. As we consider increasing the debt ceiling, it is important to put this in perspective. The federal debt as we began the 1970s was $365 billion. That means that we will amass more debt in the next year and half than we did in the first 194 years of our nation's existence—through the Revolutionary War, the War of 1812, the Civil War, Two World Wars, the Great Depression, the Korean War and much of the Vietnam War.

Today, our net interest payments exceed the entire federal budget in 1973. Chairman Greenspan has warned us against continued accumulations of this debt. That is why Rep. Chris Shays and I, along with 152 of our colleagues in the House, signed a letter to the President pledging to oppose an increase in the debt limit unless legislation is enacted to balance the budget by the year 2002.

Balancing the budget seven years from now is hardly an extreme position. Even under this limitation, a child born today will be in second grade before the government balances its budget and stops obligating his or her future earnings.

My colleagues and I are prepared to limit the government's ability to borrow to enforce our position. The committee is aware of the dire consequences of not balancing the budget. The effect of government's massive entrance into the financial capital markets is to reduce domestic investment and the supply of physical capital. What this means is: the workers of today and in the future will have fewer and less advanced tools to work with. The result is a lower standard of living and dim prospects for future generations.

Use of the debt limit as leverage is not without precedent. In 1985, during the Gramm-Rudman debate, there was a prolonged interruption of authority to issue new debt. Beginning in early September 1985, the Treasury underinvested the trust funds. In late September, it cut auctions. In October, it issued debt through the Federal Financing Bank. And in early November, it disinvested the trust funds. The Federal Financing Bank, created in 1973, used its authority to issue up to $15 billion of its own debt that is not subject to the statutory limit. Today, the Bank's borrowing has reached the $15 billion limit.

In 1990, the debt limit was reached during the budget debate. In a five week period from September 30 to November 5, the debt limit was raised six times as Congress negotiated with the President. We are no less willing than prior Congresses to use the debt ceiling to obtain our goal. (I have attached for the Committee's review a history of the debt ceiling legislation since 1945.)

While our position is uncompromising, it is not reckless. These examples show that Treasury has several mechanisms that it can use, and has used in the past, to maintain its cash position after it reaches the debt ceiling. There are others testifying today who can speak in more detail about how Treasury manages its cash flow in such situations. But we do not drop off the planet. Social Security checks still go out.

Treasury officials have told us, however, that if a prolonged period passes without new debt authority, they would have no authority to determine which government obligations to meet with available funds. Congressman Chris Shays and I recently introduced legislation (H.R. 2098) to solve this problem by allowing the President to prioritize government payments. While this approach raises important questions about congressional authority over federal spending, we hope that our bill can serve as a working draft as Congress tackles these questions.

Let me close by reminding the Committee that Thomas Jefferson, in his second inaugural address, warned us against "encroaching on the rights of future generations by burdening them with the debts of the past." My colleagues and I are prepared to heed his advice.

Congress of the United States
Washington, DC 20515

June 30, 1995

The Honorable William Clinton
President of the United States
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear Mr. President:

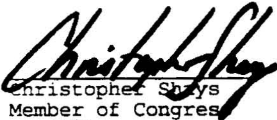
We are writing you to express our deep concerns about increasing the public debt limit.

Later this year, the House and Senate will be asked to increase the national debt ceiling. The total federal debt is now $4.77 trillion. The current debt limit -- passed in 1993 -- is $4.9 trillion. We expect to reach that limit by September or October of this year.

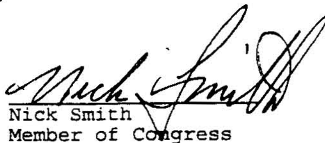
As you are aware, fiscal conservatives of both parties have consistently opposed increases in the debt ceiling. We believe we should pass legislation that puts our fiscal house in order prior to voting to increase the debt ceiling.

You opposed a balanced budget amendment. While you recently presented a new budget, your plan does not provide for balance within seven years, or even ten years according to the Congressional Budget Office (CBO). Under these circumstances, we, the undersigned, will not vote to increase the debt ceiling until legislation is enacted ensuring the government is on a true glide path to a balanced budget by 2002 or sooner.

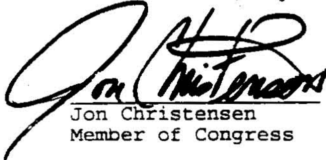
Sincerely,



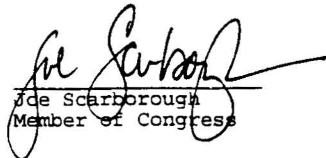
Christopher Shays
Member of Congress



Nick Smith
Member of Congress



Jon Christensen
Member of Congress



Joe Scarborough
Member of Congress

I

104TH CONGRESS
1ST SESSION

H. R. 2098

To amend title 31, United States Code, to authorize the Secretary of the Treasury to manage the cash position of the United States Government whenever it is unable to borrow sufficient funds to meet its needs.

IN THE HOUSE OF REPRESENTATIVES

JULY 21, 1995

Mr. SMITH of Michigan (for himself and Mr. SHAYS) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend title 31, United States Code, to authorize the Secretary of the Treasury to manage the cash position of the United States Government whenever it is unable to borrow sufficient funds to meet its needs.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 3101 of title 31, United States Code, is
4 amended by adding at the end the following new sub-
5 section:
6 "(d) Whenever the United States Government is un-
7 able to borrow in a timely manner sufficient funds to meet
8 its needs because of the limit set forth in subsection (b),

1 the Secretary of the Treasury is authorized to manage the
2 cash position of the United States Government pursuant
3 to priorities established by the President for making pay-
4 ments.”.

○

Table 7.3—STATUTORY LIMITS ON FEDERAL DEBT: 1940–CURRENT

Date and Act	History of Legislation	Dollar Amount of Limit
June 25, 1940 54 Stat. 526	Amended sec. 21, adding new authority for issuance of $4 billion National Defense Series obligations outstanding	49,000,000,000
February 19, 1941 55 Stat. 7	Amended sec. 21, eliminating authority for $4 billion of National Defense Series obligations and increasing limitation to	65,000,000,000
March 28, 1942 56 Stat. 189	Amended sec. 21, increasing limitation to	125,000,000,000
April 11, 1943 57 Stat. 63	Amended sec. 21, increasing limitation to	210,000,000,000
June 9, 1944 58 Stat. 272	Amended sec. 21, increasing limitation to	260,000,000,000
April 3, 1945 59 Stat. 47	Amended sec. 21, including obligations guaranteed as to principal and interest by the United States and increasing limitation to	300,000,000,000
June 26, 1946 60 Stat. 316	Amended sec. 21, defining face amount of savings bonds to be current redemption value and decreasing limitation to	275,000,000,000
August 28, 1954 68 Stat. 895	Increasing sec. 21 limitation by $6 billion during period beginning August 28, 1954, and ending June 30, 1955	281,000,000,000
June 30, 1955 69 Stat. 241	Amended act of August 28,1954, extending increase in limitation until June 30, 1956	281,000,000,000
July 9, 1956 70 Stat. 519	Increased sec. 21 limitation by $3 billion during period beginning July 1, 1956, and ending June 30, 1957	278,000,000,000
	Temporary increase terminated July 1, 1957, and limitation reverted to	275,000,000,000
February 26, 1958 72 Stat. 27	Increased sec. 21 limitation by $5 billion during period beginning February 26, 1958, and ending June 30, 1959	280,000,000,000
September 2, 1958 72 Stat. 1758	Amended sec. 21, increasing limitation to $283 billion, which with temporary increase of February 26, 1958 made limitation	288,000,000,000
June 30, 1959 73 Stat. 156	Amended sec. 21, increasing limitation to $285 billion and increased sec. 21 limitation by $10 billion during period beginning July 1, 1959, and ending June 30, 1960	295,000,000,000
June 30, 1960 74 Stat. 290	Increased sec. 21 limitation by $8 billion during period beginning July 1, 1960, and ending June 30, 1961	293,000,000,000
June 30, 1961 75 Stat. 148	Increased sec. 21 limitation by $13 billion during period beginning July 1, 1961, and ending June 30, 1962	298,000,000,000
March 13, 1962 76 Stat. 23	Increased sec. 21 limitation by $2 billion (in addition to temporary increase of $13 billion in act of June 30, 1961) during period beginning March 13, 1962, and ending June 30, 1962	300,000,000,000
July 1, 1962 76 Stat. 124	Increased sec. 21 limitation during the periods:	
	(1) beginning July 1, 1962, and ending March 31, 1963, to	308,000,000,000
	(2) beginning April 1, 1963, and ending June 24, 1963, to	305,000,000,000
	(3) beginning June 25, 1963, and ending June 30, 1963, to	300,000,000,000
May 29, 1963 77 Stat. 90	Increased sec. 21 limitation during the periods:	
	(1) beginning May 29, 1963, and ending June 30, 1963, to	307,000,000,000
	(2) beginning July 1, 1963, and ending August 31, 1963, to	309,000,000,000
August 27, 1963 77 Stat. 131	Increased sec. 21 limitation during the period beginning September 1, 1963, and ending November 30, 1963, to	309,000,000,000
November 26, 1963 77 Stat. 342	Increased sec. 21 limitation during the periods:	
	(1) beginning December 1, 1963, and ending June 29, 1964, to	315,000,000,000
	(2) ending June 30, 1964, to	309,000,000,000
June 29, 1964 78 Stat. 225	Increased sec. 21 limitation during the period beginning June 29, 1964, and ending June 30, 1965, to	324,000,000,000
June 24, 1965 79 Stat. 172	Increased sec. 21 limitation during the period beginning July 1, 1965, and ending June 30, 1966, to	328,000,000,000
June 24, 1966 80 Stat. 221	Increased sec. 21 limitation during the period beginning July 1, 1966, and ending June 30, 1967, to	330,000,000,000
March 2, 1967 81 Stat. 4	Increased sec. 21 limitation during the period beginning March 2, 1967, and ending June 30, 1967, to	336,000,000,000

Table 7.3—STATUTORY LIMITS ON FEDERAL DEBT: 1940–CURRENT—Continued

Date and Act	History of Legislation	Dollar Amount of Limit
June 30, 1967 81 Stat. 99	Sec. 21 amended to increase limitation on aggregate outstanding at any time to	358,000,000,000
	Sec. 21 amended also to increase the limitation temporarily, beginning July 1, 1968, and each July 1 thereafter for the period beginning July 1 and ending June 29 of each succeeding calendar year by $7 billion, providing an operating limitation of	365,000,000,000
April 7, 1969 83 Stat. 7	Amended sec. 21, increasing limitation to $365 billion, and increased sec. 21 limitation by $12 billion during period beginning April 7, 1969, and ending June 30, 1970	377,000,000,000
June 30, 1970 84 Stat. 368	Amended sec. 21, increasing limitation to $380 billion, and increased sec. 21 limitation by $15 billion during period beginning July 1, 1970, and ending June 30, 1971	395,000,000,000
March 17, 1971 85 Stat. 5	Amended sec. 21, increasing limitation to $400 billion, and increased sec. 21 limitation by $30 billion during period beginning March 17, 1971, and ending June 30, 1972	430,000,000,000
March 15, 1972 86 Stat. 63	Amended sec. 21, to further increase the limitation temporarily by $20 billion during period beginning March 15, 1972, and ending June 30, 1972	450,000,000,000
July 1, 1972 86 Stat. 406	Amended act of March 15, 1972, striking out June 30, 1972, and inserting in lieu thereof October 31, 1972	450,000,000,000
October 27, 1972 86 Stat. 1324	Increased sec. 21 limitation during the period beginning November 1, 1972, and ending June 30, 1973	465,000,000,000
July 1, 1973 86 Stat. 1324	Amended act of October 27, 1972, striking out June 30, 1973, and inserting in lieu thereof November 30, 1973	465,000,000,000
December 3, 1973 87 Stat. 691	Increased sec. 21 limitation during the period beginning December 3, 1973, and ending June 30, 1974	475,700,000,000
June 30, 1974 88 Stat. 285	Increased sec. 21 limitation during the period beginning June 30, 1974, and ending March 31, 1975	495,000,000,000
February 19, 1975 89 Stat. 5	Increased sec. 21 limitation during the period beginning February 19, 1975, and ending June 30, 1975	577,000,000,000
June 30, 1975 89 Stat. 246	Increased sec. 21 limitation during the period beginning June 30, 1975, and ending November 15, 1975	577,000,000,000
November 14, 1975 89 Stat. 693	Increased sec. 21 limitation during the period beginning November 14, 1975, and ending March 15, 1976	595,000,000,000
March 15, 1976 90 Stat. 217	Increased sec. 21 limitation during the period beginning March 15, 1976, and ending June 30, 1976	627,000,000,000
June 30, 1976 90 Stat. 793	Increased sec. 21 limitation during the periods:	
	(1) beginning July 1, 1976, and ending September 30, 1976, to	636,000,000,000
	(2) beginning October 1, 1976, and ending March 31, 1977, to	682,000,000,000
	(3) beginning April 1, 1977, and ending September 30, 1977, to	700,000,000,000
	Temporary increase terminated October 1, 1977, and limitation reverted to	400,000,000,000
October 4, 1977 91 Stat. 1090	Increased sec. 21 limitation by $352 billion during the period beginning October 4, 1977, and ending March 31, 1978	752,000,000,000
March 27, 1978 92 Stat. 185	Amended act of October 4, 1977, striking out March 31, 1978, and inserting in lieu thereof July 31, 1978	752,000,000,000
	Temporary increase terminated August 1, 1978, and limitation reverted to	400,000,000,000
August 3, 1978 92 Stat. 419	Increased sec. 21 limitation by $398 billion during the period beginning August 3, 1978, and ending March 31, 1979	798,000,000,000
	Temporary increase terminated April 1, 1979, and limitation reverted to	400,000,000,000
April 2, 1979 93 Stat. 6	Increased sec. 21 limitation by $430 billion during the period beginning April 2, 1979, and ending September 30, 1979	830,000,000,000
September 29, 1979 93 Stat. 589	Increased sec. 21 limitation by $479 billion during the period beginning September 29, 1979, and ending May 31, 1980	879,000,000,000
May 30, 1980 94 Stat. 421	Amended act of September 29, 1979, striking out May 31, 1980, and inserting in lieu thereof June 6, 1980	879,000,000,000
June 6, 1980 94 Stat. 439	Amended act of September 29, 1979, striking out June 6, 1980, and inserting in lieu thereof June 30, 1980	879,000,000,000
June 28, 1980 94 Stat. 598	Increased sec. 21 limitation by $525 billion during the period beginning June 28, 1980, and ending February 28, 1981	925,000,000,000
December 19, 1980 94 Stat. 3261	Increased the total debt limit (composed of $400.0 billion of permanent ceiling, $535.1 billion of temporary ceiling) to	935,100,000,000

Table 7.3—STATUTORY LIMITS ON FEDERAL DEBT: 1940–CURRENT—Continued

Date and Act	History of Legislation	Dollar Amount of Limit
February 7, 1981 95 Stat. 4	Increased the temporary portion of the debt limit to $585.0 billion through September 30, 1980, raising the total debt ceiling to	985,000,000,000
September 30, 1981 95 Stat. 955	Increased the temporary portion of the debt limit to $599.8 billion for one day—September 30, 1981	999,800,000,000
September 30, 1981 95 Stat. 958	Increased the temporary portion of the debt limit to $679.8 billion through September 30, 1982	1,079,800,000,000
June 28, 1982 96 Stat. 130	Increased the temporary portion of the debt limit to $743.1 billion through September 30, 1982	1,143,100,000,000
September 30, 1982 96 Stat. 1156	Increased the temporary portion of the debt limit to $890.2 billion through September 30, 1983	1,290,200,000,000
May 26, 1983 97 Stat. 196	Eliminated the distinction between permanent and temporary limit with the enactment of a single permanent limit. Raised the debt limit to	1,389,000,000,000
November 21, 1983 97 Stat. 1012	Increased the debt limit to	1,490,000,000,000
May 25, 1984 98 Stat. 211	Increased the debt limit to	1,520,000,000,000
July 6, 1984 98 Stat. 313	Increased the debt limit to	1,573,000,000,000
October 13, 1984 98 Stat. 475	Increased the debt limit to	1,823,800,000,000
November 14, 1985 99 Stat. 814	Increased the debt limit temporarily through December 6, 1985 to	1,903,800,000,000
December 12, 1985 99 Stat. 1037	Increased the debt limit to	2,078,700,000,000
August 21, 1986 100 Stat. 818	Increased the debt limit to	2,111,000,000,000
October 21, 1986 100 Stat. 1874	Increased the debt limit temporarily through May 15, 1987 to	2,300,000,000,000
May 15, 1987 101 Stat. 308	Increased the debt limit temporarily through July 17, 1987 to	2,320,000,000,000
July 30, 1987 101 Stat. 542	Increased the debt limit temporarily through August 6, 1987 to	2,320,000,000,000
August 10, 1987 101 Stat. 550	Increased the debt limit temporarily through September 23, 1987 to	2,352,000,000,000
September 29, 1987 101 Stat. 754	Increased the debt limit to	2,800,000,000,000
August 7, 1989 103 Stat. 182	Increased the debt limit temporarily through October 31, 1989 to	2,870,000,000,000
November 8, 1989 103 Stat. 830	Increased the debt limit to	3,122,700,000,000
August 9, 1990 104 Stat. 403	Increased the debt limit temporarily through October 2, 1990 to	3,195,000,000,000
October 2, 1990 104 Stat. 878	Increased the debt limit temporarily through October 6, 1990 to	3,195,000,000,000
October 9, 1990 104 Stat. 894	Increased the debt limit temporarily through October 19, 1990 to	3,195,000,000,000
October 19, 1990 104 Stat. 1030	Increased the debt limit temporarily through October 24, 1990 to	3,195,000,000,000
October 25, 1990 104 Stat. 1075	Increased the debt limit temporarily through October 27, 1990 to	3,195,000,000,000
October 28, 1990 104 Stat. 1086	Increased the debt limit temporarily through November 5, 1990 to	3,230,000,000,000
November 5, 1990 104 Stat. 1388	Increased the debt limit to	4,145,000,000,000
April 6, 1993 107 Stat. 42	Increased the debt limit temporarily through September 30, 1993 to	4,370,000,000,000
August 10, 1993 107 Stat. 312	Increased the debt limit to	4,900,000,000,000

CRS Issue Brief

The Debt Limit

Updated July 12, 1995

by
Philip D. Winters
Economics Division

Congressional Research Service • The Library of Congress

The Debt Limit

SUMMARY

The current debt limit, $4.9 trillion, will be reached sometime late in the summer or early in the fall of 1995. Without an increase in the limit, the Government will be unable to borrow the money it needs to pay for all of its legal obligations.

The debt limit was raised to its current level by the Omnibus Budget Reconciliation Act of 1993. It was adopted by Congress in early August 1993 and signed by President Clinton on Aug. 10, 1993 (P.L. 103-66, H.R. 2264).

Earlier in 1993, President Clinton signed legislation on Apr. 7, 1993 (H.R. 1430, P.L. 103-12) to temporarily increase the public debt limit through September 1993. The legislation raised the limit to $4.37 trillion from $4.145 trillion.

The need to periodically increase the debt limit, in part, is the result of the fiscal policy choices made by the Congress and the President. Fiscal policy decisions that include deficits require the Government to borrow to fulfill its obligations. This borrowing increases Federal debt, which will eventually reach the existing debt limit. Only if the debt limit is raised periodically, eliminated, or raised so high it would not be reached can the sporadic debt limit debate and action be avoided. To not raise the limit when it is reached means the Government cannot borrow the money it needs to fulfill the legal obligations it previously committed itself to.

The previous increase, prior to 1993, occurred in late 1990, when President Bush signed H.R. 5835 into law (P.L. 101-508) on Nov. 5, 1990. This was the Omnibus Budget Reconciliation Act of 1990 (often called the 1990 budget agreement), and included an increase in the permanent debt limit from the earlier level of $3.1227 trillion to $4.145 trillion (there were a series of temporary increases in the limit that fall). Little debate actually centered on the increase in the debt limit. At the time, the higher limit was expected to be sufficient through April or May of 1993.

Opponents of raising the debt limit argue that it is one of the only ways they have of protesting the continuation of deficit spending. If the debt limit were not increased when necessary, the Government's inability to borrow would immediately end deficit spending. Failure to raise the limit, however, has the potential to severely disrupt Government operations in the short run and greatly increase costs in the long run. An instant ending of Government borrowing would mean that bills would only be paid out of current receipts, leading to defaults on interest payments and payments to contractors as well as an inability to make all required benefit payments. Defaults would cause increased future costs as lenders demanded higher interest and contractors demanded risk premiums and advance payments. The only safe and sure way to avoid increasing the debt limit is to eliminate the underlying problem, the deficit, and avoid increasing the debt.

MOST RECENT DEVELOPMENTS

The debt limit will be reached sometime during the summer or fall of 1995. The conference report on the budget resolutions for FY1996, adopted by the House and Senate on June 29, included an increase in the debt limit to $5.2107 trillion for FY1996. Further action is necessary to actually increase the debt limit.

The previous increase in the debt limit occurred in 1993. The Omnibus Budget Reconciliation Act of 1993 included an increase in the permanent debt limit to $4.9 trillion. The legislation (P.L. 103-66, H.R. 2264), was adopted by Congress in early August and signed by President Clinton on Aug. 10, 1993. Earlier in the year, Congress adopted and the President signed legislation (P.L. 103-12; H.R. 1430) temporarily increasing the limit on the public debt to $4.370 trillion through Sept. 30, 1993. The House adopted the bill on Apr. 1, 1993; the Senate adopted it on Apr. 5, 1993; and the President signed it on Apr. 7, 1993.

BACKGROUND AND ANALYSIS

Background

Prior to 1917, Congress approved each issuance of debt, including determining its interest rate. The basis for our current debt-limit law is the Second Liberty Bond Act of 1917, which allows the Treasury to borrow, as necessary to finance Federal activities, up to a specified legislatively adopted limit. The law was initially adopted to facilitate wartime planning and execution and to accommodate the Treasury's need for flexibility in financing growing Government activities. It also freed Congress from having to legislate each issuance of Government debt. The limit persisted after the War and was raised periodically as Government debt increased.

The initial debt limit was for $11.5 billion. The debt limit continued to grow (there have been almost no reductions) over time, and now stands at $4.9 trillion, which is expected to last through fiscal year 1995. **Table 1** shows the debt limit and debt subject to the limit at 10-year intervals from 1917 through January 1995.

TABLE 1. Federal Debt and the Debt Limit for Selected Fiscal Years
(in billions of dollars)

End of Fiscal Year (or month)	Federal Debt (subject to limit)	Debt Limit
1917	$3.0	$11.5
1927	18.5	37.5
1937	36.4	45.0
1947	255.8	275.0
1957	269.1	275.0
1967	323.1	358.0
1977	700.0	752.0
1987	2,417.4	2,800.0
1988	2,472.1	2,800.0
1989	2,829.8	2,870.0
1990	3,161.2	3,195.0
1991	3,569.3	4,145.0
1992	3,972.6	4,145.0
1993	4,315.6	4,900.0
1994	4,605.3	4,900.0
Jun. 15, 1995	4,803.4	4,900.0

Sources: U.S. Dept of the Treasury, *Statistical Appendix to the Annual Report of the Secretary of the Treasury, FY80*; U.S. Congress, Senate, Committee on Finance, *Increase of Permanent Public Debt Limit*, 99th Congress, 2nd session, July 18, 1986 (S.Rept. 99-335); U.S. Treasury, *Monthly Statement of Public Debt*, January 1993; U.S. Treasury, *Treasury Bulletin*, various issues; U.S. Treasury, *Daily Treasury Statement*, Jun. 15, 1995.

The format of the debt limit has changed over the years, as have the procedures that Congress uses to increase the debt limit. In the early 1940s, the debt limit essentially achieved its modern form. Temporary increases were introduced in the mid-1950s in the unfulfilled hope that the debt limit would be reduced in the future. In 1983, the then-existing temporary and permanent debt limits were combined into a single permanent limit. This one permanent limit was the norm until the fall of 1986 when a temporary limit, added to the existing permanent limit, was again created. Between January 1980 and September 1990, the permanent or temporary debt limit was changed by Congress 20 times.

Increasing the Limit

Congress has several options to increase the debt limit. The method that came from a change in the House rules in 1979 (House rule 49) was suspended for 1995. This method had made an increase in the debt limit, in the House, a direct result of adopting the conference report on the budget resolution. When Congress adopted the conference report on the concurrent resolution on the budget, the House, but not the Senate, automatically engrossed a joint resolution containing the new debt limit and sent it to the Senate. The proposed debt limit in the joint resolution was the one from the budget resolution and reflected the borrowing needs of the Government as determined by the fiscal policy choices contained in the budget resolution. It did not always lead to an increase in the debt limit.

The Senate was then to accept or reject unadorned increase in the debt limit. If the Senate made no changes, the joint resolution went to the President for his signature. If, on the other hand, the Senate amended the legislation, a conference or some other method of resolving the differences was necessary for the two chambers to reach agreement. Legislation emerging from the conference committee opens the debt limit legislation to potential debate in both Houses. Before being sent to the President, both Houses must adopt some version of the compromise legislation adopted by the conference committee.

In 1987, the permanent increase in the debt limit adopted by Congress in September, H.J.Res. 324, originated in this way. During lengthy congressional deliberations the amount of the debt limit was increased from the original amount of $2.565 trillion in the adopted budget resolution (H.Con.Res. 93, June 1987) to the accepted amount of $2.8 trillion.

The limit can also be increased through separate legislation designed for that purpose or an increase in the limit can be attached to other legislation, which occurred in November 1990. In addition, the debt limit legislation has, at times, served as a vehicle for other legislative actions. Possibly one of the most famous was the adoption of the Gramm-Rudman-Hollings deficit reducing legislation (the Balanced Budget and Emergency Deficit Control Act of 1985, P.L.99-177), which was added to legislation to increase the debt limit.

Need to Increase the Debt Limit

The periodic need to increase the debt limit results from the fiscal policy decisions made by the Congress and the President, economic conditions, and external events. If any of these conditions produce Federal deficits, then the resulting increases in Federal debt will eventually require an increase in the debt limit (unless the debt limit was abolished or raised so high it would never be reached).

Budget deficits force the Government to borrow to fulfill its commitments. This new borrowing increases the debt, which will at some point reach the existing debt limit. Or, as happened in the summer of 1987, the expiration of a temporary debt limit reduced the allowed level of debt below its currently existing level, instantly precluding further borrowing by the Government. At that point, the Government was (and again

can be) faced with the problem of trying to implement its fiscal policy, which requires borrowing, without any authority to borrow.

Opponents of raising the debt limit argue that the debt limit legislation is one of the only ways they have of protesting the continuation of deficit spending. They argue also that voting down an increase or extension of the debt limit would instantly stop deficit spending. Although such action might limit short-term deficit spending, the severe disruption to the Federal Government and the effect on the faith of the financial markets in the Federal Government would eventually increase both Federal spending and the deficit.

In the longer run, a balanced budget or one in surplus would likely avoid the currently necessary periodic increases in the debt limit.

Effects Of Delaying the Debt Limit Increase

Even short delays in increasing the debt limit have the potential for severely disrupting the operations of the Government and the financial markets. The Treasury Department has only a limited ability to find alternative funding to maintain Government operations once the debt limit is reached. The effects of this loss of borrowing ability can be severe. A default on Government commitments becomes a possibility if, as is likely under such conditions, the Federal Reserve and commercial banks will no longer cash Government checks. The Government could also find itself defaulting on its debt repayments. And once readily available cash is used, the Government might be forced to shut down most operations.

As the General Accounting Office (GAO) stated in a 1979 report on the debt limit, "A default on the securities could set in motion a series of actions that could have devastating effects on the economy, the public welfare, and the Government's ability to market future securities." GAO went on to say, "that a default would preclude the Government from honoring all of its obligations to pay for such things as employees' salaries and wages; social security benefits, civil service retirement, and other benefits from trust funds; contractual services and supplies; and maturing securities." (Both quotes are from GAO, *A New Approach to the Public Debt Limit Legislation Should Be Considered*, Report FGMSD-79-58, Sept. 7, 1979: 17.)

Among other uncertainties of the situation are who should decide and how to decide which parts of the Government would continue to be funded through nonborrowed revenues. The Administration, in the person of the Secretary of the Treasury, would be caught between the conflicting requirements of the debt-limit law that will not allow any additional borrowing, and the authorizations and appropriations adopted by Congress that require the Administration to fund a level of spending greater than available revenues. As stated in a Senate Committee on Finance report, "Each law that authorizes expenditures or makes appropriations stands on equal footing, and there are no grounds for the Administration to distinguish a payment for any one program over any other program. As a consequence, the Secretary of the Treasury can be expected to make payment on the Federal Government's legal obligations... as they come due while cash remains in the till." (Senate Committee on Finance, *Increase of Permanent Public Debt Limit*, S.Rept. 99-144, 99th Congress, 1st session, Sept. 26, 1985: 5).

A Government default would disrupt Government operations as well as domestic and international financial markets. As stated in hearings on the debt-limit extension in 1986, "...a default would have swift and severe domestic and international repercussions. For example... a senior trust fund manager [has] testified to the House Banking Committee that, "Investors, both domestic and Foreign [sic], would flee from Government bond markets if there were a default, and confidence in the credit of the U.S. would only painfully be restored"" (Senate Committee on Finance, Hearing, *Debt Limit Extension-1986* (99th Congress, 2nd session), July 15, 1986: 6). The future borrowing costs for the Government would increase greatly as lenders demanded higher rates of return, through higher interest rates, to protect themselves against possible future Government defaults. Contractors in the future would be likely to insist on costlier contracts or prepayments to compensate them for the inherent riskiness of working for the Government.

It is difficult to describe the extent of the problems the Government would face if the debt limit were not increased when needed. Under current Federal borrowing needs, the effect would be similar to a 20% reduction in spending with no pre-planning and no authority to rank activities by importance. From past experience, most normal operations of the Government would be shut down. Federal employees would be sent home. National parks and monuments would close. Regulatory activities would cease. Discretionary Federal activities would be cut back as much as possible so that mandatory activities could be paid for. Depending on how long the situation lasted, employees, and eventually beneficiaries, could stop receiving checks from the Government. Government bondholders would not receive their interest payments. Federal construction projects would stop. Payments to State and local governments would stop. Federal contractors would find their payments delayed or missed. Through its reach into all parts of society, the disruption of Federal activities would spread over the entire country.

The only way for the Government to avoid the need to increase the debt limit in the future is to raise revenues or lower spending by enough to remove the need for the Government to borrow. Only when the Government no longer needs to borrow to pay for its activities will the debt no longer rise. When Federal debt no longer increases, the debt limit will not need to be raised.

Legislation in the 103rd Congress

P.L. 103-12, H.R. 1430
Provides for a temporary increase in the debt limit. Raised the limit from $4.145 trillion to $4.370 trillion through Sept. 30, 1993. Introduced Mar. 23, 1993; referred to Committee on Ways and Means. Adopted by the House on Apr. 1; adopted by the Senate on Apr. 5. Signed into law Apr. 7, 1993.

P.L. 103-66, H.R. 2264
The Omnibus Budget Reconciliation Act of 1993. Increased the permanent debt limit to $4.900 trillion.

95-825 E

CRS Report for Congress

Debt Limit Increases, 1980-1995

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DEBT LIMIT INCREASES, 1980-1995

SUMMARY

Congress and the President have raised or extended the debt limit thirty-three times between 1980 and 1995. Sometime in the fall of 1995, the limit will need to be raised again from its current level of $4.9 trillion. At the end of fiscal year 1979 (Sept. 30, 1979), the debt limit stood at $827.6 billion. It is now five and a half times larger. The debt limit has gone up because Federal debt has gone up. Federal debt has risen because the Government has had only deficits in its budget since 1969.

The increase in Federal debt is a residual of budget choices. If the fiscal policy choices made by the Congress and the President result in deficits, then the Federal debt will increase. Eventually these increases will reach the debt limit, necessitating its increase. The failure to increase the debt limit means that, when the budget is in deficit, the Treasury would not have the resources it needs to meet all the obligations that the Government has made. The Treasury must borrow when the budget is in deficit to fund those activities not covered by revenues. Restricting the Treasury's ability to borrow by not raising the debt limit after accepting policies that result in the need to borrow will lead to the inability of the Government to pay all its bills, effectively putting the Government in default. How financial markets might react to this situation is unclear but is unlikely to be favorable for the Government.

Congress can raise the debt limit by enacting legislation specifically designed to do that. A House rule from 1979, suspended for this year, automatically sends a resolution increasing the debt limit to the Senate whenever final agreement on the annual budget resolution has been reached. An increase in the debt limit can also be adopted as part of other legislation. All these methods have been used since 1980.

DEBT LIMIT INCREASES, 1980-1995

Congress and the President have raised or extended the public debt limit thirty-three times between May 1980 (the first time it was increased in 1980) and its most recent increase, to $4.9 billion, in August 1993. The limit, which was initiated to facilitate the Government's financing of World War I, is raised whenever it is approached or reached. Only by raising the limit when it is reached, or very shortly thereafter, can the Government avoid a default on its legal obligations. If the Government cannot borrow when necessary by selling public debt, then it will quickly run short of cash and be unable to meet its financial commitments.

The fiscal policy choices made by the Congress and the President determine when the debt limit will need to be raised. Fiscal policy decisions that include deficits require the Government to borrow to fulfill its obligations. This borrowing increases Federal debt, which will eventually reach the existing debt limit. The smaller the deficits, the longer it takes to reach any particular debt limit. The increase in the debt limit in 1993 to $4.9 trillion combined with somewhat smaller deficits in the last two years has delayed the debt's approach to the current limit. But in the fall of 1995 (estimated for sometime in October), the need to raise the debt limit will occur and Congress will need to deal with it.

The limit can be raised in several ways. One is the introduction and enactment of specific legislation designed to raise the limit by some amount or for some specific length of time. A second method has been part of the House rules since 1979 (the rule, House Rule XLIX, has been effectively suspended for this year; see H. Res. 149, adopted May 17, 1995). Under this rule, whenever the House and Senate reach final agreement on the budget resolution, a House joint resolution containing the increase in the debt limit consistent with the budget numbers in the budget resolution is deemed passed by the House and sent to the Senate. The Senate could accept or modify the resolution under its usual procedures. Accepting the resolution sent it on to the President. Modifying the resolution sent it back to the House or to conference to resolve the differences. A third way to raise the debt limit is to attach an increase in the debt limit to some other legislation, which has occurred repeatedly in the last ten years.

A HISTORY OF DEBT LIMIT INCREASES BETWEEN 1980 AND 1995

The increases in Federal debt since the beginning of 1980 have been substantial. Federal debt subject to limit has risen from $827.6 billion at the end of fiscal year 1979 to $4,605.3 billion at the end of fiscal year 1994. To accommodate this rapid and large increase in Federal debt, Congress and the

President (as mentioned above) raised or extended the debt limit thirty–three times. Because of the controversy raised by the need to increase the debt limit, some of these efforts were difficult and extended. And because of the essential need to raise the debt limit to keep the Government operating, the legislation raising the debt limit was used as a vehicle for other legislation or sometimes the limit was itself incorporated into other legislation. The material that follows is a (calendar) year chronology of the debt limit increases between 1980 and 1995.

1980

The debt limit in 1979 had been raised to $879 billion through May 31, 1980. From 1971 into 1983, there was a permanent debt limit of $400 billion and the rest was a temporary limit with an expiration date. When the expiration date was reached, the limit dropped to the permanent level, effectively barring the Government from borrowing new funds or even rolling–over existing debt. In 1980, Congress did not adopt the conference report on the budget resolution before the May 31 debt limit deadline. A 30 day extension of the limit (H.R. 7428) was reported to the House on May 22 but became entangled in a dispute over President Carter's oil import fee. As the expiration of the limit approached, Congress adopted a five day extension of the limit (H.R. 7471, P.L. 96–256) on May 30.

The 30 day extension was brought up again on June 4. The House passed it and sent it to the Senate (it also passed, separately, a repeal of the oil import fee). The Senate combined the debt limit bill with the House passed repeal of President Carter's oil import fee and sent the bill back to the House. The House adopted it and sent it to President Carter who vetoed it. The veto was overridden in the House on June 5 and in the Senate on June 6, becoming P.L. 96–264.

Two other increases in the limit during 1980 resulted from the House rules. The House and Senate agreement on the first budget resolution for the year generated H.J. Res. 569, legislation that would raise the debt limit to $925 billion through February 28, 1981, and which was deemed passed and sent to the Senate on June 13. The Senate adopted the resolution on June 26 (P.L. 96–286). An alternative increase in the debt limit to $935.1 billion through September 30, 1981 was also included in the first budget resolution and produced another House joint resolution (H.J. Res. 570) that was sent to the Senate. The Senate took up and passed this measure on December 12 (P.L. 96–556). A second budget resolution for the year generated two other resolutions from the House that would have raised the debt limit higher through the same dates. These were not considered by the Senate.

The Treasury indicated that the $935.1 billion dollar limit would be reached in February 1981. This meant that the incoming Administration of President Reagan would have to deal with an increase in the debt limit as one of its first actions.

1981

President Reagan requested and Congress adopted legislation (H.R. 1553, P.L. 97-2) increasing the debt limit by $50 billion, to $985 billion, through September 30, 1981.

The agreement on the budget resolution generated two House joint resolutions (H.J. Res. 265 and H.J. Res. 266) deemed passed by the House and sent to the Senate. When adopted, H.J. Res. 266 raised the debt limit to $999.8 billion through September 30, 1981 and H.J. Res. 265 raised it to $1,079.8 billion through September 30, 1982. Both were adopted on September 29, 1981; the second was adopted (P.L. 97-49), after being delayed by a sixteen hour speech by Sen. Proxmire. Numerous amendments also were offered and tabled. H.J. Res. 266, raising and extending the debt limit for a day (through September 30, 1981; P.L. 97-48) was adopted by a voice vote.

1982

There were two debt limit increases during 1982. Both were based on the debt numbers contained in the budget resolution agreed to in both chambers on June 22. The House automatically generated two joint resolutions (H.J. Res. 519 and H.J. Res. 520) containing new debt limits of $1,143.1 billion through Sept. 30, 1982 and $1,290.2 billion through Sept. 30, 1983. The Senate passed the increase through the end of the current fiscal year on June 23 (P.L. 97-204). The increase for the next year was adopted on September 23 (P.L. 97-270).

1983

Congress adopted H.R 2990 (P.L. 98-34) in late May to raise the debt limit to $1,389.0 billion and avoid what the Treasury considered to be imminent problems of financing the Government. The legislation was adopted by voice vote in the House on May 18 and by a recorded Senate vote on May 25. In addition to raising the debt limit, the legislation combined the temporary and permanent portions of the debt limit, making it all permanent. This did away with the expiration date for the debt limit. From this point on, the constraint of the debt limit comes from running up against it, not from the temporary portion expiring on a certain date.

Congress increased the debt limit a second time in 1983, raising it to $1,490.0 billion in mid-November 1983 (H.J. Res. 308; P.L. 98-161). The passage of this legislation was more complicated than the earlier one. The joint resolution originally reflected the debt amount ($1,615.0 billion, which was considered enough to get through Fiscal year 1994) in the year's budget resolution. Once in the Senate, numerous changes were made in the legislation, including dropping the limit to $1,450.0 billion. Then the legislation was defeated in the Senate on October 31. The Senate reconsidered and adopted the

resolution on November 16, with amendments. An immediate conference was called with the House. A new limit of $1,490.0 billion was accepted and all the Senate amendments were stripped. The Senate approved the conference report on November 17 and the House followed on the next day.

1984

Near the end of May, the debt was nearing the limit. Congress had not yet agreed on the year's the budget resolution. This combination of factors forced the House into voting on a separate debt limit increase bill (H.R. 5665) on May 22. This legislation would have lifted the limit by $30 billion (to $1,520.0 billion) temporarily through June 22. The House voted the legislation down. Two days later the House adopted essentially identical legislation (H.R. 5692) also raising the debt limit by $30 billion temporarily through June 22. (The House leadership was hoping, possibly, to use the needed debt limit increase in June as a vehicle for a tax-increase measure that might be through conference by then.) The Senate made the increase permanent before accepting the bill and sending it back to the House. The House accepted the changes and the President signed it on May 25 (P.L. 98-302).

This relatively small increase in the debt limit forced Congress to take up the issue again in late June. The House tried to use the non-passage of the debt limit to force the Senate to negotiate on defense spending in the budget resolution. A measure (H.R. 5927) to increase the debt limit was defeated in the House on June 28. The Senate did not respond and later on the same day, an identical debt limit bill (H.R. 5953), was reported to the floor by the Ways and Means Committee. The House accepted the $53 billion increase (to $1,573.0 billion; a committee amendment to increase the debt limit by $232 billion to $1,753.0 billion was defeated) on June 29. The Senate adopted the bill later that day (P.L. 98-342).

The House and Senate agreement on the budget resolution (October 1, 1984) automatically generated H.J. Res. 654 from the House. The resolution raised the debt limit by $250.8 billion to $1,823.8 billion. The Senate, after much effort, adopted the bill on October 12 (P.L. 98-475). The delay in the Senate was caused by several amendments attached to the bill, not the debt limit increase itself. The bill was eventually stripped of its amendments and passed "clean" to avoid sending it back to the House.

1985

Again in 1985, the problems with adopting a needed debt limit increase had more to do with other issues than the debt limit increase itself. The previous increase in the debt limit in October 1984 was enough to finance Government operations into November 1985. The House had deemed passed an increase in the debt limit, a $174.9 billion increase to $2,078.7 billion, with the acceptance of the conference report on the budget resolution on August 1, 1985. This

resolution (H.J. Res. 372) went to the Senate and attracted numerous amendments during deliberations in September. The one that was adopted was proposed by Senators Gramm, Rudman, and Hollings to establish budget procedures leading to a balanced budget in 1991 (it became the Balanced Budget and Emergency Deficit Control Act of 1985). The Senate accepted the amendment to the debt limit bill on October 9 and passed the modified debt limit bill on the October 10th.

The House requested an immediate conference, which was unable to resolve the differences. The House on November 1 voted on the legislation and adopted a substantially different budget process modifying amendment. The Senate on November 6 voted to modify its proposal while the House stuck to its version. A new conference began that ran until December 10.

During these conference deliberations, the Treasury exhausted the numerous financial maneuvers it had used to keep the Government financed since early October. These arrangements included using the Federal Financing Bank to issue debt not subject to limit to the public and disinvesting small amounts from selected Federal trust funds, including the Social Security and Civil Service retirement funds, and selling debt to the public to acquire cash to pay beneficiaries. By November 14, the Treasury was almost out of funds. Congress responded by adopting H.R. 3721, a bill to raise the debt limit by $80 billion. The House had originally made the limit temporary through December 13. The Senate amended it by having the temporary increase expire on December 6. The House accepted the change. The bill was signed into law on November 14 (P.L. 99-155). Congress also adopted legislation that reduced the ability of the Treasury to use some of the methods of temporary finance that had been used during October and early November.

The conference agreement reported a compromise that was accepted by both chambers on December 11. The President signed the legislation December 12 (P.L. 99-177). What little debate on the increase in the debt limit there was, was overwhelmed by the efforts to find a compromise on the Gramm, Rudman, Hollings balanced budget proposal. The legislation to increase in the debt limit was a vehicle for the balanced budget proposal.

1986

Once again, the House and Senate agreement on the budget resolution created a resolution (H.J. Res. 668) to raise the debt limit to $2,323.0 billion, which was deemed to be passed by the House and was sent to the Senate. In the Senate, amendments were added to restore automatic spending cut provisions of the balanced budget law adopted in 1985 that had been struck down by the Supreme Court. After the Senate action on August 9, the House did not reconsider the legislation and it died. The increase in the debt limit contained in the legislation would have been sufficient for the Government's needs through fiscal year 1987.

By mid–August, an increase in the debt limit (to $2,152.0 billion) was necessary to carry the Government through September. The House passed H.R. 5395 on August 14; the Senate added amendments dealing with the balanced budget legislation and reduced the increase to $2,111.0 billion on August 15. The House responded by accepting the change in the size of the increase but took out the changes to the balanced budget legislation. The Senate accepted the changes (P.L.99–384).

A longer–term increase in the debt limit was adopted as part of the reconciliation legislation for the year (H.R. 5300, P.L. 99–509). The limit was increased to $2,300.0 billion, with an expiration date of May 15, 1987. (The permanent limit was the $2,111.0 billion adopted earlier.)

1987

1987 was a busy year for debt limit legislation. Congress adopted a temporary increase in the debt limit (H.R. 2360, P.L. 100–40) in mid–May that was set to expire on July 17. The increase was $20 billion, for a total of $2,320.0 billion. With an agreement on the budget resolution on June 23, the House automatically adopted a resolution (H.J. Res. 324) establishing a long–term, permanent increase in the debt limit to $2,800.0 billion, which it sent on to the Senate. A second short–term temporary limit (H.R. 3022, P.L. 100–80) was adopted on July 29, and extended the existing temporary limit through August 6. (The Treasury was able to maintain the financing of the Government between July 17, when the earlier temporary limit expired, and July 30.)

Meanwhile, the Senate had taken the automatically adopted House version of the debt limit increase (H.J. Res. 324) and amended it with modifications to the balanced budget law adopted in 1985 (usually referred to as GRH for the three Senators, Gramm, Rudman, Hollings, associated with it). The Senate left unchanged the increase in the debt limit (enough of an increase to survive through May 1989). The Senate approved the modified bill on July 30.

A conference on the bill began on August 4 and bogged down shortly before the August recess. In the face of some opposition, another short–term debt limit increase was adopted (H.R. 3190, P.L. 100–84), which raised the limit another $32 billion to $2,352.0 billion through September 23, 1987. Back from the recess in September, Congress cleared the legislation on September 17.

1988

No change in the debt limit was adopted in 1988.

1989

A resolution (H.J. Res. 280) to raise the debt limit by $252.7 billion to $3,122.7 billion automatically came from the House with the House and Senate agreement on the budget resolution (for FY1990) on May 17. With the debt running up against the limit in August and no action from the Senate, the House adopted a short-term, $70 billion increase in the debt limit through October 31, 1989, on August 1 (H.R. 3024). The Senate approved the bill on August 4 (P.L. 101-72). The legislation contained a change in the accounting for Federal debt.

The resolution (H.J. Res. 280) to make the permanent increase in the debt limit was delayed in late October as various efforts were made to add amendments, including reductions in capital gains taxes, repealing rules on discriminatory employee benefit plans, and miscellaneous expiring tax provisions. As the October 31 deadline approached, the Treasury was able to secure financing to carry the Government through November 8. The legislation was finally adopted, stripped of all but the repeal of rules on discriminatory employee benefit plans, on November 7 (P.L. 101-140).

1990

In 1990, the debt limit was extended or increased seven times. Five of them were part of continuing resolutions on appropriations adopted during debates on appropriations and reconciliation during October of 1990.

The first increase for the year occurred just before the August recess. Once again the debt was approaching the limit and to avoid a governmental default, Congress adopted H.R. 5350 (P.L. 101-350), a $72.3 billion temporary increase in the debt limit through October 2, 1990. There followed a series of temporary increases in the debt limit included as part of larger continuing resolutions on appropriations that Congress adopted as the debate continued. A final temporary increase, through November 5, occurred as part of the final continuing appropriations resolution adopted on October 27 and became law on October 28. At the same time, Congress adopted the Omnibus Budget Reconciliation Act of 1990 (OBRA90), including a $915.0 billion increase in the permanent debt limit to $4,145.0 billion. The bill was signed into law on November 5 (P.L. 101-508, H.R. 5853). The increase in the debt limit was thought large enough to last into April or May of 1993.

1991

No change in the debt limit was adopted in 1991.

1992

No change in the debt limit was adopted in 1992.

1993

In early April 1993, Congress temporarily increased the debt limit (H.R. 1430, P.L. 103–43) by $225 billion through September 30, 1993. The legislation passed easily. At the time Congress was working on President Clinton's economic and budget package.

The second increase of the year was included in the Omnibus Budget Reconciliation Act of 1993 (OBRA93, H.R. 2264, P.L. 103–66). The bill was adopted by Congress on August 5 and 6, and signed by the President on August 10. The debt limit was increased by $530.0 billion to $4,900.0 billion, which is where it currently stands. This increase in the debt limit was not the vehicle for OBRA93 but more of a rider itself.

1994

No change in the debt limit was adopted in 1994.

1995

The debt limit has not been raised yet during 1995, but current estimates indicate that an increase will be needed sometime this fall.

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