DAN BENISHEK
1ST District, Michigan

514 Cannon House Office Building
(202) 225-4735

Congress of the United States
House of Representatives
Washington, DC 20515-2201

Legislative Advisory

To: Michigan's First Congressional District
From: Andrew Miller Ext. 5-4796
Special Assistant
Date: 2/3/2011
Re: Background: Debt Limit

What is included in this Legislative Advisory…

- **History of the Debt Limit**
- **Conservative Talk about the Debt**
- **Current Situation and Public Opinion**
- **If the Debt Limit is Not Increased**
- **Debt Limitation Legislation Pending in Congress**

History of the Debt Limit (Source: Congressional Research Service, *The Debt Limit: History and Recent Increases*)

The statutory limit on federal debt began with the Second Liberty Bond Act of 1917, which helped finance the United States' entry into World War I. By allowing the Treasury to issue long-term Liberty Bonds, which were marketed to the public at large, the federal government held down its interest costs.

The debt ceiling was raised to accommodate accumulating costs for World War II in each year from 1941 through 1945, when it was set at $300 billion. After World War II ended, the debt limit was reduced to $275 billion. Because the Korean War was mostly financed by higher taxes rather than by increased debt, the limit remained at $275 billion until 1954. After 1954, the debt limit was reduced twice and increased seven times, until March 1962 when it again reached $300 billion, its level at the end of World War II. Since March 1962, Congress has enacted 74 separate measures that have altered the limit on federal debt. Most of these changes in the debt limit were, measured in percentage terms, small in comparison to changes adopted in wartime or during the Great Depression. Some recent increases in the debt limit, however, were large in dollar terms. For instance, in May 2003, the debt limit increased by $984 billion.

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During the four years (FY1998-FY2001) the government ran surpluses, federal debt held by intergovernmental accounts grew by $855 billion and debt held by the public fell by almost $450 billion. Since FY2001, however, debt held by the public has grown due to persistent and substantial budget deficits. Debt held in government accounts also has grown, in large part because Social Security payroll taxes have exceeded payments of beneficiaries.

Table 1 shows components of debt in current dollars and as percentages of gross domestic product (GDP).

Table 1. Components of Debt Subject to Limit, FY1996-FY2010

		Debt Subject to Limit					
		Total		Held by Government Accounts		Held by the Public	
End of Fiscal Year	Debt Limit	$ Billion	% of GDP	$ Billion	% of GDP	$ Billion	% of GDP
1996	$5,500	$5,137.20	65.70%	1,432.40	18.30%	3,704.80	47.40%
1997	5,950	5,327.60	64.2	1,581.90	19	3,745.80	45.1
1998	5,950	5,439.40	62.2	1,742.10	19.9	3,697.40	42.3
1999	5,950	5,567.70	60.1	1,958.20	21.1	3,609.50	38.9
2000	5,950	5,591.60	57	2,203.90	22.4	3,387.70	34.5
2001	5,950	5,732.80	56.6	2,436.50	24.1	3,296.30	32.5
2002	6,400	6,161.40	58.9	2,644.20	25.3	3,517.20	33.6
2003	7,384	6,737.60	61.4	2,846.70	25.9	3,890.80	35.5
2004	7,384	7,333.40	62.5	3,056.60	26	4,276.80	36.4
2005	8,184	7,871.00	64	3,301.00	26.9	4,570.10	37.2
2006	8,965	8,420.30	64.2	3,610.40	27.5	4,809.80	36.7
2007	9,815	8,921.30	65.4	3,903.70	28.6	5,017.60	36.8
2008	10,615	9,960.00	70	4,180.00	29.4	5,780.30	40.6
2009	12,104	11,909.80	84.1	4,358.00	30.8	7,551.90	53.3
2010	14,294	13,510.80	92.1	4,585.70	31.3	9,022.80	61.5
Change during FY1998 - FY2001		$405.20		$854.60		($449.50)	
Change during FY2002 - FY2010		$7,778.00		$2,073.10		$5,704.90	

Source: U.S. Department of the Treasury

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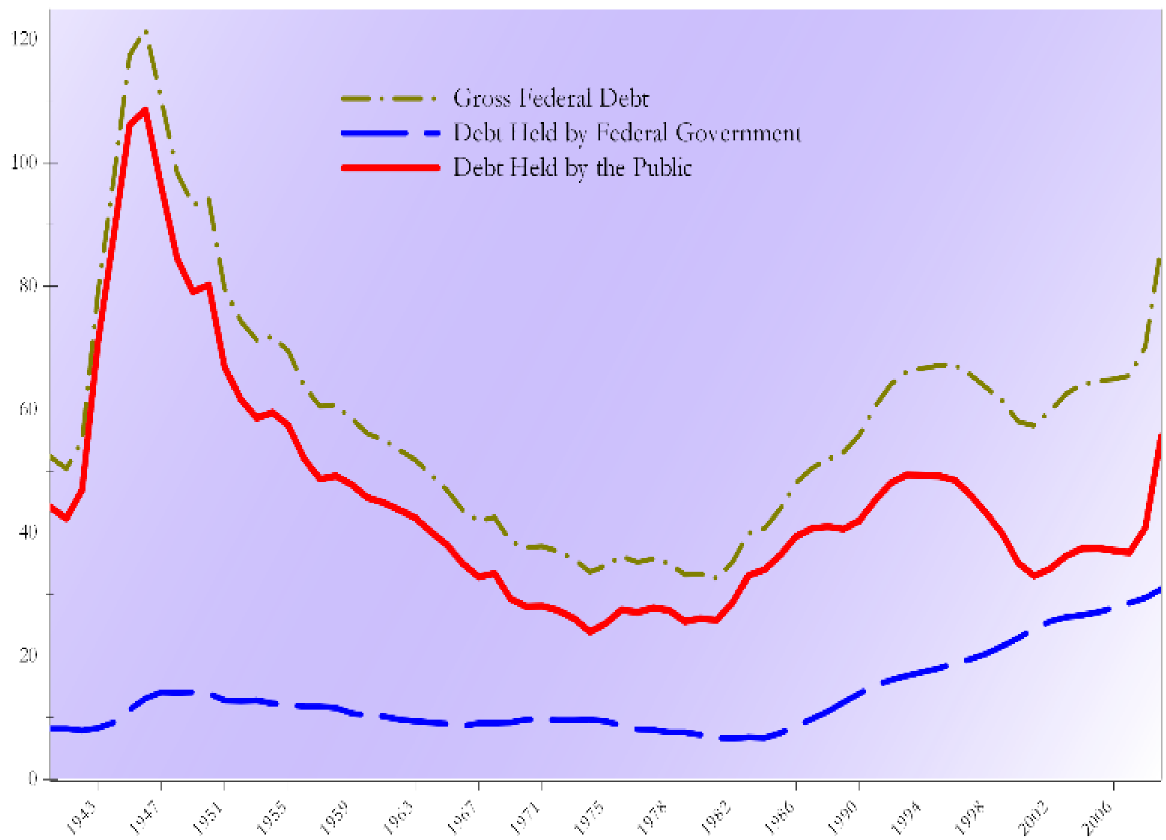
Figure 1 shows the components of federal debt as shares of gross domestic product (GDP) from FY1940 through FY2010. Federal debt held by government accounts has grown steadily since 1980. Debt held by the public, which changes in response to total surpluses or deficits, grew as a share of GDP through the mid-1990s. After FY1992, deficits shrank, and from FY1998 through FY2001 the federal government ran surpluses. Those surpluses, along with rapid GDP growth, reduced debt held by the public as a percentage of GDP. When large deficits returned and GDP growth slowed in the early 2000s, debt held by the public as a share of GDP again increased.



Source: OMB, Budget of the United States for FY2010

Conservative Talk about the Debt

"When you take money from the taxpayers and spend it to rescue the jobs of one set of workers… what does that do to the demand for the jobs of other workers, whose products taxpayers would have bought with the money you took away from them? There is no net economic gain to the country from this, though there may well be political gains for the administration from having rescued their UAW supporters.

The same principle applies to money that came from selling government bonds, thus adding to the national debt. People who bought those government bonds had other things they could have invested in, if those government bonds had not been issued."

Thomas Sowell 8/3/2010

You can raise the debt ceiling all you want, but it's all a game. We're printing money, inflate the currency, made to look like we have a lot of money when we don't have any. But I know what you're asking. Rather than raise the debt ceiling, why don't we cut some things?

Rush Limbaugh 11/4/2010

In an interview **Milton Friedman** was asked, "Should Americans be wary of the fact that nearly 40 percent of the national debt is owned by foreign nations?" Mr. Friedman responded, "No, not at all. And most of it is not owned by foreign nations, it's owned by foreign individuals. The people who should be wary of that are the people who hold that debt. What can they do with it? They can sell it, but it doesn't do them any good to sell it if the dollar isn't any good. And if we were to embark on major inflation, who would sell it? It would be those foreigners who own that debt. They are the ones who have to worry about it, not us."

Current Situation and Public Opinion (Source: Reuters)

As of January 20, the U.S. national debt stood at $14.004 trillion, just $290 billion below the limit. The Treasury has estimated that based on recent spending and revenue trends, the government will hit the limit as early as March 31. This could stretch out until May 16, depending on the strength of government tax receipts and economic growth.

Some 71 percent of those surveyed oppose increasing the borrowing authority, the focus of a brewing political battle over federal spending. Only 18 percent support an increase.

If the Debt Limit is not Increased

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"This is not a game. You know, the debt ceiling is not something to toy with. ... If we hit the debt ceiling, that's essentially defaulting on our obligations, which is totally unprecedented in American history. The impact on the economy would be catastrophic. I mean, that would be a worse financial economic crisis than anything we saw in 2008.

President Obama's Economic Advisor
Austan Goolsbee 1/2/2011

In fact, if Congress refuses to raise the debt ceiling, the federal government will still have far more than enough money to fully service our debt. Next year, for instance, about 6.5% of all projected federal government expenditures will go to interest on our debt, and tax revenue is projected to cover about 67% of all government expenditures. With roughly 10 times more income than needed to honor our debt obligations, why would we ever default?

U.S. Senator Pat Toomey
1/19/2011

Debt Limitation Legislation Pending in Congress

H.R. 421 proposed by Rep. Tom McClintock (CA-4) to require that the Government prioritize all obligations on the debt held by the public in the event that the debt limit is reached.

S.J.RES.3 proposed by Sen. Hatch, Orrin G. (UT) is a joint resolution proposing an amendment to the Constitution of the United States relative to balancing the budget.

H.R.408 Spending Reduction Act of 2011 proposed by Rep. Jim Jordan (OH-4) to reduce spending by $2.5 trillion over the next decade. More information on the specifics of the bill can be found at http://rsc.jordan.house.gov/UploadedFiles/Spending_Reduction_Act--TWOPAGER.pdf.