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The Debt Limit: Why It Rose After Four Years of Surpluses and the Debt Changes Since

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Summary

Increases in total federal debt are driven by government deficits (which increase *debt held by the public*) and by the surpluses credited to (and the accounting for) debt-holding federal accounts, mostly federal trust funds such as the Social Security, Medicare, Transportation, and Civil Service trust funds, which increase *debt held by government accounts*.

Surpluses generally reduce debt held by the public. The surpluses over the four fiscal years (1998-2001) reduced debt held by the public by $448 billion. The surpluses credited to debt-holding government accounts (which generally must invest the surpluses in federal debt), increased their holdings by $853 billion over the same period. The combination ($853 billion minus $448 billion) raised total federal debt by $405 billion.

In December 2002, the Administration began warning Congress that the debt limit ($6.4 trillion) would be reached in the first half of 2002. As the limit was approached in February 2003, the Administration resorted to suspension of certain internal fund investments to avoid a default. The adoption of the budget resolution (H.Con.Res. 95; April 11, 2003) for FY2004 generated legislation (H.J.Res. 51) — deemed passed by the House — that would increase the debt limit to $7.4 trillion. (This report will be updated as events warrant.)

The statutory debt limit applies to almost all federal debt.[1] It applies to federal debt held by the public, that is debt held outside the federal government itself, and to federal debt held by the government's own accounts, almost all of which are federal trust funds such as Social Security, Medicare, Transportation, and Civil Service. The government's

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[1] Less than one percent of total the debt is excluded from debt limit coverage. On May 7, 2003, total debt was $6,460,345 million; debt subject to limit was $6,399,975 million, 99.1% of total debt.

overall surplus or deficit effectively determines the change in debt held by the public. Debt held in government accounts, on the other hand, is unaffected by the government's overall budget balance. The increases or decreases in debt held by government accounts are the product of government accounting practices and the reported surpluses (or deficits) of these accounts themselves.

Table 1. Components of Debt Subject to Limit, FY1996-FY2002
(in billions of dollars)

End of Fiscal Year (or period)	**Debt Limit**	**Debt Subject to Limit**		
		Total	**Held by Government Accounts**	**Held by the Public**
1996	$5,500.0	$5,137.2	$1,432.4	$3,704.8
1997	5,950.0	5,327.6	1,581.9	3,745.8
1998	5,950.0	5,439.4	1,742.1	3,697.4
1999	5,950.0	5,567.7	1,958.2	3,609.5
2000	5,950.0	5,591.6	2,203.9	3,387.7
2001	5,950.0	5,732.6	2,435.3	3,297.3
2002	6,400.0	6,161.4	2,644.2	3,517.2
April 2003	6,400.0	6,399.975	2,731.0	3,668.9
Change, FY1997 to FY2001		**405.0**	**853.4**	**-448.5**

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

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

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

The federal debt held by the government's own accounts grew by $853 billion over the four years of overall surplus, FY1998 through FY2001, and continues growing; debt held by the public fell by $448 billion over the same period, but, with the return of deficits in FY2002 and expected in FY2003, is once again growing (see **Table 1**).

The Situation in 2002

The continuing increases in debt held by government accounts over the four years of surplus (FY1998-FY2001) produced almost all of the pressure on the debt limit early in 2002. The re-emergence of deficits in FY2002, which led to increases in debt held by the public, added to the pressure on the debt limit later in the first six months of 2002.[2] At the beginning of FY2002 (October 1, 2001), debt subject to limit was within $220 billion of the then existing $5.95 trillion debt limit.[3] Between October 1, 2001, and the end of May 2002, debt subject to limit increased by another $217 billion, divided between a $100 billion increase in debt held by government accounts and a $117 billion increase in debt held by the public, putting the debt subject to limit at the then existing limit. **Table 2** shows debt by month for FY2002 and FY2003 with the size of the monthly changes.

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

The Situation in 2003

The growth in debt subject to limit since the June 2002 adoption of the last increase in the limit (to $6.4 trillion) has again brought the debt up against the limit. On Christmas Eve, 2002, the Treasury sent a letter to Congress requesting an increase, unspecified, in the debt limit by late February 2003. The 108th Congress, just getting organized early in 2003, did not focus on the near-term need to raise the limit. Through the winter and into

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

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

the spring, the Treasury repeatedly requested that the debt be raised to avoid a serious financial problem. By February 20, 2003, the Treasury had resorted to the extraordinary methods used in 2002 — using authority provided through existing legislation to suspend investment of government securities in the G-Fund of the federal employees' Thrift Savings Plan and in the Civil Service Retirement and Disability fund — that allowed the Treasury to issue additional debt to the public to acquire the cash it needed to pay for the government's commitments.[4]

Table 2. Components of Debt Subject to Limit by Month in FY2002-FY2003

(in millions of dollars)

End of Month	**Total**	Change from Previous Period	**Held by Government Accounts**	Change from Previous Period	**Held by the Public**	Change from Previous Period
Sept. 2001	$5,732,581		$2,452,844		$3,279,736	
Oct. 2001	5,744,523	$11,942	2,451,815	$-1,029	3,292,709	$12,973
Nov. 2001	5,816,823	72,300	2,469,647	17,832	3,347,176	54,467
Dec. 2001	5,871,413	54,590	2,516,012	46,365	3,355,401	8,225
Jan. 2002	5,865,892	-5,521	2,525,755	9,743	3,340,138	-15,263
Feb. 2002	5,933,154	67,262	2,528,494	2,739	3,404,659	64,521
March 2002	5,935,108	1,954	2,528,318	-176	3,406,789	2,130
April 2002	5,914,816	-20,292	2,549,438	21,120	3,365,378	-41,411
May 2002	5,949,975	35,159	2,553,350	3,912	3,396,625	31,247
June 2002	6,058,313	108,338	2,630,646	77,296	3,427,667	31,042
July 2002	6,092,050	33,737	2,627,980	-2,666	3,464,070	36,403
Aug. 2002	6,142,835	50,785	2,620,946	-7,034	3,521,890	57,820
Sept. 2002	6,161,431	18,596	2,644,244	23,298	3,517,187	-4,703
Oct. 2002	6,231,284	69,853	2,680,812	36,568	3,550,472	33,285
Nov. 2002	6,294,480	63,196	2,680,788	-24	3,613,692	63,220
Dec. 2002	6,359,412	64,932	2,745,787	64,999	3,613,625	-67
Jan. 2003	6,355,696	-3,716	2,753,301	7,514	3,602,395	-11,230
Feb. 2003	6,399,840	44,144	2,750,471	-2,830	3,649,369	46,974
March 2003	6,399,825	-15	2,722,812	-27,659	3,677,012	27,643
April 2003	6,399,798	-27	2,731,042	8,230	3,668,756	-8,256
Change in FY2002		**$428,850**		**$191,400**		**$237,451**
Change in FY2003, year to date		**$238,367**		**$86,798**		**$151,569**
Change, Sept 01-Apr 03		**$667,217**		**$278,198**		**$389,020**

Source: U.S. Treasury, Bureau of the Public Debt, *Monthly Statement of the Public Debt*, September 2001-April 2003.

Through the rest of February and continuing into May, the Treasury maintained debt subject to limit close to $25 million below the limit. The adoption of the conference report on the FY2004 budget resolution (H.Con.Res. 95) on April 11, 2003, in the House

[4] The losses to these funds from the suspension of investments is made whole with the adoption of a new debt limit.

triggered the "Gephardt rule" (House Rule XXVII) that deems passed (for the House only) legislation (H.J.Res. 51) raising the debt limit by enough — roughly $980 billion — to meet the financing needs for the policies contained in the budget resolution.[5] As of May 16, the Senate had not considered the increase in the debt limit. With increasingly dire warnings about the imminent exhaustion of the Treasury's continuing ability to avoid default, the Senate leadership has indicated that it will act soon on the debt limit increase. The Senate can accept the bill as it came from the House, which would send it on to the President. Or the Senate can modify the legislation (increasing or decreasing the size of the increase or adding other provisions), which would send it to a conference with the House, generally requiring another vote on the debt limit increase in both chambers.

Without an increase in the debt limit by Congress sometime in the relatively near future, the government eventually will be unable to acquire the resources, financial or budgetary, that it will need to operate. The *Daily Treasury Statement* for May 7, 2003 (from the Financial Management Service in the Department of Treasury), reported that debt subject to limit, $6,399,975 million, is $25 million below the existing limit.

Concluding Comments

Between the August 2001, increase in the debt limit (to $5.95 trillion) and the beginning of fiscal year 2002, the government's four years of surpluses reduced debt held by the public. Since the beginning of FY2002 (and through April 2003), the reappearance of deficits increased debt held by the public by $364 billion. Debt held by government accounts has grown steadily over the entire period and increasing by $289 billion between the beginning of FY2002 and the end of April 2003. These increases have pushed debt-subject-to-limit against current $6.4 trillion limit adopted in late June 2002.

The 10-year budget forecasts produced in 2001 of large and growing surpluses through FY2011 expected the related rapid reduction in debt held by the public. The same 2001 forecasts expected continued, steady growth in debt held by government accounts. The combination of the shrinkage in debt held by the public and growth in debt held by government accounts moderated the forecast growth in total debt. These estimates indicated that the moderate growth in total debt delayed the need to increase the debt limit late into the decade (the continued increases in debt held by government accounts would eventually overwhelm the reductions in debt held by the public). When the expectations of large surpluses collapsed, late in the fall of 2001, so did the expectations of continued reductions in debt held by the public. Total debt resumed a fairly rapid rate of growth, making an increase in the debt limit necessary much sooner than previously thought.

The persistent deficits over the last 30 to 50 years that required the government to borrow from the public increased debt held by the public. This increase periodically put pressure on Congress to raise the debt limit. Growth in debt held by government accounts over the same period, particularly before the 1983 changes to Social Security, was usually a relatively minor, but not insignificant factor in the growth of total debt subject to limit.

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[5] See CRS Report 98-453, *Debt-Limit Legislation in the Congressional Budget Process*, by Bill Heniff Jr. and CRS Report RS21519, *Legislative Procedures for Adjusting the Public Debt Limit: A Brief Overview*, by Robert Keith and Bill Heniff Jr.

The need to raise the debt limit in FY2002 was driven primarily by increases in debt held by government accounts over the years in which debt held by the public fell (FY1998 through FY2001). The return of budget deficits in FY2002 added to the pressure on the debt limit in 2002 (although the increased debt holdings of the public at the end of FY2002 remained smaller than they had been at the beginning of fiscal year 1998 by $230 billion). The financing of the deficit (that is expected in FY2003) through the sale of debt to the public, plus the continuing rise in debt held by government accounts, have driven total debt subject to limit up to the June 2002 adopted current $6.4 trillion limit.