DEMOCRATIC POLICY COMMITTEE

Legislative Bulletin

DPC

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January 19, 2010
(updated January 22, 2010)

H.J. Res. 45, Increasing the statutory limit on the public debt

Update:

On January 20, 2010, Leader **Reid** filed **S.A. 3299**, an amendment in the nature of a substitute, that would increase the statutory debt limit to $14.294 trillion.

The amount of money that the federal government is allowed to borrow is subject to a statutory limit. **H.J. Res. 45** would increase this statutory debt limit from its current level of $12.394 trillion to $13.029 trillion. The limit covers nearly all public debt, and must be increased to facilitate our nation's ability to pay its bills on time and continue to send a strong signal regarding our nation's economic stability.

The Senate is expected to consider **H.J. Res. 45** on January 20 in accordance with the unanimous consent agreement entered into in December 2009. Pursuant to the agreement, the Senate will consider a finite list of amendments, and then proceed to vote on passage of the joint resolution. Senator **Reid** or his designee will be recognized to offer a substitute amendment that is expected to change the amount of the debt limit increase. Passage will be subject to an affirmative 60 vote threshold.

Background

What is the debt limit? The U.S. Constitution provides Congress with the power "to borrow money on the credit of the United States." The amount that the federal government is allowed to borrow is subject to a statutory limit, set forth in **31 U.S.C. 3101(b)**. The debt limit places a ceiling on nearly all public debt (debt held by the public and federal debt held by the government's own accounts, such as Social Security, Medicare, Transportation, and Civil Service Retirement accounts).

Prior to 1917, the Congress was required to approve every issuance of debt. In 1917, the *Second Liberty Bond Act of 1917* (**P.L. 65-43**) established the first statutory limit on federal debt to allow the Department of the Treasury to issue long-term Liberty Bonds to help finance the United States's entry into World War I. Between 1917 and 1939, Congress passed debt limit legislation that set separate limits for different categories of debt, such as bills, certificates, and bonds. In 1939, Congress established a $45 billion aggregate limit covering nearly all public debt, eliminating separate limits on bonds and on other types of debt. As a general matter, this better facilitates Treasury's ability to manage the federal government's finances – the law requires that the government's legal obligations be paid; the Department can issue new debt to manage short-term cash flows or to finance an annual deficit.

Increases in the debt limit. Since 1939, the debt ceiling has been increased nearly 100 times. It was doubled to more than $12 trillion, with seven increases between 2002 and 2008, at the request of the Bush Administration. The Congress most recently increased the debt limit from $12.104 trillion to $12.394 trillion in December 2009.

It is important to note that an increase in the debt limit does not authorize a single penny in additional spending. It is largely designed to meet obligations already incurred. In this case, those obligations were largely incurred by the previous President.

Indeed, a Brookings Institution study concluded last year that the "fiscal mess" we find ourselves in was precipitated by "a series of policy actions adopted during the Bush administration": In 2001, the Congressional Budget Office projected that the 2008 budget would show a surplus equal to 4.5% of gross domestic product. The actual 2008 budget ran a deficit of 3.2% of GDP. Almost all of the reversal was the result of policy changes – tax cuts and spending increases." [Brookings Institution, 7/30/2009] This was, of course, followed by the collapse of the financial markets, the deepening of the recession, and the extraordinary measures that the federal government had to undertake in response to the crisis. The Brookings findings were confirmed by a subsequent Center for American Progress study that found that Bush policies account for 40 percent of the short-term fiscal problem, the recession accounts for 20 percent, and the financial sector rescue accounts for 12 percent. And Obama policies, primarily the *Recovery Act*, enacted in response to an inherited crisis of unforeseen proportions, account for 16 percent. [Center for American Progress, 9/2009]

What are the consequences of failing to increase the debt limit? Most fundamentally, failure to increase the debt limit would imperil the stability of our economic system at a time when the United States and the global community are struggling to emerge from the most severe economic and financial crises since the Great Depression. Failing to increase the ceiling would mean that the government would no longer be allowed to issue debt to pay its obligations. This could dramatically increase borrowing costs for financing essential government activities; negatively impact financial markets; and jeopardize international standing for the United States and the dollar, which could result in an inflationary shock, and much higher interest rates, severely depressing economic growth and draining financial resources.

According to the Treasury Department:

> "Treasury Secretaries of both parties have been unanimous regarding the importance of avoiding default by the U.S. Government. In 1985, Treasury Secretary James A. Baker stated, 'It would be an absolute disgrace if the United States defaulted for the first time in its over-200-year history. Any default will have swift and severe implications both domestically and internationally.' In August of 2009, Secretary Geithner said, 'Every American has a strong interest in ensuring that the Nation's creditworthiness is never called into question. The full faith and credit of the United States is a unique asset that serves as the foundation for our global financial leadership.'"

Congress has never failed to increase the debt limit when necessary, and therefore the United States has never defaulted on its debt. If the United States were forced to default on its debts, the following is a list of Treasury payments that would have to be suspended:

- Active duty military salaries
- Military retirement benefits
- Social Security benefits
- Veterans' compensation and pension payments
- Civil Service retirement and disability benefits
- Railroad Retirement benefits
- Supplemental Security Income payments
- Individual and corporate tax refunds
- Defense vendor payments
- Unemployment benefit payments to states
- Medicaid payments to states
- Medicare payments to states
- Medicare payments to HMOs and prescription drug payments to insurance companies

- FDIC payments to resolve bank failures
- Federal civilian salaries
- Student loan payments
- Agriculture payments
- Federal highway payments to states
- UD Public and Indian housing payments
- Interest on the national debt

Major Provision

H.J. Res. 45 would increase the statutory limit on the public debt to $13.029 trillion.

Update:
On January 20, 2010, Leader **Reid** filed **S.A. 3299**, an amendment in the nature of a substitute, that would increase the statutory debt limit to $14.294 trillion.

Legislative History

Pursuant to the provisions of the *Fiscal Year 2009 Budget Resolution* (**S. Con. Res. 13**), **H.J. Res. 45** was introduced and "deemed" passed in the House on April 29, 2009. On April 30, 2009, **H.J. Res. 45** was received in the Senate and read twice and referred to the Committee on Finance.

In accordance with the unanimous consent agreement entered into in December 2009, the Senate is expected to consider **H.J. Res. 45** on January 20th. Pursuant to the agreement, the Senate will consider a defined list of amendments, and then proceed to vote on passage of joint resolution. Passage is subject to an affirmative 60 vote threshold.

Amendments

Pursuant to a unanimous consent agreement entered into on December 22, 2009, immediately after the joint resolution is reported, the Majority Leader, or his designee, will be recognized to offer a substitute amendment that is expected to change the amount of the debt limit increase. In addition, in accordance with the agreement, the following are the only amendments in order to the joint resolution:

- An amendment offered by Sen. Thune regarding TARP;
- An amendment offered by Sen. Murkowski regarding Endangerment EPA regulations;
- An amendment offered by Sen. Coburn regarding rescissions;
- An amendment offered by Sen. Sessions regarding spending caps;
- An amendment offered by Sen. McConnell relevant to any amendment on the list;
- An amendment offered by Sen. Reid relevant to any amendment on the list;
- An amendment offered by Sen. Reid regarding a statutory pay-go mechanism;
- Up to three amendments offered by Sen. Baucus relevant to any amendment on the list; and
- An amendment offered by Sens. Conrad and Gregg regarding a fiscal task force.

In accordance with the agreement, each amendment on this list is subject to a 60 vote threshold. If the amendment does not reach 60 votes, it will be withdrawn. Upon disposition of all amendments, the substitute amendment, as amended, if amended, will be agreed to and the Senate will then proceed to vote on passage of the joint resolution. Passage will be subject to an affirmative 60 vote threshold.

Upon disposition of all amendments, the substitute amendment, as amended, if amended, can be agreed to.

The DPC will distribute information to our staff e-mail listservs on amendments as it becomes available.

Administration Position

On January 20, 2010, the Administration issued its Statement of Administration Position (SAP) on **H.J. Res. 45**:

> "The Administration strongly supports passage of an increase in the public debt limit. Such an increase is critically important to make sure that financing of Federal Government operations can continue without interruption and that the creditworthiness of the United States is not called into question."

The SAP is available here.

Resources

Congressional Research Service, "The Debt Limit: History and Recent Increases," available here.