Joint Committee on Taxation
July 27, 1989
JCX-39-89

# TO INCREASE THE PUBLIC DEBT LIMIT
(Before the Committee on Ways and Means on July 27, 1989)

## Present Law

The present permanent public debt limit is $2,800 billion.

## Current Situation of the Public Debt

At the close of business on Monday, July 24, 1989, the outstanding public debt subject to limitation was $2,790 billion, and the operating cash balance was $24.96 billion.

The Secretary of the Treasury has stated that the present cash balance and the unused portion of the present debt limit will be exhausted by August 15, 1989, unless Congress passes an increase in the limit before the August recess begins. In the first three days of the month, Treasury provides a cash advance to the Social Security Trust Fund which anticipates estimated receipts from the payroll tax during the month. In addition, almost all entitlement programs pay benefits during the those three days, including monthly military and civil service pension benefits and veterans benefits. On August 15, interest payments in excess of $17 billion are due on outstanding Treasury notes and bonds.

## Present Legislative Situation

The budget resolution for fiscal year 1990 (H.Con.Res.106) specifies that the appropriate level of the debt limit through fiscal year 1990 is $3,122.7 billion. H.J.Res. 280, which was deemed passed by the House of Representatives following approval by both Houses of the conference report on the budget resolution, provides an increase in the debt limit to $3,122.7 billion.

Early in July, the Secretary of the Treasury requested that the public debt limit be increased to the level specified in H.J. Res. 280, and he has stated that this amount would suffice through fiscal year 1990.

The Senate Finance Committee, on July 25, 1989, approved a temporary increase in the public debt limit of $60 billion to $2,860 billion through October 31, 1989, because it does not believe that H.J.Res.280 will be enacted in time to meet the needs of the Secretary of the Treasury to manage the Federal Government's fiscal affairs.

## Accounting for the Amount of the Public Debt

Treasury has requested a change in the method of accounting for the amount of outstanding debt which is subject to the debt limit.

In present law, the debt limit applies to the face amount of the securities issued by the Treasury, i.e., the sum that must be paid when the obligation reaches maturity; thus, a $10,000 bond which matures in 20 years is carried as a $10,000 debt from time of issuance, and the semi-monthly interest payments are cash outlays and are accounted for in the budget. This method of accounting applies to all Treasury debt except certain short-term debt, such as, bills sold at discount and savings bonds. Savings bonds are counted in the debt limit at their issue price plus periodic additions reflecting the accrual of interest that usually is paid on redemption. Savings bonds, unlike other bonds, are redeemable at the option of the holder, after an initial 6 month holding period.

Treasury proposes that all debt issued at discount be accounted for at the issue price, and periodically interest accruals (on a discounted bond) would be added to the outstanding debt. As a result, a $10,000 zero-interest bond could be issued at $2,000 and accrue interest at 10 percent compounded annually. At the time of issue, the outstanding debt would increase by $2,000, and at the end of the first year after issue, the outstanding debt (and the interest on public debt account in the budget) would be increased by $200 and by $240 at the end of the second year to reflect the accrual of interest. By the time the bond matures, the outstanding debt would have been increased by $10,000, which is the amount borrowed plus the accrued interest which is paid in a lump-sum when the bond matures. Unlike savings bonds, discounted bonds are not redeemable at the option of the holder.