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HEADLINE: Treasury Kicks Off Debt-Limit Debate

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DATELINE: WASHINGTON

BODY:

The Treasury threw the first pass this week in what is expected to be a renewal of last year's political football game over raising the debt limit when it asked congressional leaders to increase the government's borrowing authority.

In a letter to the Speaker of the House J. Dennis Hastert, R-Ill., deputy treasury secretary Kenneth Dam said a hike in the current \$6.4 trillion cap is needed as a result of the government's ongoing response to the Sept. 11th terrorist attacks and the economic slowdown.

The Treasury Department, which did not specify the size of the increase it is seeking, warned it may hit the current debt ceiling by late February. Congress raised the debt limit by \$450 billion late last June -- some \$300 billion less than the Bush administration requested -- after nearly five months of infighting in which both Republicans and Democrats used the debt hike as a pawn in a game over bigger issues. Democrats blamed the president's 2001 tax cuts for the resurgence of the deficits while Republicans charged that Democrats wanted to return to the days of big spending. Without an increase in the debt cap, the government would be unable to borrow to finance its operations and ultimately runs the risk of defaulting on the **national debt**.

Bumping up against the ceiling would also force the Treasury to close the State and Local Government Series window where municipal bond issuers purchase securities that are used mostly in conjunction with advance refundings. These so-called SLGS are tailored to meet arbitrage restrictions on the investment of bond proceeds.

The sale of SLGS was suspended for seven and a half weeks last spring and early summer when the Treasury was on the verge of exceeding the former \$5.95 trillion debt limit -- a development that inconvenienced state and local issuers.

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