THE COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET

Understanding the Debt Limit

JULY 14, 2011

The Committee for a Responsible Federal Budget

About

The Committee for a Responsible Federal Budget

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Introduction

On August 2nd, 2011, the Treasury Department estimates that it will run out of extraordinary measures to avoid hitting the statutory debt limit. At that point, absent Congressional action, the United States will have no choice but to default on its debt or on its other legal obligations. Such an outcome would be unacceptable and, quite likely, disastrous for the economy.

While failing to increase the debt ceiling would be dangerous and self-defeating, it would also be a mistake not to use this opportunity to address the country's mounting debt burden. To that end, President Obama and leaders of both chambers of Congress are currently engaged in high-level negotiations in the hopes of agreeing on a deficit reduction package to attach to any debt ceiling increase.

This is by no means the first time raising the debt ceiling has been politically contentious, nor the first time the debt ceiling vote has been used as a way to enact deficit control or reduction measures. In this paper, we show that Congress and the President have wrestled with increasing the debt limit many times over the past several decades. In some cases, the Treasury Department has resorted to extraordinary measures such as redeeming certain investments in, and suspending new investments by, federal employee retirement and disability funds in order to delay the increase; and in many cases the increase was tied to other policies, including deficit reduction measures or budget enforcement mechanisms. Although the need to increase the debt limit has led to many tense situations that were not resolved until the last moment, the limit has always been raised in time to prevent the federal government from defaulting on its obligations.

The Committee for a Responsible Federal Budget believes that increasing the debt ceiling is an absolute imperative and must be done as quickly as possible. At the same time, policymakers should use this opportunity to put in place a $4 trillion deficit reduction package that puts the debt on a downward path relative to the economy. Anything short of that may fail to reassure markets and will require that lawmakers return to the table to hammer out another deal all over again. While obviously all the details of a deal cannot be developed before Aug 2, we must put in place a requirement that fundamental reforms to meet the savings target are achieved by the end of the year, and importantly, before the election where the country risks lawmakers and candidates taking options off the table rather than supporting a bipartisan approach.

Background

What is the Debt Limit and How is Congress Involved?

The Constitution endows Congress with the "power of the purse." Under this power, the raising of revenues that flow into the Treasury, and the spending of those funds, can occur only through the enactment of law. When revenues are expected to be insufficient to pay the federal government's legal obligations, Congress also has the constitutional authority to provide for borrowing.[1] Congress has delegated the power to engage in almost all borrowing activities to the Treasury Secretary and provided a legal framework within which he must carry out these activities.[2]

An important element in the legal framework for borrowing is a statutory limit on the total amount of borrowing (i.e., debt obligations or securities) that may be outstanding at any time. Many years ago, Congress responded to requests from the Treasury Secretary to borrow funds on a case-by-case basis, sanctioning his requests through the enactment of individual laws specifically dedicated to that purpose. With the enormous growth of borrowing that was spawned by the United States' participation in World War I, Congress judged it to be more efficient to authorize the Treasury Secretary to borrow funds within an overall limit that could be adjusted from time to time.

A statutory limit on the public debt was first established in the Second Liberty Bond Act of 1917 and it acquired its modern, comprehensive form by 1941. Since that time, the debt ceiling has been increased on a fairly regular basis, with legislative provisions increasing the debt limit consisting of a single sentence striking out the old dollar amount and replacing it with a new one.

Definitions of Debt and Recent Trends

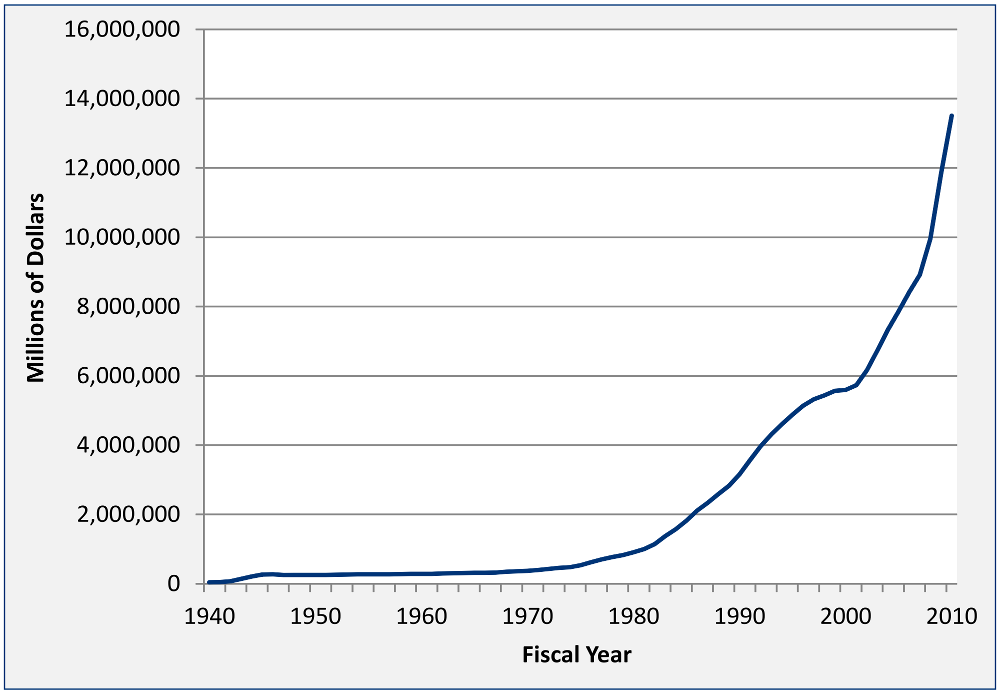
The total amount of borrowing incurred by the federal government is referred to as the gross federal debt. Gross federal debt consists of two types of debt — debt held by the public, which includes debt securities sold by the Treasury to the public (i.e., individuals, state and local governments, corporations, and foreign governments) and intragovernmental debt, which is debt the federal government owes itself, largely due to the requirement that trust fund surpluses be invested in government securities.

The level of the gross federal debt can increase over time largely for two very different reasons: (1) the need for the federal government to increase its borrowing from the public in order to finance its operations in the face of insufficient revenues; and (2) the growth of trust fund surpluses that must be invested in government securities. This pattern may erode in the future as the Social Security, Medicare, and other trust funds move from surplus to deficit.

Nearly all of the gross federal debt is subject to the statutory debt limit; that portion is referred to as the debt subject to limit. The Congressional Budget Office (CBO), for example, reported that the actual gross federal debt for FY2010 ($13.527 trillion) was only $16 billion greater than the debt subject to limit for that year ($13.511 trillion), and that the difference was roughly the same for each year in the projecting period

1 Article I, Section 8, Clause 2 states that Congress shall have the power "To borrow money on the credit of the United States."
2 For extensive background information on federal borrowing and debt, see: (1) Office of Management and Budget, Budget of the United States Government, Fiscal Year 2012, Analytical Perspectives, February 14, 2011, Chapter 6 (Federal Borrowing and Debt); and (2) Congressional Budget Office, Federal Debt and Interest Costs, December 2010.

FIG 1. Debt Subject to Statutory Limit: FY1940-FY2010



Source: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2012, Historical Tables, February 14, 2011, Table 7-2.

extending through FY2020.[3] The small gap between gross debt and debt subject to limit stems from certain elements of the gross debt that are exempt from the statutory limit, including unamortized discounts on Treasury bills and zero coupon Treasury bonds, debt held by the Federal Financing Bank and most agencies, and very old debt.

As shown in Figure 1, the level of the debt subject to limit has increased fairly steadily from 1940 to the present, rising from about $43 billion at the end of FY1940 to more than $13.5 trillion at the end of FY2010. Moreover, this debt level has surged in recent years, doubling from FY2003 to FY2010 as a result of many pieces of deficit financed legislation and the effects of the recent economic downturn. The steady rise in this debt level has increased the pressure on Congress to pass legislation increasing the statutory limit by greater amounts. As discussed later in this report, the challenges for Congress in this area in future years are massive.

The statutory limit on the public debt has taken different forms over the years, including a permanent limit, a temporary limit, and a combination of the two. A single, permanent limit has been used since August 1993. Of the 91 debt-ceiling bills between 1940 and 2010, 73 increased the limit and 11 extended its duration without changing its dollar amount. One, enacted in 1946 following the end of World War II, reduced the limit by $25 billion, from $300 billion to $275 billion (60 Stat. 316; June 26, 1946); six others, enacted between 1946 and 1963, reduced the limit by much smaller amounts. In 1996, two of the measures (P.L. 104-103 and P.L. 104-115) did not change the debt limit but authorized additional borrowing by the Treasury in order to pay Social Security benefits and provided that it not be counted under the limit.

3 CBO, ibid., Table 2-2, page 21

Over the past 20 years, the debt limit was raised by more than $11 trillion, from $3.1227 trillion to $14.294 trillion. The largest increase in dollar terms, $1.900 trillion (13.1 percent of GDP) occurred in 2010 as part of a measure that included the Statutory PAYGO Act of 2010. The largest as a share of the economy, at 15.4 percent of GDP ($915 billion), occurred in 1990 as part of the Omnibus Budget Reconciliation Act of 1990.

FIG 2. Increases in the Statutory Limit on the Public Debt: 1990-2010

Public Law Number	Date Enacted	Existing Limit ($ billions)	New Limit ($ billions)	Amount of Increase ($ billions)	Increase as Percent of GDP
P.L. 101-350	Aug. 9, 1990	3,122.7	3,195	72.3	1.3%
P.L. 101-405	Oct. 2, 1990	Temporary Extension of Debt Limit Expiration Date			
P.L. 101-412	Oct. 9, 1990	Temporary Extension of Debt Limit Expiration Date			
P.L. 101-444	Oct. 19, 1990	Temporary Extension of Debt Limit Expiration Date			
P.L. 101-461	Oct. 25, 1990	Temporary Extension of Debt Limit Expiration Date			
P.L. 101-467	Oct. 28, 1990	3,195	3,230	35	0.6%
P.L. 101-508	Nov. 5, 1990	3,230	4,145	915	15.4%
P.L. 103-12	Apr. 6, 1993	4,145	4,370	225	3.4%
P.L. 103-66	Aug. 10, 1993	4,370	4,900	530	8.0%
P.L. 104-103	Feb. 8, 1996	Temporary Exemption of Social Security[1]			
P.L. 104-115	Mar. 12, 1996	Temporary Exemption of Social Security[1]			
P.L. 104-121	Mar. 29, 1996	4,900	5,500	600	7.8%
P.L. 105-33	Aug. 5, 1997	5,500	5,950	450	5.5%
P.L. 107-199	June 28, 2002	5,950	6,400	450	4.3%
P.L. 108-24	May 27, 2003	6,400	7,384	984	9.0%
P.L. 108-415	Nov. 19, 2004	7,384	8,184	800	6.4%
P.L. 109-182	Mar. 20, 2006	8,184	8,965	781	5.9%
P.L. 110-91	Sept. 29, 2007	8,965	9,815	850	6.1%
P.L. 110-289	July 30, 2008	9,815	10,615	800	5.6%
P.L. 110-343	Oct. 3, 2008	10,615	11,315	700	5.0%
P.L. 111-5	Feb. 17, 2009	11,315	12,104	789	5.6%
P.L. 111-123	Dec. 28, 2009	12,104	12,394	290	2.0%
P.L. 111-139	Feb. 12, 2010	12,394	14,294	1,900	13.1%

*Denotes a debt limit extension, as opposed to a debt limit increase.
[1]Twice, Congress enacted a temporary exemption of that month's Social Security payments to the public debt limit.
Source: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2012, Historical Tables, February 14, 2011, Table 7-3 and Table 10-1.

BOX 1. DEBT-LIMIT CRISIS AND FUNDING GAP: WHAT IS THE DIFFERENCE?

A debt-limit crisis sometimes is confused with a funding gap. The two events derive from different causes and have very different consequences.

Annual appropriations acts provide agencies with the legal authority (called budget authority) to incur obligations, which arise from employing personnel, purchasing goods and services, and so on. A funding gap occurs when one or more of the annual appropriations acts are not enacted in a timely manner. If a regular appropriations act is not enacted by the start of the fiscal year on October 1, then stop-gap funding must be provided in a continuing appropriations act (often referred to as a continuing resolution or CR). Tardy enactment of a CR results in a funding gap, during which agencies do not have the legal authority to incur obligations. At this point, agencies must shut down, terminating services and furloughing employees except in those cases where continuance is authorized by law. The consequences of a funding gap are immediate and quite disruptive. Recovery from a funding gap may take some time, but usually agencies rebound quickly.

When the debt limit is reached and the Treasury has exhausted any "extraordinary measures" or other means to continue financing government operations, a debt crisis occurs and no more borrowing can take place. Federal employees may continue to work and agencies, to a considerable degree, may continue to provide services, but the Treasury may not have sufficient cash to make payments to employees, contractors, vendors, and others with whom it does business. As revenue is received in the Treasury, the funds may be used to pay the federal government's bills, but the level of cash in most months would probably be far from sufficient and many legal obligations would go unpaid.

When a funding gap occurs, the Antideficiency Act provides clear guidance regarding under what circumstances agencies may continue to incur obligations (i.e., for the protection of human life and property, or when expressly authorized by another law). Absent the necessary authority, agencies may not continue to obligate funds and must shut down their operations, furloughing their employees. There is considerable disagreement, on the other hand, as to whether existing law establishes clear priorities for honoring legal obligations when a debt-limit crisis occurs.

Why Increasing the Debt Limit is Important

Increasing the debt limit is often a difficult, if not distasteful, choice for many Members of Congress, but doing so is important. The need to raise the debt limit is the inevitable consequence of many prior decisions regarding spending and revenue levels, in some cases stretching back for decades.

Failure to raise the debt limit can have deleterious effects on both the economy and the federal budget. In the short-term, failing to raise the debt ceiling would force us to break faith with either our legal spending commitments, our commitments to pay our debt, or both. And in doing so, such a "default" would likely harm the economy even if it were rectified quickly.

For example, interest costs would likely rise following a default, increasing the costs of mortgages and other borrowing for consumers and increasing the interest payments that the federal government must make on its debt. Perhaps the most harmful effect would be on the perception of the federal government as a credit risk; the value of asserting "the full faith and credit" of the federal government could be diminished greatly. This could make the development and implementation of spending and revenue policies much more difficult and costly to pursue.

The United States experienced a brief episode of what a default can be like, if only for a short period, in 1979. An unexpected jump in demand for Treasuries by small investors, technical glitches within the Treasury Department, and Congress not raising the debt limit in a timely manner led the United States to miss interest payments on about $120 million worth of bills. Even though creditors had no real concerns that they would not be paid by the Treasury and that the delay on interest payments was only of a small amount, as finance professors Terry Zivney and Richard Marcus note, the event led to permanently higher interest rates of over half a percentage point.[4] The effects from a longer or non-technical default now would likely be far worse.

Treasury Secretary Geithner elaborated on the adverse consequences of a debt-limit crisis in his January 6 letter to Congress, as shown in Box 2.

BOX 2. Consequences of Failure to Increase the Debt Limit[5]

- The Treasury would be forced to default on legal obligations of the United States, causing catastrophic damage to the economy, potentially much more harmful than the effects of the financial crisis of 2008 and 2009.
- A default would impose a substantial tax on all Americans. Because Treasuries represent the benchmark borrowing rate for all other sectors, default would raise all borrowing costs. Interest rates for state and local government, corporate and consumer borrowing, including home mortgage interest, would all rise sharply. Equity prices and home values would decline, reducing retirement savings and hurting the economic security of all Americans, leading to reductions in spending and investment, which would cause job losses and business failures on a significant scale.
- Default would have prolonged and far-reaching negative consequences on the safe-haven status of Treasuries and the dollar's dominant role in the international financial system, causing further increases in interest rates and reducing the willingness of investors here and around the world to invest in the United States.
- Payments on a broad range of benefits and other U.S. obligations would be discontinued, limited, or adversely affected, including:
  - U.S. military salaries and retirement benefits;
  - Social Security and Medicare benefits;
  - veterans' benefits;
  - federal civil service salaries and retirement benefits;
  - individual and corporate tax refunds;
  - unemployment benefits to states;
  - defense vendor payments;
  - interest and principal payments on Treasury bonds and other securities;
  - student loan payments;
  - Medicaid payments to states; and
  - payments necessary to keep government facilities open.

4 Terry L. Zivney and Richard D. Marcus. "The Day the United State Defaulted on Treasury Bills." The Financial Review, August 1989.

5 Letter from Treasury Secretary Timothy F. Geithner to the Honorable Harry Reid, Senate Majority Leader, January 6, 2011, available at: http://www.treasury.gov/connect/blog/Pages/letter.aspx.

The Legislative Process for Adjusting the Debt Limit

Over the years, the two chambers have used three different types of procedures to adjust the statutory debt limit, with jurisdiction falling under the House Ways and Means Committee and the Senate Finance Committee: (1) the regular order; (2) procedures under the Gephardt Rule; and (3) the reconciliation process under the Congressional Budget Act of 1974.[6] The procedures differ significantly in their operation. In addition, the Treasury Secretary has various means at their disposal to prevent or delay breaching the debt limit.

The Regular Order

Most of the 91 debt-limit measures enacted into law since 1940 have been considered under the "regular order" in the House and Senate. The regular order simply refers to the usual legislative procedures by which most bills are considered pursuant to each chamber's standing rules and practices. In the House, most legislation is subject to a limited amount of debate and non-germane amendments cannot be offered. It also is common to consider legislation under the terms of "special rules" reported by the House Rules Committee that set special terms for the consideration of particular measures, such as a restriction on the number of amendments that may be offered and other expediting features. In the Senate, most legislation is subject to filibusters or "extended debate", and non-germane amendments (i.e., on matters unrelated to the underlying bill) may be offered.

Unlike budget resolutions and reconciliation bills, the consideration of appropriations and other spending bills, revenue bills, and debt-limit measures is not expedited in the Senate, and filibusters can be waged against them unless cloture is invoked or other restraints are imposed. The ability to offer non-germane amendments has also enabled some Senators to offer unrelated matter to simple debt-limit increases, particularly budget enforcement procedures. Conversely, a simple debt-limit increase is sometimes incorporated into voluminous legislation dealing with other, unrelated topics.

The types of measures containing debt-limit increases that have been considered under the regular order include freestanding debt-limit increases (in which no other subject matter is included) substantive policy legislation, and continuing appropriations acts.

In an effort to avoid contentious – and sometimes unsuccessful – votes on debt-limit legislation, in 1979 the House adopted the Gephardt Rule, named after its sponsor, Representative Richard Gephardt (D-MI).

Procedures Under the Gephardt Rule

The Gephardt Rule required the House Clerk to automatically engross and transmit to the Senate, upon the adoption of the budget resolution, a joint resolution changing the statutory limit on the public debt by the amount recommended in the budget resolution. The joint resolution was deemed to have passed the House by the same vote as the conference report on the budget resolution. The rule was repealed in the 107th Congress, restored in the 108th, and then repealed again at the beginning of the 112th Congress in 2011.

6 For more information on this subject, see: Congressional Research Service, Legislative Procedures for Adjusting the Public Debt Limit: A Brief Overview, by Bill Heniff Jr., Report Number RS21519, May 2, 2011 (originally prepared by Robert Keith).

The Senate has not adopted any procedures similar to those under the Gephardt Rule. Instead, it relies on the regular order and the reconciliation process to consider debt-limit increases.

The Reconciliation Process

The reconciliation process, as mentioned, is an optional procedure under the Congressional Budget Act of 1974 which led to the enactment of 20 separate measures from 1980 to 2010. Many of these have been among the most important budgetary legislation enacted.

The reconciliation process has two stages. First, reconciliation directives are included in the budget resolution, instructing the appropriate committees to develop legislation achieving the desired budgetary outcomes. Reconciliation directives instruct specified committees to develop legislation changing existing law in order to alter revenue, spending, or debt-limit levels to conform to budget resolution policies.

If the budget resolution instructs more than one committee in a chamber, then the instructed committees submit their legislative recommendations to their respective Budget Committees by the deadline prescribed in the budget resolution. The Budget Committees then incorporate them into an omnibus budget reconciliation bill without making any substantive revisions. In cases where only one committee has been instructed, the process allows that committee to report its reconciliation legislation directly to its parent chamber, thus bypassing the Budget Committee.

The second step requires that the House and Senate consider the resultant reconciliation legislation under expedited procedures. Debate in the Senate on a reconciliation measure, for example, is limited to 20 hours (and 10 hours on a conference report) and amendments must be germane and not include extraneous matter. Because Senate rules preclude a filibuster against a reconciliation bill, it is not necessary to secure the 60 votes usually needed to invoke cloture; however, 60 votes could still be necessary to consider an amendment (or the bill itself) if a budget enforcement violation were involved. In the House, the House Rules Committee typically recommends a special rule for the consideration of a reconciliation measure that places restrictions on debate time and the offering of amendments.

Actions Taken by the Treasury Secretary

The Treasury Secretary takes two sets of actions dealing with the debt limit that may have an influence on the scheduling of debt-limit legislation. First, he calculates when the debt limit is expected to become insufficient and so notifies congressional leaders. As a session proceeds, the estimate of the deadline may be revised as various changes in the economy and the federal budget occur. This was the case this year as the Treasury Secretary's initial estimate of the deadline slipped from March to August. While it is difficult to make precise estimates of the deadline well in advance, a Secretary's notifications are sometimes greeted with skepticism and viewed as an effort to manipulate Congress into acting more quickly than is necessary.

Second, the Treasury Secretary engages in "extraordinary measures" and other administrative actions in an effort to continue financing operations after a debt limit has been reached. These efforts "buy time" for Congress to enact legislation resolving the issue and may obviate the need to enact one or more short-term extensions.

The Committee for a Responsible Federal Budget is tracking the extraordinary measures being taken by the Treasury Secretary during the ongoing debt limit negotiations with a "Debt Ceiling Watch" (http://crfb.org/blogs/debt-ceiling-watch). Ten days before the debt ceiling was reached on May 16, the Treasury suspended new issuances of State and Local Government Series (SLGS) bonds -- special purpose securities which are issued to state and local governments to help them with certain cash management issues. Absent this suspension, debt levels could grow an extra $6 billion each month. (The Treasury Secretary is not required by law to issue these bonds, so no legal authorization was required to suspend their issuance.)

On May 16, the day the United States reached the legal debt limit, the Treasury Department suspended reinvestments and issuances of Treasury securities in the Civil Service Retirement and Disability Fund (CSRDF, commonly referred to as the Civil Service Fund, pension fund for federal retirees and is made up of investments determined by the Treasury) as well as the Government Securities Investment Fund (the G-Fund, a federal retirement fund with unique government securities not available to the general public) of the Thrift Savings Plan. It has also began redeeming certain investments in the Civil Service Fund. These actions are expected to give the Treasury Department about $147 billion in additional headroom ($130 billion from G-Fund and $17 billion from the Civil Service Fund).

The actions taken by the Treasury Department so far this year have ample precedent in recent decades. The Government Accountability Office (GAO) has analyzed and documented the actions taken by the Treasury Department over the years to cope with insufficient debt limits. According to GAO, three principal types of actions have been taken on multiple occasions:

- Redemption of obligations held by the Civil Service Fund. The Secretary of the Treasury is able to redeem obligations or other invested assets of the Civil Service Fund before maturity to prevent the amount of public debt from exceeding the debt ceiling. The Secretary of the Treasury must determine that a "debt issuance suspension period" exists in order to redeem Civil Service fund obligations early;
- Suspension of Civil Service Fund investments. The Treasury Secretary can suspend additional investment of amounts in the Civil Service Fund if the investment cannot be made without causing the amount of public debt to exceed the debt ceiling. The Civil Service Fund can be made whole after the debt issuance suspension period has ended; and
- Suspension of G-Fund investments. The Secretary of the Treasury can suspend the issuance of additional amounts of obligations of the United States to the G-Fund if issuance cannot occur without causing the amount of public debt to exceed the debt ceiling. The G-Fund can be made whole after the debt issuance suspension period has ended.[7]

Two other types of actions have also been taken by the Treasury Department in past years:

- Suspension of Exchange Stabilization Fund Investments. The Exchange Stabilization Fund is used, among other purposes, to buy and sell foreign currencies as well as US dollars in the form of special interest Treasury securities. These dollars mature daily and Treasury is not required by statute to invest more dollars in the fund, meaning that if Treasury lets some mature it can create additional headroom.
- Exchange of Obligations into the Civil Service Fund. In place of placing regular bonds in the Civil Service Fund, the Treasury secretary is authorized to place debt from other agencies, such as the Tennessee Valley Authority, the United States Postal Service, or the Federal Financing Bank into this fund. These obligations do not count against the debt limit.

Other legal authorities, besides the five mentioned above, have been used by the Treasury Secretary to justify extraordinary actions during a debt-limit crisis.

As noted by GAO, existing law requires that disinvestments or similar actions affecting the Civil Service Fund and the G-Fund by rectified after a debt-limit crisis ends, including the restoration of any lost interest. In other cases, however, there is no requirement that the affected agency be made whole. The Exchange Stabilization Fund incurred several million dollars in losses during one debt-limit crisis that were not restored afterwards.

7 Government Accountability Office, Debt Ceiling: Analysis of Actions Taken during the 2003 Debt Issuance Suspension Period, GAO-04-526, May 2004.

The Historical Record of Legislative Actions

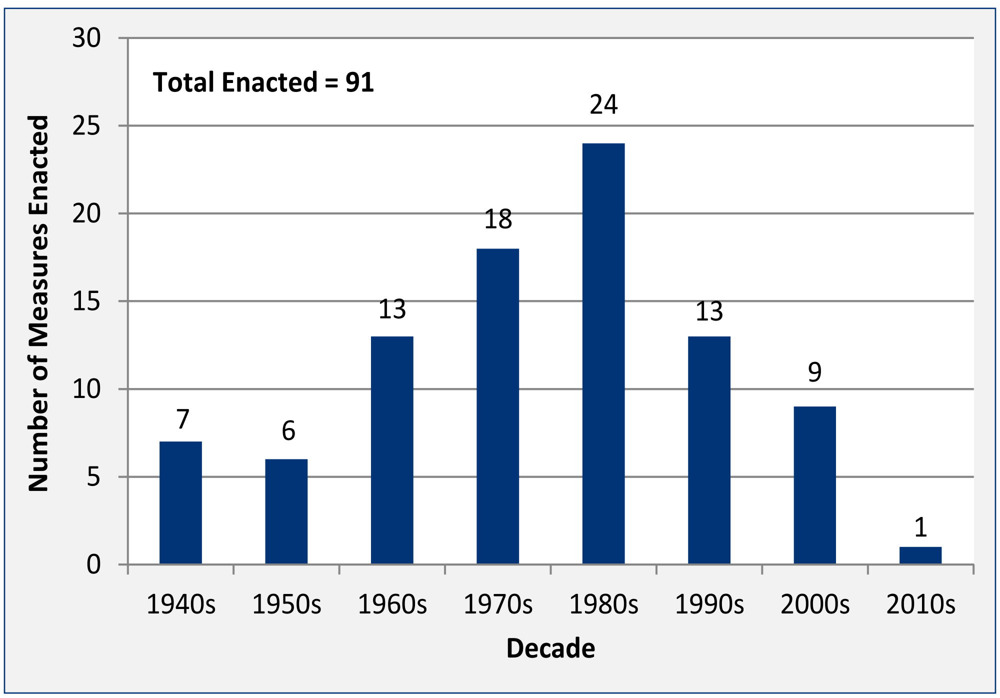
This section examines patterns in the number and duration of acts adjusting the debt limit, the use of different approaches to legislative action, and the circumstances under which particularly controversial debt-limit actions occurred. This section also reviews concessions that were granted (in the form of new budget enforcement procedures) that allowed debt-limit legislation to be enacted in 1985, 1990, and 2010.

Number and Duration of Debt-Limit Acts

A total of 91 measures affecting the debt limit were enacted into law from 1940 through 2010. Figure 2 shows the total number enacted by decade. As the figure shows, the total increased steadily from the 1950s (a total of 6) through the 1980s (a total of 24) and declined sharply thereafter, to a total of 13 in the 1990s and 9 in the 2000s. So far only one measure has been enacted in the 2010s

During the 1990s, more than half of the debt-limit measures enacted into law were associated with a single effort to raise the limit. In 1990, a series of six temporary debt-limit measures were enacted over a three-month period while budget summit negotiations were underway between the President and Congress. After the successful conclusion of the summit, a seventh debt-limit measure was enacted that sufficed for

FIG 3. Total Number of Debt-Limit Measures Enacted by Decade: 1940-2010



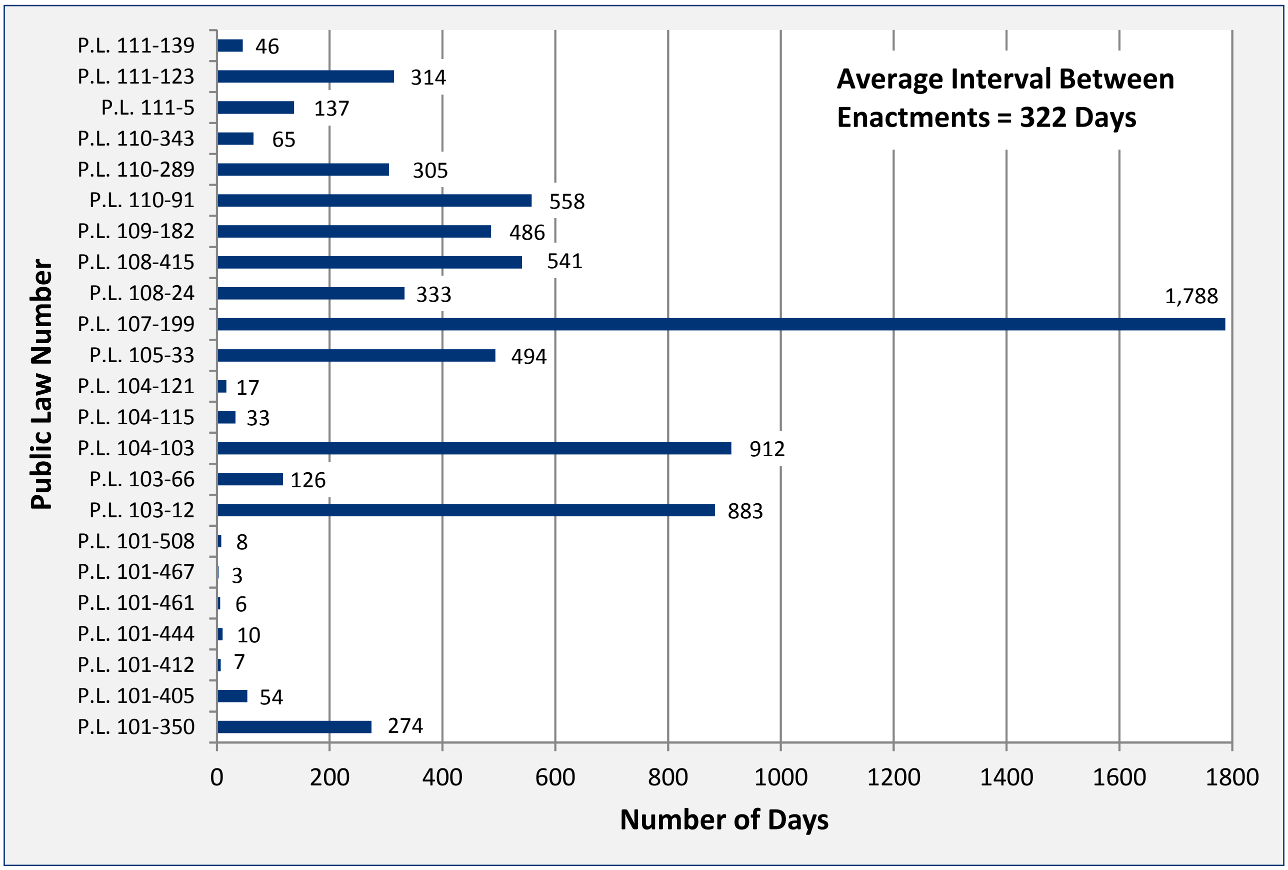
Source: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2012, Historical Tables, February 14, 2011, Table 7-3.

well over two years.

In general, though, policymakers have opted to raise the limit to levels which would allow long periods of time before the next debt vote. Figure 3 shows the interval in number of days between the enactment of each measure for 23 debt-limit measures enacted from 1990 through 2010.[8]

The average interval between the enactment of debt-limit measures during the 1990-2010 period, as Figure 3 shows, was 322 days. As indicated earlier, a series of six temporary extensions of the debt limit enacted in 1990 while a budget summit was underway covered a period of roughly three months, bringing the average down considerably from what it otherwise would have been. A period longer than a year occurred between enactments in seven cases. In two of those cases, the period exceeded two years — 883 days (P.L. 103-12) and 912 days (P.L. 104-103). The longest interval, 1,788 days (or 4.9 years), came to an end when the debt limit was increased on June 28, 2002 by P.L. 107-199, following four years of

FIG 4. Interval Between Enactment of Debt-Limit Measures: 1990-2010



Sources: (1) Office of Management and Budget, Budget of the United States Government, Fiscal Year 2012, Historical Tables, February 14, 2011, Table 7-3 (for enactment dates); and (2) Library of Congress, "Thomas" legislative database (for public law numbers), accessible at: http://thomas.loc.gov/home/thomas.php.

8 It should be noted that the measurement used in Figure 3 approximates the duration of the debt-limit increase very closely but is not identical to it in some instances because the limit expired for short periods. Also, the figure does not indicate instances in which the debt limit became insufficient and the Treasury Secretary had to resort to extraordinary measures to continue financing federal government operations until the limit was raised.

surplus in the federal budget.[9]

The average interval for the 1990-2010 period is considerably longer than the average interval for the preceding two decades, covering 1970-1989. During the earlier period, the average number of days between the enactment of debt-limit measures was 176 days, which is about 55 percent of the length of the interval for the more recent period. Only four of the 42 measures enacted during the earlier period involved intervals longer than one year, ranging from 391 days to 668 days.

Types of Legislation Used

Of the three types of procedures used to raise a debt ceiling – all three have been utilized in the last two decades. Of the 23 debt ceiling increases, 4 were enacted through use of the Gephardt Rule, 3 were enacted using reconciliation, and the remaining 16 were enacted through the regular order.

Of those enacted through the regular order, however, only six were freestanding bills. Another four were enacted through Continuing Resolutions, all in October of 1990 in order to buy time while budget summit negotiations were concluded.

The remaining six increases were enacted as part of substantive policy measures. In addition to increasing the debt limit, these measures encompassed a wide range of policy issues, ranging from a bill implementing a portion of the Republican party's agenda following its takeover of the House after the 1994 general elections to bills stimulating the economy and shoring up the financial system in the wake of the recent recession.

Controversies and Concessions

Controversy seems to be the constant companion of legislation adjusting the debt limit (although adjustments in the debt limit are sometimes made with little notice).

The difficult political consequences potentially associated with raising the debt limit, especially during times of economic turmoil and budgetary challenges, impel many Members of Congress to seek concessions that they believe will promote better budgetary decisions in the future and will make the debt-limit increase more politically acceptable in the present. As the deadline for raising the debt limit approaches, some Members withhold their political support until the desired concessions are offered.

Because increases in the debt limit can occur only through legislative action, the President is well positioned to seek concessions as well. Legislation providing an increase in the debt limit usually does not garner the level of political support that would be required to override a presidential veto, the tool formally available to the President under the Constitution.

The precedent of a presidential veto of a debt-limit increase was established in 1995, when President Bill Clinton vetoed a freestanding measure (H.R. 2586) on November 13, 1995. No veto override was attempted. The veto was part of the ongoing confrontation between the President and Republican leaders in Congress that led to the vetoes of other key budgetary measures and two federal government shutdowns during late

9 The four years of surplus incurred in the federal budget for FY1998-FY2001 (ending on September 30, 2001) were the only surpluses recorded in the unified budget since FY1969.

FIG 5. Types of Legislation Containing Debt-Limit Increases: 1990-2010

Public Law Number	Date Enacted	Bill Number	Type of Measure	Amount Increased ($ billions)
P.L. 101-350	Aug. 9, 1990	H.R. 5350	Freestanding	72.3
P.L. 101-405	Oct. 2, 1990	H.R. 5755	Freestanding	0
P.L. 101-412	Oct. 9, 1990	H.J.Res. 666	Continuing resolution	0
P.L. 101-444	Oct. 19, 1990	H.J.Res. 677	Continuing resolution	0
P.L. 101-461	Oct. 25, 1990	H.J.Res. 681	Continuing resolution	0
P.L. 101-467	Oct. 28, 1990	H.J.Res. 687	Continuing resolution	35
P.L. 101-508	Nov. 5, 1990	H.R. 5835	Reconciliation	915
P.L. 103-12	April 6, 1993	H.R. 1430	Freestanding	225
P.L. 103-66	Aug. 10, 1993	H.R. 2264	Reconciliation	530
P.L. 104-103	Feb. 8, 1996	H.R. 2924	Substantive policy	N/A
P.L. 104-115	Mar. 12, 1996	H.R. 3021	Substantive policy	N/A
P.L. 104-121	Mar. 29, 1996	H.R. 3136	Substantive policy	600
P.L. 105-33	Aug. 5, 1997	H.R. 2015	Reconciliation	450
P.L. 107-199	June 28, 2002	S. 2578	Freestanding	450
P.L. 108-24	May 27, 2003	H.J.Res. 51	Gephardt Rule	984
P.L. 108-415	Nov. 19, 2004	S. 2986	Freestanding	800
P.L. 109-182	Mar. 20, 2006	H.J.Res. 47	Gephardt Rule	781
P.L. 110-91	Sept. 29, 2007	H.J.Res. 43	Gephardt Rule	850
P.L. 110-289	July 30, 2008	H.R. 3221	Substantive policy	800
P.L. 110-343	Oct. 3, 2008	H.R. 1424	Substantive policy	700
P.L. 111-5	Feb. 17, 2009	H.R. 1	Substantive	789
P.L. 111-123	Dec. 28, 2009	H.R. 4314	Freestanding	290
P.L. 111-139	Feb. 12, 2010	H.J.Res. 45	Gephardt Rule	1,900

Source: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2012, Historical Tables, February 14, 2011, Table 7-3.

1995 and early 1996.[10]

In the case of debt-limit increases, the search for concessions has tended to focus primarily on demonstrations of greater fiscal responsibility. After all, in the view of many citizens, fiscal irresponsibility is often the chief reason for the need to increase the debt limit. An increase in the debt limit is sometimes considered less painful by citizens if it is accompanied by assurances that spending growth will be controlled more tightly, taxes will not be increased unduly, and future deficit and debt levels will be curbed.

10 President Clinton's reasons for vetoing the bill, as set forth in H. Doc. 104-132 (November 13, 1995), cited his belief that the Republicans were attempting to use a truncated debt-limit increase to force him to accept their "misguided" budget policies, but also included his objection to limitations imposed on the Treasury Secretary's ability to manage cash balances.

In recent decades, measures raising the debt limit have included budget process reforms as part of larger agreements on several occasions. Three such acts that included significant budget enforcement procedures are briefly summarized below. In each case, the budget enforcement procedures set forth important budgetary responsibilities for both the President and Congress.

The Gramm-Rudman-Hollings Act in 1985

The Balanced Budget and Emergency Deficit Control Act of 1985, commonly referred to as the Gramm-Rudman-Hollings (GRH) Act after its three primary sponsors (Senators Phil Gramm, Warren Rudman, and Ernest Hollings), was included as part of a $175 billion debt-limit increase in December of 1985.

At that time, as is true today, the federal government faced deficits "as far as the eye could see" and there was a widespread belief that the procedures under the Congressional Budget Act of 1974 did not offer adequate budget enforcement. Raising the debt limit by an amount nearly equal to the estimated deficit at the time required the adoption of enforcement procedures perceived to be much bolder than those available under the Congressional Budget Act of 1974. Furthermore, lawmakers at the time believed enhanced enforcement procedures needed to be linked to achieving a balanced budget.

GRH established new procedures involving deficit targets – expected to lead to a balanced budget in FY1991 – and sequestration, a procedure for making largely across-the-board spending cuts in nonexempt programs if needed to keep the estimated deficit within allowed limits. Because sequestration would result in automatic and (largely) indiscriminant cuts, it was perceived to be so drastic an action that it would force Congress and the President to reach agreement.

The act was amended significantly in 1987, in part to cure a constitutional defect in the mechanism for triggering sequestration, and in part to revise and extend the deficit targets. However, the amended GRH Act was widely criticized for its failure to achieve its principal objective, deficit reduction. During the period covering FY1986 through FY1990, the actual deficit exceeded the deficit target every year. The overage ranged from about $5 billion to $205 billion and was greatest in the later years, despite the later revision of the targets.

Furthermore, the manner in which the sequestration process operated and the stringency of the goals were widely perceived as fostering budgetary gimmickry and disruption in the legislative process. Although the deficit-reduction goals under the GRH Act were not achieved, the experience gained under the act contributed to the development of more workable and effective procedures five years later.

Implementing the 1990 Budget Deal

Following a lengthy budget summit, President George H.W. Bush reached an agreement with Congress in 1990 to reduce the deficit by roughly $500 billion over five years. The agreement was implemented largely through the enactment of the Omnibus Budget Reconciliation Act (OBRA) of 1990. OBRA of 1990 also included revised budget enforcement procedures that effectively replaced the deficit targets established under the amended GRH Act. These enforcement procedures are referred to as the Budget Enforcement Act (BEA) of 1990.

OBRA of 1990 included the largest increase in the debt limit up to that time, $915 billion, but the budget enforcement procedures under the BEA were less a concession to win approval of the debt-limit increase than they were an integral part of ensuring the preservation of the hard-won deficit reduction. Congress and President Bush were motivated to reach a budget agreement by two factors – preventing a sequester under the GRH deficit target (estimates showed that it would be exceeded by over $100 billion) and the need to respond to a slackening economy. In order to conclude an agreement, President Bush had to abandon his

FIG 6. Components of Selected Legislation Increasing the Debt Limit: 1985-2010

Act Containing a Debt-Limit Increase	Component			
	Debt-Limit Increase Only	Budget Enforcement Procedures	Substantive Legislation	Annual Appropriations
Gramm-Rudman-Hollings Act of 1985		X		
To extend the temporary increase in the public debt limit (1990)	X			
Making further continuing appropriations for fiscal year 1991				X
Omnibus Budget Reconciliation Act of 1990 (including the BEA of 1990)		X	X	
Balanced Budget Act of 1997		X	X	
Emergency Economic Stabilization Act of 2008			X	
American Recovery and Reinvestment Act of 2009			X	X
To permit continued financing of Government operations (2009)	X			
Statutory PAYGO Act of 2010		X		

earlier pledge ("Read my lips, no new taxes") not to increase revenues.

The BEA of 1990 effectively replaced the deficit targets under the amended GRH Act with two new budget enforcement procedures. First, adjustable limits were established for separate categories of discretionary spending. Second, "pay-as-you-go" (PAYGO) procedures were created to require that increases in mandatory spending or decreases in revenues due to legislative action be offset so that there would be no net increase in the deficit (or reduction of the surplus).

The BEA of 1990, and the related laws that followed it, are generally regarded as having been more successful than the GRH Act in controlling aggregate budget levels. During the period that the discretionary spending limits and PAYGO requirements were in effect, the status of the federal budget changed from the largest deficit in nominal terms recorded in history up to that time ($290 billion in FY1992), to unprecedented surpluses ($236 billion in FY2000). Although this dramatic change was due to many factors, the procedures under the BEA were regarded by many as important contributing factors to this accomplishment.

Reinstituting Statutory PAYGO in 2010

The Statutory Pay-As-You-Go Act of 2010 (Statutory PAYGO Act) was attached to a measure that increased the debt limit by $1.9 trillion, to $14.294 trillion. This represents the largest debt-limit increase in nominal terms ever enacted. The record increase in the debt limit that was needed early in 2010 had to be coupled with a commitment to fiscal discipline in order to garner sufficient political support to be enacted.

The Statutory PAYGO Act of 2010, which reinstituted the statutory PAYGO process that existed under the BEA of 1990 and later laws, but with significant revisions, provided the necessary commitment to fiscal restraint that allowed the debt limit to be increased. In general, the act requires that mandatory spending and revenue legislation enacted into law not increase the deficit.

Under the new statutory PAYGO process, failing to offset new tax cuts or spending increases would result in a sequestration – an across-the-board spending cut to nonexempt mandatory programs. However, a number of programs such as Social Security and Medicaid are exempt from sequestration.

More importantly, PAYGO exempts any costs designated as emergencies. It also exempts the continuation of certain current policies, including the permanent continuation of the 2001/2003 income tax cuts on income below $250,000 along with temporary continuations of the 2009 estate tax parameters, patches to the Alternative Minimum Tax, and "Doc Fixes" for the Sustainable Growth Rate. These two loopholes, together, allowed the entire $858 billion tax and stimulus deal enacted at the end of 2010 to be completely exempted from PAYGO. However, this rule might have helped encourage politicians to enact other legislation – for example the Affordable Care Act – on a deficit-neutral or reducing basis.

During the consideration of the debt-limit measure, the Senate also considered a proposal to establish a bipartisan commission that would develop deficit-reduction proposals that Congress would have to vote on. While the proposal was defeated, President Barack Obama established by executive order the bipartisan National Commission on Fiscal Responsibility and Reform, headed by Erskine Bowles and former Senator Alan Simpson. The Commission issued a report in December 2010. While the Commission did not reach the level prescribed in the executive order for a consensus and subsequent vote in Congress, the recommendations in the report were endorsed by a bipartisan majority of 11 out of 18 commission members and have contributed to the current debate over deficit-reduction options.[11]

Conclusion

In the past, it has not been unusual to accompany a debt ceiling increase with measures to help bring the debt under control. And though the debt ceiling should never be exceeded, it can be useful in helping to focus Washington's attention on our tremendous debt situation.

With the debt ceiling only weeks away from being eclipsed, policymakers are running out of time to come to a deal. They must raise the debt ceiling, but they also must reach agreement on how to begin putting our debt on a sustainable path. Failing to reassure markets that we are serious about reducing our debt would put the economy at serious risk, and so we should act quickly to put our fiscal house in order.

11 Information on the activities of the Commission and its final report, The Moment of Truth, is available at: http://www.momentoftruthproject.org.