

## Why GAO Did This Study

GAO previously examined challenges associated with managing cash and debt when delays in raising the debt limit occurred, focusing on the period from 1995 through 2010. In February 2011, GAO reported that delays in raising the debt limit create debt and cash challenges for Treasury, and these challenges have been exacerbated in recent years by a large growth in debt.

Delays in raising the debt limit occurred during 2011 and January 2012. GAO has prepared this report because of the nature of, and sensitivity toward, actions taken to manage federal debt during such delays. With regard to actions taken by Treasury during 2011 and January 2012 to manage federal debt when delays in raising the debt limit occurred, this report provides (1) a chronology of the significant events, (2) an analysis of whether actions taken by Treasury were consistent with legal authorities provided to manage federal debt during such delays, (3) an assessment of the extent to which Treasury restored uninvested principal and interest losses to federal government accounts in accordance with relevant legislation, and (4) an analysis of the effect that delays in raising the debt limit had on Treasury's borrowing costs and operations. To address these objectives, GAO reviewed Treasury correspondence and other documentation, analyzed Treasury and private security yield data, and interviewed Treasury officials. In commenting on GAO's draft report, Treasury broadly agreed with GAO's conclusions and provided technical comments, which GAO incorporated as appropriate.

View [GAO-12-701](#). For more information, contact Gary T. Engel at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov) or Susan J. Irving at (202) 512-6806 or [irvings@gao.gov](mailto:irvings@gao.gov).

## DEBT LIMIT

### Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs

#### What GAO Found

On August 2, 2011, Congress and the President enacted the Budget Control Act of 2011, which established a process that increased the debt limit to its current level of \$16.4 trillion through incremental increases effective on August 2, 2011; after close of business on September 21, 2011; and after close of business on January 27, 2012. Delays in raising the debt limit occurred prior to the August 2011 and January 2012 increases, with the Department of the Treasury (Treasury) deviating from its normal debt management operations and taking a number of actions, referred to by Treasury as extraordinary actions, to avoid exceeding the debt limit.

The extraordinary actions Treasury took during 2011 and January 2012 to manage federal debt when delays in raising the debt limit occurred were consistent with relevant legislation and regulations. For 2011, these actions included suspending investments of the Civil Service Retirement and Disability Fund (CSRDF), the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), the Government Securities Investment Fund of the Federal Employees' Retirement System (G-Fund), and the Exchange Stabilization Fund (ESF), and redeeming certain investments held by the CSRDF earlier than normal. For January 2012, Treasury suspended investments to the G-Fund and ESF.

In accordance with relevant legislation, Treasury restored the uninvested principal and interest losses for 2011 and January 2012 to the CSRDF, Postal Benefits Fund, and G-Fund. Treasury also invested the uninvested principal for 2011 and January 2012 to the ESF. However, Treasury did not restore interest losses to the ESF because it lacks legislative authority to do so.

Delays in raising the debt limit can create uncertainty in the Treasury market and lead to higher Treasury borrowing costs. GAO estimated that delays in raising the debt limit in 2011 led to an increase in Treasury's borrowing costs of about \$1.3 billion in fiscal year 2011. However, this does not account for the multiyear effects on increased costs for Treasury securities that will remain outstanding after fiscal year 2011. Further, according to Treasury officials, the increased focus on debt limit-related operations as such delays occurred required more time and Treasury resources and diverted Treasury's staff away from other important cash and debt management responsibilities.

The debt limit does not restrict Congress's ability to enact spending and revenue legislation that affects the level of debt or otherwise constrains fiscal policy; it restricts Treasury's authority to borrow to finance the decisions already enacted by Congress and the President. Congress also usually votes on increasing the debt limit after fiscal policy decisions affecting federal borrowing have begun to take effect. This approach to raising the debt limit does not facilitate debate over specific tax or spending proposals and their effect on debt. In February 2011, GAO reported, and continues to believe, that Congress should consider ways to better link decisions about the debt limit with decisions about spending and revenue to avoid potential disruptions to the Treasury market and to help inform the fiscal policy debate in a timely way.