

CRS Report for Congress

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Debt-Limit Legislation in the Congressional Budget Process

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The amount of money the federal government is allowed to borrow generally is subject to a statutory limit (31 U.S.C. 3101). From time to time, Congress considers and adopts legislation to change this limit. This report provides a brief overview of debt-limit legislation within the congressional budget process.

The gross federal debt, which represents the federal government's total outstanding debt, consists of two types of debt: (1) the debt held by the public; and (2) the debt held by government accounts. The debt held by the public represents the total net amount borrowed from the public to cover the federal government's accumulated budget deficits. By contrast, the debt held by government accounts represents the total net amount of federal debt issued to specialized federal accounts, primarily trust funds (e.g., Social Security). Trust fund surpluses by law must be invested in special federal government securities and thus are held in the form of federal debt.

At the end of FY2004, about 58%, or about \$4,295.5 billion, of the gross federal debt, which equaled \$7,354.7 billion, was held by the public. Almost 42%, or \$3,059.1 billion, of the gross federal debt is debt held by government accounts.

Since the statutory limit applies to the combination of both types of debt, budget deficits or trust fund surpluses may contribute to the federal government reaching the existing debt limit. Budget deficits increase the federal debt by requiring the federal government to borrow additional funds to fulfill its commitments. Trust fund surpluses contribute to the federal debt by requiring the federal government to issue securities to the trust funds. Consequently, *the federal debt may reach the existing statutory limit even when the federal budget is balanced*. For more information on current federal debt limit issues, see CRS Report RL31967, *The Debt Limit: The Ongoing Need for Increases*.

Changing the Debt Limit

So long as the federal government incurs annual deficits and trust funds incur annual surpluses, Congress and the President from time to time must enact legislation to raise the statutory limit on the debt. Legislation to raise (or lower) the debt limit is considered in the context of the congressional budget process. The annual congressional budget resolution specifies the appropriate level of the public debt for each fiscal year covered

by the resolution. Although the budget resolution does not become law itself, the specified debt limits serve as a guide for any necessary debt-limit legislation.

Section 303 of the Congressional Budget Act (CBA) of 1974 (Titles I-IX of P.L. 93-344, 88 Stat. 297-332) prohibits consideration of debt-limit measures for the upcoming fiscal year before a budget resolution for that year has been adopted. This provision, however, can be waived in the House or Senate by majority vote.

Congress may develop debt-limit legislation in any of three ways: (1) under regular legislative procedures; (2) under House Rule XXVII; or (3) as part of reconciliation legislation. Regardless of the process by which debt-limit legislation is developed, the House Ways and Means Committee and the Senate Finance Committee maintain exclusive jurisdiction over debt-limit legislation.

Under House Rule XXVII (commonly referred to as the Gephardt rule after its author, former Representative Richard Gephardt), a joint resolution specifying the amount of the debt limit contained in the budget resolution automatically is engrossed and deemed to have passed the House by the same vote as the conference report on the budget resolution, thereby avoiding a separate vote on the debt-limit legislation. The Senate has no comparable procedure and may consider such a joint resolution under the regular legislative process. For further information, see CRS Report RL31913, *Developing Debt-Limit Legislation: The House's "Gephardt Rule."*

Finally, Congress may include reconciliation directives in a budget resolution directing the House Ways and Means Committee and the Senate Finance Committee to report, or submit to the budget committee of its respective chamber, legislation changing the statutory limit on the public debt. The resulting reconciliation legislation is considered under special procedures. For a brief summary of these procedures, see CRS Report 98-814, *Budget Reconciliation Legislation: Development and Consideration*.

The most recent increase in the public-debt limit was enacted as an independent measure (P.L. 108-415, 118 Stat. 2337) in November 2004. Although the implications of increasing the debt limit may be controversial, the content of debt-limit legislation itself is straightforward. The most recent act increasing the public debt limit read as follows:

Section 1. Increase in Public Debt Limit.

Subsection (b) of section 3101 of title 31, United States Code, is amended by striking "\$7,384,000,000,000" and inserting "\$8,184,000,000,000."

President Bush's FY2006 budget projects that the debt subject to the statutory limit will increase to \$8.673 trillion, almost \$500 billion over the current limit, by the end of FY2006. Therefore, Congress and the President will likely need to increase the statutory limit in late 2005 or early 2006.

For more information on the development and consideration of debt-limit legislation, see CRS Report RS21519, *Legislative Procedures for Adjusting the Public Debt Limit: A Brief Overview*.