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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 must adopt legislation to raise 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 FY2003, almost 58%, or about $3,913.6 billion, of the gross federal debt, which equaled $6,760.0 billion, was held by the public. About 42%, or $2,846.4 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*.

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.

The House Ways and Means Committee and the Senate Finance Committee have jurisdiction over 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 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.

Since 1978, 22 of the 41 debt-limit extensions were enacted as independent measures. The remaining 19 included or were part of other legislation. (A list of changes in the debt limit since 1940 can be found in the *Historical Tables* volume of the President's budget documents, Table 7.3 in the FY2005 *Historical Tables*.) In some cases, debt-limit legislation has been used as a vehicle for other legislation. For example, the Balanced Budget and Emergency Deficit Control Act of 1985 (Title II of P.L. 99-177, 99 Stat. 1038-1101), referred to as Gramm-Rudman-Hollings, was attached to legislation increasing the public debt.

House Rule XXVII (commonly referred to as the Gephardt rule after its author, Representative Richard Gephardt) provides that 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.

The Gephardt rule was established in 1979 and first applied to the FY1981 budget resolution. In several years, the rule was suspended because legislation changing the statutory limit was not necessary or the House passed, or was expected to pass, separate legislation to increase the public debt limit. Further, the rule had not been utilized since the first session of the 103rd Congress, and subsequently was removed from the House rules at the beginning of the 107th Congress. At the beginning of the 108th Congress, the House restored the automatic engrossing process formerly used under the Gephardt rule as new Rule XXVII. During the years when the rule was in effect, the House originated 16 joint resolutions under this procedure; 12 were enacted.

Finally, Congress has increased the statutory limit on the public debt as part of reconciliation legislation four times since the reconciliation process was established by the 1974 CBA. Debt-limit increases were included in the reconciliation acts of 1986, 1990, 1993, and 1997.

The most recent increase in the public debt limit originated under the Gephardt rule and subsequently was enacted as an independent measure (H.J.Res. 51, P.L. 108-24) in May 2003. Although the implications of increasing the debt limit may be controversial, the content of debt-limit legislation itself is straightforward. The full text of the most recent act increasing the public debt limit read as follows:

> *Resolved by the Senate and House of Representatives of the United States of America in Congress assembled*, That subsection (b) of section 3101 of title 31, United States Code, is amended by striking out the dollar limitation contained in such subsection and inserting in lieu thereof $7,384,000,000,000.

In February 2004, the Administration indicated that it expected the debt subject to the limit would reach the statutory ceiling before the end of FY2004 (i.e., September 30, 2004). For more information on current federal debt limit issues, see CRS Report RL31967, *The Debt Limit: The Need for Increases*.