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# H.R. 692, Default Prevention Act

## FLOOR SITUATION

On Wednesday, October 21, 2015, the House will consider H.R. 692, the Default Prevention Act, under a closed rule. H.R. 692 was introduced on February 3, 2015 by Rep. Tom McClintock (R-CA) and was referred to the Committee on Ways and Means, which ordered the bill reported by a vote of 23 to 15 on September 10, 2015.

## SUMMARY

H.R. 692 requires the Secretary of the Treasury to continue to issue debt outside the limit after the debt limit is reached in order to pay principal and interest on the national debt and securities held by the Social Security trust funds, which in effect would remove the threat of default on United States' Treasury debt. The bill also prohibits any newly issued debt authorized under this bill from being used to pay Members of Congress.[1]

H.R. 692 further requires the Secretary to submit a weekly report to Congress, if he or she is exercising authority granted under this Act, on the national debt and interest obligations.

## BACKGROUND

The debt limit places a statutory limit on the amount of money that the U.S. Treasury may borrow to fund federal government operations. The current debt limit is $18.1 trillion.[2] On October 15, 2015, the Treasury announced that extraordinary measures currently being used to avoid exceeding the current debt limit would be exhausted no later than November 3, 2015,[3] although a relatively small cash reserve would remain on hand.[4]

Congress exercises its borrowing authority by placing restrictions on public debt. Until World War I, Congress typically authorized limited amounts of debt, with defined maturity and redemption terms,

[1] See House Report 114-265, at 2.
[2] See CRS Report, "The Debt Limit: History and Recent Increases", October 1, 2015.
[3] See letter from Treasury Secretary Jack Lew to Speaker John Boehner, October 15, 2015.
[4] After November 3, 2015, the Treasury expects to have less than $30 billion on hand, which is less than the federal government's net operating expenditures for certain days.

for specific projects. Upon America's entry into World War I, Congress passed the Second Liberty Bond Act of 1917 to ensure liquidity necessary to meet obligations as presented. The Act delegated control over day-to-day borrowing activity, subject to various limitations, to the Executive branch. [5] Through the 1920s and 1930s, Congress altered the form of those restrictions to give the U.S. Treasury more flexibility in debt management and to allow modernization of federal financing. In 1939, a general limit was placed on federal debt.[6]

The national debt consists of both debt held by the public and debt held by the government. Debt held by the public consists of securities the Treasury has issued to investors and currently amounts to $13.0 trillion. The balance is debt held by the government in the form of non-marketable Treasury securities, the majority of which, $2.8 trillion, is held by the Social Security Trust Funds.

The U.S. Government reached the current debt limit of $18.1 trillion on March 16, 2015. Since that time, the Treasury has employed so called ''extraordinary measures'' to avoid exceeding the debt limit.[7] These measures temporarily forestall the need to exceed the ceiling by shuffling funds among accounts and suspending certain payments and programs (e.g. suspending portions of payments to federal government employee retirement plans). By law, these retirement benefit plans will be made whole once the debt limit is increased.

According to the Congressional Research Service, there are a number of potential adverse economic consequences related to inaction or delayed action in raising the debt ceiling including:[8]

- reduced ability of Treasury to borrow funds on advantageous terms, thereby further increasing federal debt;
- substantial negative outcomes in global economies and financial markets caused by anticipated default on Treasury securities or failure to meet other legal obligations;
- acquisition of interest penalties from delay on certain federal payments and transfers; and
- downgrades of U.S. credit ratings, which could negatively impact capital markets.

"Possible economic and fiscal consequences of the debt limit are not confined to scenarios where the debt limit is binding. Protracted deliberation over raising the debt limit may also affect the U.S. financial outlook if it changes household and business behavior. A number of observers have suggested that debate over the debt limit which preceded the passage of the Budget Control Act in August 2011 reduced economic expansion in the second half of that year."[9]

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H.R. 692 is similar to H.R. 807, the Full Faith and Credit Act, which passed the House by a vote of 221 to 207 on May 9, 2013. The Senate did not act on the House-passed bill in the 113th Congress.

According to the bill sponsor, "[the bill] provides that if the debt limit is reached, the Treasury Secretary may continue to borrow above that limit for the sole purpose of paying principle and interest

[5] See CRS Report, The Debt Limit, October 16, 2015.
[6] See CRS Report, "The Debt Limit: History and Recent Increases", October 1, 2015.
[7] See letter from Treasury Secretary Jack Lew to Speaker John Boehner, March 16, 2015.
[8] See CRS Report, The Debt Limit, October 16, 2015.
[9] Id.

that is due. It is an absolute guarantee that the debt of the United States will be honored. […] The [bill] says loudly and clearly to the world that no matter how much we may differ and quarrel, the sovereign debt of this nation is guaranteed and their loans to this government are absolutely safe."[10]

## COST

The Congressional Budget Office (CBO) estimates enacting H.R. 692 by itself, would not affect direct spending or revenues because it would not change any of the government's tax or spending policies. Therefore, pay-as-you-go procedures do not apply. In addition, CBO estimates that the bill would not significantly add to the Treasury's administrative costs; any such costs would be subject to the availability of appropriated funds.

## STAFF CONTACT

For questions or further information please contact John Huston with the House Republican Policy Committee by email or at 6-5539.

[10] See Rep. Tom McClintock Press Release, Default Prevention Act (H.R.692), February 3, 2015.