FEDERAL BORROWING AND DEBT

12. FEDERAL BORROWING AND DEBT

Debt is the largest legally binding obligation of the Federal Government. At the end of 1999, the Government owed $3,633 billion of principal to the people who had loaned it the money to pay for past deficits. The gross Federal debt, which also includes the securities held by trust funds and other Government accounts, was $5,606 billion. This year, the Government is estimated to pay around $228 billion of interest to the public on its debt.

After 28 consecutive years of deficits financed mainly by borrowing from the public, the Government had a $69 billion unified budget surplus in 1998 and repaid $51 billion of publicly held debt. In 1999, the Government did even better, achieving a $124 billion surplus and repaying $89 billion of publicly held debt. This was a large improvement in its fiscal position from the record $290 billion deficit in 1992. The steady decline in deficits since that year and the eventual surplus were due in large part to the strong economic expansion and the budget discipline of the Omnibus Budget Reconciliation Act of 1993 and the Balanced Budget Act of 1987. The surpluses projected in this budget would substantially reduce Federal debt held by the public over the next few years both, in dollar amount and relative to the size of the Nation's gross domestic product (GDP). It is projected that the publicly held debt will be fully repaid in 2013.

Table 12–1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC

(Dollar amounts in billions)

Fiscal year	Debt held by the public		Debt held by the public as a percent of:		Interest on debt held by the public as a percent of: [3]	
	Current dollars	FY 1996 dollars [1]	GDP	Credit market debt [2]	Total outlays	GDP
1950	219.0	1,260.9	80.1	55.3	11.4	1.8
1955	226.6	1,143.9	57.3	43.3	7.6	1.3
1960	236.8	1,062.5	45.6	33.8	8.5	1.5
1965	260.8	1,093.4	37.9	26.9	8.1	1.4
1970	283.2	987.1	27.9	20.8	7.9	1.5
1975	394.7	1,012.6	25.3	18.4	7.5	1.6
1980	711.9	1,264.1	26.1	18.5	10.6	2.3
1981	789.4	1,278.8	25.8	18.6	12.0	2.7
1982	924.6	1,401.6	28.6	19.8	13.6	3.1
1983	1,137.3	1,650.2	33.0	21.9	13.8	3.3
1984	1,307.0	1,828.3	34.0	22.1	15.7	3.5
1985	1,507.4	2,041.9	36.4	22.3	16.2	3.7
1986	1,740.8	2,303.2	39.6	22.6	16.1	3.6
1987	1,889.9	2,435.8	40.6	22.3	16.0	3.5
1988	2,051.8	2,562.2	40.9	22.2	16.2	3.5
1989	2,191.0	2,634.0	40.5	22.0	16.5	3.5
1990	2,411.8	2,793.4	42.0	22.6	16.2	3.6
1991	2,689.3	3,003.8	45.4	24.1	16.2	3.7
1992	3,000.1	3,275.2	48.2	25.7	15.5	3.5
1993	3,248.8	3,458.7	49.5	26.6	14.9	3.2
1994	3,433.4	3,573.9	49.4	26.7	14.4	3.1
1995	3,604.8	3,674.2	49.2	26.7	15.8	3.3
1996	3,734.5	3,734.5	48.5	26.2	15.8	3.3
1997	3,772.8	3,709.8	46.1	25.2	15.7	3.1
1998	3,721.6	3,612.5	43.1	23.3	15.1	3.0
1999 estimate	3,632.9	3,481.5	39.9	21.7	13.8	2.6
2000 estimate	3,475.9	3,282.5	36.3	......	12.7	2.5
2001 estimate	3,305.0	3,059.6	32.9	......	11.9	2.2
2002 estimate	3,133.7	2,843.6	29.8	......	11.0	2.0
2003 estimate	2,963.2	2,635.8	27.0	......	10.1	1.8
2004 estimate	2,780.7	2,424.9	24.2	......	9.2	1.6
2005 estimate	2,577.5	2,203.6	21.3	......	8.2	1.4

[1] Debt in current dollars deflated by the GDP chain-type price index with fiscal year 1996 equal to 100.

[2] Total credit market debt owed by domestic nonfinancial sectors, modified to be consistent with budget concepts for the measurement of Federal debt. Financial sectors are omitted to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

[3] Interest on debt held by the public is estimated as the interest on the public debt less the "interest received by trust funds" (subfunction 901 less subfunctions 902 and 903). It does not include the comparatively small amount of interest on agency debt or the offsets for interest on public debt received by other Government accounts (revolving funds and special funds).

Trends in Federal Debt

Federal debt held by the public has increased fivefold since 1980, as shown in Table 12–1. In 1980, it was $711.9 billion; by the end of 1999, it stood at $3,632.9 billion. The data in this table are supplemented for earlier years by Tables 7.1–7.3 in *Historical Tables*, which is published as a separate volume of the budget.

After the end of World War II, Federal debt peaked at 109 percent of GDP in 1946. From then until the 1970s, Federal debt grew gradually, but, due to inflation, it declined in real terms. Because of an expanding economy as well as inflation, Federal debt as a percentage of GDP decreased almost every year. With households borrowing heavily to buy homes and consumer durables, and with businesses borrowing heavily to buy plant and equipment, Federal debt also decreased almost every year as a percentage of the total credit market debt outstanding. The cumulative effect was impressive. From 1950 to 1975, debt held by the public declined from 80.1 percent of GDP to 25.3 percent, and from 55.3 percent of credit market debt to 18.4 percent. Despite rising interest rates, interest outlays became a smaller share of the budget and were roughly stable as a percentage of GDP.

During the 1970s, large budget deficits emerged as the economy was disrupted by oil shocks and inflation. The nominal amount of Federal debt more than doubled, and, despite high inflation, the real value of Federal debt increased by a fourth. Federal debt relative to GDP and credit market debt stopped declining after the middle of the decade, but they did not increase to any significant degree.

The growth of Federal debt held by the public accelerated during the early 1980s due to very large budget deficits. Because the deficits continued to be large until a few years ago, debt continued to grow substantially. With inflation reduced, the rapid growth in nominal debt meant a rapid growth in real debt as well. The ratio of Federal debt to GDP rose from 26.1 percent in 1980 to 49.5 percent in 1993, the highest ratio since the mid-1950s. The ratio of Federal debt to credit market debt also rose, though to a much lesser extent, from 18.5 percent to 26.6 percent. Interest outlays on debt held by the public, calculated as a percentage of either total Federal outlays or GDP, increased by about two-fifths.

The growth of Federal debt held by the public was decelerating by the mid-1990s, however, and in 1998 the amount of debt outstanding fell for the first time since the last budget surplus in 1969. Since 1993 the debt has declined markedly relative to either GDP or total credit market debt. Table 12–1 shows that debt as a percentage of GDP is estimated to decline significantly more in the next few years, falling from 39.9 percent in 1999 to 21.3 percent in 2005. The improvement in the last few years reflects the deficit reduction package enacted by the Omnibus Budget Reconciliation Act of 1993, subsequent steps to maintain fiscal discipline, and the long economic expansion that was facilitated by this fiscal policy. The further estimated improvement reflects the expectation that economic growth will continue without accelerating inflation for the foreseeable future.[1] Interest outlays on the debt held by the public are estimated to decline substantially in relationship to either total outlays or GDP over the next six years. Under the projections shown in the next table, the publicly held debt will be fully repaid in 2013.

Debt Held by the Public, Gross Federal Debt, and Liabilities Other Than Debt

The Federal Government issues debt securities for two principal purposes. First, it borrows from the public to finance the Federal deficit.[2] Second, it issues debt to Government accounts, primarily trust funds, that accumulate surpluses. By law, trust fund surpluses generally must be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is formally called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."[3]

Borrowing from the public, whether by the Treasury or by some other Federal agency, has a significant impact on the economy. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. Even if the proceeds are used productively for tangible or intangible investment, the Federal demand on credit markets has to be financed out of the saving of households and businesses, the State and local sector, or the rest of the world. Federal borrowing thereby competes with the borrowing of other sectors for financial resources in the credit market, and tends to increase interest rates and reduce private capital accumulation. Borrowing from the public thus affects the size and composition of assets held by the private sector and the perceived wealth of the public. It also increases the amount of taxes required to pay interest to the public on Federal debt. Borrowing from the public is therefore an important concern of Federal fiscal policy.[4]

[1] Chapter 1 of this volume, "Economic Assumptions," reviews recent economic developments and explains the economic assumptions for this budget.

[2] Debt held by the public was measured until 1988 as the par value (or face value) of the security, which is the principal amount due at maturity. (The only exception was savings bonds.) However, most Treasury securities are sold at a discount from par, and some are sold at a premium. Treasury debt held by the public is now measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the value equals the sales price. Subsequently, the value equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the measured value of the debt equals par less the unamortized discount. (For a security sold at a premium, the definition is symmetrical.) Agency debt, except for zero-coupon certificates, is recorded at par. For further analysis of these concepts, see Special Analysis E, "Borrowing and Debt," in *Special Analyses, Budget of the United States Government, Fiscal Year 1990*, pp. E–5 to E–8, although some of the practices it describes have been changed. In 1997 Treasury began to sell inflation-indexed notes and bonds. The recorded value of these securities includes a periodic adjustment for inflation.

[3] The term "agency debt" is defined more narrowly in the budget than customarily in the securities market, where it includes not only the debt of the Federal agencies listed in Table 12–3 but also the debt of the Government-sponsored enterprises listed in Table 8–11 at the end of Chapter 8 and certain Government-guaranteed securities.

[4] The Federal sector of the national income and product accounts provides a measure of the current surplus or deficit that can be used to analyze the effect of Federal fiscal policy on national saving within the framework of an integrated set of measures of aggregate U.S. economic activity. The Federal sector and its differences from the budget are discussed in chapter 16 of this volume, "National Income and Product Accounts." Also see chapter 6 of this volume, Part IV, the section on the analysis of saving and investment.

Issuing debt securities to Government accounts performs an essential function in accounting for the operation of these funds. The balances of debt represent the cumulative surpluses of these funds due to the excess of their tax receipts and other collections compared to their spending. These balances can be used in later years for future payments to the public. The interest on the debt compensates these funds—and the members of the public who pay earmarked taxes or user fees into these funds—for spending some of the funds' collections at a later time than when they receive the money. Public policy may deliberately run surpluses and accumulate debt in trust funds and other Government accounts in anticipation of future spending.

However, issuing debt to Government accounts does not have any of the economic effects of borrowing from the public. It is an internal transaction of the Government, made between two accounts that are both within the Government itself. It is not a current transaction of the Government with the public; it does not compete with the private sector for available funds in the credit market; it does not provide the account with resources other than a legal claim on the U.S. Treasury; and it does not represent the estimated amount of the account's future transactions with the public. For example, if the account records the transactions of a social insurance program, the debt that it holds does not represent the actuarial present value of expected future benefits for either the current participants or a larger group. The future transactions of Federal social insurance and employee retirement programs, which own over four-fifths of the debt held by Government accounts, are important in their own right and need to be considered separately. This can be done through information published in actuarial and financial reports for these programs.[5] Debt held by the public is therefore a better concept than gross Federal debt for analyzing the effect of the budget on the economy.

Debt securities do not encompass all the liabilities of the Federal Government. For example, accounts payable occur in the normal course of buying goods and services; social security benefits are due as of the end of the month but, according to statute, are payable as of the beginning of the next month; loan guarantee liabilities are incurred when the Government guarantees the payment of interest and principal on private loans; and liabilities for future pension payments are incurred as part of the current compensation for the services performed by Federal civilian and military employees in producing Government outputs. Like debt securities sold in the credit market, these liabilities have their own distinctive effects on the economy. Federal liabilities are analyzed within the broader conceptual framework of Federal resources and responsibilities in chapter 2 of this volume, "Stewardship: Toward a Federal Balance Sheet." The different types of liabilities are reported annually in the financial statements of the major Federal agencies and in the *Financial Report of the United States Government.*[6]

Borrowing and Government Deficits

Table 12–2 summarizes Federal borrowing and debt from 1999 through 2013. In 1999 the Government repaid $89 billion of debt held by the public, and the debt outstanding decreased to $3,633 billion. The Treasury issued $186 billion of debt to Government accounts, and gross Federal debt increased to $5,606 billion.

Debt held by the public.—Table 12–2 shows the relationship between borrowing from the public and the Federal surplus or deficit. Borrowing from the public depends both on the Federal Government's expenditure programs and tax laws, and on economic conditions. The sensitivity of the budget to economic conditions is analyzed in chapter 1 of this volume.

Before 2001, the total or unified budget surplus consists of the on-budget surplus and the surplus of the off-budget entities, which have been excluded from the budget by law. Under present law, the off-budget Federal entities are the Social Security trust funds (old-age and survivors insurance and disability insurance) and the Postal Service fund. The table entry for the off-budget surplus is called the "Social Security solvency lock-box," because the Administration proposes that the future off-budget surpluses be reserved for debt reduction.[7]

[5] Extensive actuarial analyses of the social security and medicare programs are published in the annual reports of the boards of trustees of these funds. Annual actuarial reports are also prepared for Federal employee retirement funds. A summary of actuarial estimates for these and other programs is prepared annually by the Financial Management Service, Department of the Treasury, in "Statement of Liabilities and Other Financial Commitments of the United States Government." The estimates in that report are not, however, all comparable with one another in concept or actuarial assumptions.

[6] The *Financial Report* (formerly *Consolidated Financial Statements*) is published annually by the Financial Management Service, Department of the Treasury.

[7] These proposals are part of a broader budget framework proposal discussed in chapter 13, "Preview Report."

Table 12–2. FEDERAL GOVERNMENT FINANCING AND DEBT [1]

(In billions of dollars)

	1999 Actual	Estimate													
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Financing:															
Surplus or deficit (–)	124	167	184	186	185	195	215	256	292	314	329	363	403	443	479
(Social Security solvency lock-box: Off-budget)	124	148	160	172	184	195	214	224	239	250	260	272	280	295	309
(Social Security interest savings transfer)	....	....	....	....	....	....	....	....	....	....	....	....	100	118	138
(Medicare solvency debt reduction reserve)	....	....	15	13	....	....	....	30	52	64	69	91	22	30	32
(On-budget)	1	19	9	1	*	*	2	1	1	*	*	*	*	*	*
Means of financing other than borrowing from the public:															
Changes in:[2]															
Treasury operating cash balance	–18	16	....	....	....	....	....	....	....	....	....	....	....	....	....
Checks outstanding, deposit funds, etc.[3]	–6	1	2	....	....	....	....	....	....	....	....	....	....	....	....
Seigniorage on coins	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2
Less: Social Security equity purchases	....	....	....	....	....	....	....	....	....	....	....	....	–52	–66	–83
Less: Net financing disbursements:															
Direct loan financing accounts	–19	–29	–18	–18	–17	–16	–16	–16	–16	–15	–15	–15	–16	–16	–16
Guaranteed loan financing accounts	5	*	1	1	1	2	2	2	2	2	2	2	3	3	3
Total, means of financing other than borrowing from the public	–36	–9	–13	–15	–14	–12	–12	–12	–12	–12	–11	–11	–63	–78	–95
Total, repayment of publicly held debt	89	157	171	171	170	183	203	243	280	302	318	352	340	365	384
Change in debt held by the public[4]	–89	–157	–171	–171	–170	–183	–203	–243	–280	–302	–318	–352	–340	–365	–384
Debt Subject to Statutory Limitation, End of Year:															
Debt issued by Treasury	5,578	5,658	5,742	5,828	5,921	6,009	6,096	6,185	6,268	6,347	6,424	6,502	6,595	6,693	6,794
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation[5]	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15
Adjustment for discount and premium[6]	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Total, debt subject to statutory limitation[7]	5,568	5,648	5,732	5,819	5,912	5,999	6,086	6,175	6,258	6,337	6,414	6,492	6,585	6,683	6,785
Debt Outstanding, End of Year:															
Gross Federal debt:															
Debt issued by Treasury	5,578	5,658	5,742	5,828	5,921	6,009	6,096	6,185	6,268	6,347	6,424	6,502	6,595	6,693	6,794
Debt issued by other agencies	29	28	27	27	25	24	23	22	20	20	20	20	20	20	20
Total, gross Federal debt	5,606	5,686	5,769	5,855	5,947	6,034	6,118	6,206	6,288	6,367	6,444	6,522	6,615	6,713	6,815
Held by:															
Debt securities held as assets by Government accounts	1,973	2,210	2,464	2,721	2,984	3,253	3,541	3,872	4,234	4,615	5,010	5,440	5,873	6,335	6,821
Social Security	855	1,004	1,164	1,338	1,522	1,717	1,930	2,154	2,392	2,641	2,899	3,170	3,498	3,843	4,206
Federal employee retirement	643	681	717	754	789	824	858	891	922	952	980	1,006	1,034	1,063	1,093
Other	475	525	582	630	672	712	752	828	920	1,023	1,131	1,263	1,341	1,429	1,523
Debt securities held as assets by the public[8]	3,633	3,476	3,305	3,134	2,963	2,781	2,578	2,334	2,054	1,752	1,434	1,082	742	377	**[9]

* $500 million or less.

[1] Almost all Treasury securities held by the public and zero-coupon bonds held by Government accounts are measured at sales price plus amortized discount or less amortized premium. Almost all Agency debt is measured at face value. Almost all Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[2] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a deficit and therefore would have a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing a deficit and therefore would also have a positive sign.

[3] Besides checks outstanding and deposit funds, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as offsets, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] Includes a $355 million reclassification of debt in 2000. Indian tribal funds that are owned by the Indian tribes and held and managed in a fiduciary capacity by the Government on the tribes' behalf were reclassified from trust funds to deposit funds as of October 1, 1999, and their holdings of Treasury securities were accordingly reclassified from debt held by Government accounts to debt held by the public.

[5] Consists primarily of Federal Financing Bank debt.

[6] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[7] The statutory debt limit is $5,950 billion.

[8] At the end of 1999, the Federal Reserve Banks held $489 billion of Federal securities and the rest of the public held $3,144 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

[9] Total debt will be fully redeemed in 2013. Policy decisions will be required on use of the surplus once debt has been redeemed.

Beginning in 2001, the surplus section of this table shows the effect of the Administration's proposal to reserve part of the on-budget surplus for Medicare solvency and for catastrophic prescription drug coverage. Called "Medicare Solvency Debt Reduction Reserve," these amounts would not be available for spending under the budget resolution or on the PAYGO scorecard. They would be available only for debt reduction, pending their use for Medicare or the catastrophic prescription drug program. Beginning in 2011, the surplus section of this table also shows the Social Security interest savings transfer, which is the proposed payment from the general fund to the Social Security trust funds due to the on-budget interest savings from the cumulative Social Security surplus. Table 12–2 therefore shows the unified budget surplus divided among the Social Security solvency lock-box (off-budget surplus), Social Security interest savings transfer, Medicare Solvency Debt Reduction Reserve, and the on-budget surplus.

Social security, which comprises almost all of the off-budget totals, accounted for nearly all the unified budget surplus in 1999. It is estimated to have large and rising surpluses throughout the projection period, continuing to account for a major part of the estimated unified budget surplus. This will be used to repay the publicly held debt, which decreases from $3,633 billion at the end of 1999 to $1,082 billion at the end of 2010 and is fully repaid in 2013.[8]

The Government's ability to repay debt held by the public, or its need to borrow, depends on the size of the total surplus or deficit and on several other factors—such as the net financing disbursements of credit programs, and changes in the level of cash balances held by the Treasury. As shown in Table 12–2, these other factors—which are formally called "means of financing other than borrowing from the public"—can either increase or decrease the Government's repayment of debt. (An increase in its ability to repay debt is represented by a positive sign, like the surplus; a decrease is represented by a negative sign, like a deficit.) In 1999 the surplus was $124 billion and the "other means of financing" were –$36 billion, so the Government was able to repay $89 billion of publicly held debt. In 2000 the surplus is estimated to grow to $167 billion, and the "other means of financing" are estimated to decline in absolute value to –$9 billion. As a result, the estimated repayment of debt held by the public increases to $158 billion. In 2001 and later years, the estimated surplus increases substantially, as a result of which the Government repays large and generally increasing amounts of debt each year.

When the surplus or deficit is large, it is usually a good approximation to say that "the surplus is used to repay debt held by the public" or "the deficit is financed by borrowing from the public." Over the last 10 years, the cumulative deficit was $1,339 billion and the increase in debt held by the public was $1,442—very similar amounts. The other factors added a total of $103 billion of borrowing over that period, an average of $10 billion per year. The variation was wide, ranging from additional borrowing (or lower repayment) of $36 billion to reduced borrowing of $18 billion. The other factors that affect borrowing do not depend on the size of the surplus or deficit. Thus, when the surplus or deficit is moderate in size, the other factors that affect borrowing may account for a large proportion of the change in Federal debt held by the public.

Many of these other factors are small in most years compared to borrowing from the public, even when the surplus or deficit is relatively small. This is because they are limited by their own nature. Decreases in cash balances, for example, while they may occasionally be large, are inherently limited by past accumulations, which themselves required financing when they were built up.

However, three other factors in the "other means of financing" may be relatively large over longer periods. The first is premiums and discounts on debt buybacks. The Treasury Department plans to buy back some outstanding notes and bonds as part of its effort to manage the reduction of the publicly held debt. The premiums and discounts will be recorded outside the budget totals as a "means of financing other than borrowing from the public." The Treasury has made no firm decision about the timing or the amount of buybacks at this time. Because it is impossible to develop a firm plan prior to completion of the initial operations, this budget includes no estimate of future buyback premiums. When the buybacks do occur, future budgets will record any premium payments or discount collections as a means of financing, and will present them in a separate entry in this table. This classification is discussed in a section of chapter 24, "Budget System and Concepts and Glossary."

The second such factor is equity purchases by the Social Security trust fund, which the Administration proposes to begin in 2011. They are recorded as an "other means of financing" rather than an outlay.

The third such factor was created by the Federal Credit Reform Act of 1990. Budget outlays for direct loans and loan guarantees consist of the estimated subsidy cost of the loans or guarantees at the time when the direct loans or guaranteed loans are disbursed. The cash flows to and from the public resulting from these loans and guarantees are not costs to the Government except for those costs already included in budget outlays. Therefore, they are non-budgetary in nature and are recorded as transactions of the non-budgetary financing account for each credit program.[9] The net cash flows of the financing accounts, including intragovernmental transactions as well as transactions with the public, are called "net financing disbursements." They are defined in the same way as the "out-

[8] For further explanation of the off-budget Federal entities, see chapter 19, "Off-Budget Federal Entities and Non-Budgetary Activities."

[9] The Federal Credit Reform Act of 1990 (sec. 505(b)) requires that the financing accounts be non-budgetary. As explained in chapter 19, "Off-Budget Federal Entities and Non-Budgetary Activities," they are non-budgetary in concept because they do not measure cost. For additional discussion of credit reform, see chapter 24 of this volume, "Budget System and Concepts and Glossary," and the other references cited in chapter 19.

lays" of a budgetary account and therefore affect the ability to repay debt held by the public, or the requirements for borrowing from the public, in the same way as the surplus or deficit.

The net financing disbursements are partly due to intragovernmental transactions with budgetary accounts (the receipt of subsidy payment and the receipt or payment of interest), and partly due to transactions with the public (disbursement and repayment of loans, receipt of interest and fees, payment of default claims, and so forth). An intragovernmental transaction does not affect Federal borrowing from the public. (Although the surplus or deficit changes, the net financing disbursements change in an equal amount with the opposite sign, so the effects cancel out on a net basis.) On the other hand, financing account disbursements to the public increase the requirement for borrowing from the public in the same way as an increase in budget outlays for cash payments to the public. Financing account receipts from the public can be used to finance the payment of the Government's obligations, and therefore reduce the requirement for Federal borrowing from the public in the same way as an increase in budget receipts.

In the early years of credit reform, the financing accounts had little net effect on borrowing requirements, but their impact began to become large in the middle 1990s. By 1999 they required $13 billion of financing, and thus reduced the repayment of debt by this amount; they are estimated to reduce debt repayment by $28 billion in 2000 and by around $13–16 billion per year subsequently. The expansion from the early years was mainly because of the growth of the direct student loan program. Since direct loans require cash disbursements equal to the full amount of the loans when the loans are made, Federal borrowing requirements are initially increased. Later, when the loans are repaid, Federal borrowing requirements will decrease.

Debt held by Government accounts.—The amount of Federal debt issued to Government accounts depends largely on the surpluses of the trust funds, both on-budget and off-budget, which owned 94 percent of the total Federal debt held by Government accounts at the end of 1999. In 2001, for example, the total trust fund surplus is estimated to be $241 billion, and Government accounts are estimated to invest $253 billion in Federal securities. The difference is because some revolving funds and special funds also hold Federal debt, and because the trust funds may change the amount of their cash assets not currently invested. The amounts of debt held in major accounts and the annual investments are shown in Table 12–4.

Agency Debt

Several Federal agencies, shown in Table 12–3, sell debt securities to the public and to other Government accounts. During 1999, agencies borrowed $2.4 billion from the public. Agency debt is only one percent of Federal debt held by the public.

The reasons for issuing agency debt differ considerably from one agency to another. The predominant agency borrower is the Tennessee Valley Authority, which had borrowed $26.4 billion from the public as of the end of 1999, or 93 percent of the total for all

Table 12–3. AGENCY DEBT

(In millions of dollars)

	Borrowing or repayment (–) of debt			Debt end of 2001 estimate
	1999 actual	2000 estimate	2001 estimate	
Borrowing from the public:				
Housing and Urban Development:				
Federal Housing Administration	–59	4	....	118
Small Business Administration:				
Participation certificates: Section 505 development company	....	....	....	7
Architect of the Capitol	–2	–2	–2	171
Farm Credit System Financial Assistance Corporation	–397	–89	....	775
Federal Deposit Insurance Corporation:				
FSLIC Resolution Fund	....	....	....	63
National Archives	–5	–6	–6	265
Tennessee Valley Authority	2,892	–304	–657	25,417
Total, borrowing from the public	2,429	–397	–665	26,816
Borrowing from other funds:				
Postal Service Fund [2]	–83	–83	....	551
Tennessee Valley Authority [2]	–3,200	....	....	....
Total, borrowing from other funds	**–3,283**	**–83**	....	**551**
Total, agency borrowing	–854	–480	–665	27,367

[1] In previous years this table reported $13.312 million of monetary credits outstanding for the Department of Interior, Bureau of Land Management. It has been determined that these securities were redeemed by the end of 1991. The historical data have been revised as of 1991, but it has not been possible to revise the data for earlier years.

[2] The Postal Service and TVA debt held by other funds is the result of the FFB swapping Postal Service and TVA securities with the Civil Service Retirement and Disability trust fund during 1996 in exchange for Treasury securities having an equal present value. See the narrative for further explanation.

agencies. TVA sells debt primarily to finance capital expenditures and to refund other issues of its existing debt. Almost all of the agency borrowing in 1999 and the debt repayment in 2000–01 is due to TVA.

The Federal Housing Administration, on the other hand, has for many years issued both checks and debentures as means of paying claims to the public that arise from defaults on FHA-insured mortgages. Issuing debentures to pay the Government's bills is equivalent to borrowing from the public and then paying the bills by disbursing the cash borrowed, so the transaction is recorded as being simultaneously an outlay and a borrowing. The debentures are therefore classified as agency debt. The borrowing by FHA and a few other agencies that have engaged in similar transactions is thus inherent in the way that their programs operate.[10]

Some types of lease-purchase contracts are equivalent to direct Federal construction financed by Federal borrowing. A number of years ago, the Federal Government guaranteed the debt used to finance the construction of buildings for the National Archives and the Architect of the Capitol, and has exercised full control over the design, construction, and operation of the buildings. The construction expenditures and interest were therefore classified as Federal outlays, and the borrowing was classified as Federal agency borrowing from the public.

The proper budgetary treatment of lease-purchases was further examined in connection with the Budget Enforcement Act of 1990. Several changes were made. Among other decisions, it was determined that outlays for a lease-purchase in which the Government assumes substantial risk will be recorded in an amount equal to the asset cost over the period during which the contractor constructs, manufactures, or purchases the asset; if the asset already exists, the outlays will be recorded when the contract is signed. Agency borrowing will be recorded each year to the extent of these outlays. The agency debt will subsequently be redeemed over the lease payment period by a portion of the annual lease payments. This rule was effective starting in 1991. However, no lease-purchase agreements in which the Government assumes substantial risk have yet been authorized or are estimated for 2000 or 2001. The new budgetary treatment was reviewed in connection with the Balanced Budget Act of 1997. Some clarifications were made, but there were no substantive changes from existing practice.

The amount of agency securities sold to the public has been reduced by borrowing from the Federal Financing Bank (FFB). The FFB is an entity within the Treasury Department, one of whose purposes is to substitute Treasury borrowing for agency borrowing from the public. It has the authority to purchase agency debt and finance these purchases by borrowing from the Treasury. Agency borrowing from the FFB is not included in gross Federal debt. It would be double counting to add together (a) the agency borrowing from the FFB and (b) the Treasury borrowing from the public that was needed to provide the FFB with the funds to lend to the agencies.

The debt of the agencies that borrow from the FFB is not subject to the statutory debt limitation. This enabled Treasury to raise additional cash to avoid default during the dispute with Congress over the budget and the debt limit four years ago. In February 1996, FFB swapped most of its holdings of TVA and Postal Service debt to the Civil Service Retirement and Disability trust fund (CSRDF) in exchange for Treasury securities. The TVA and Postal Service securities acquired by CSRDF are included in gross Federal debt shown in Table 12–2, are included in Table 12–3 as amounts that agencies borrowed from other funds, and are included in Table 12–4 as agency debt held by Government accounts. Including agency debt held by Government accounts in gross Federal debt is not double counting, because Treasury did not have to borrow from the public in order for these accounts to buy the securities. Moreover, the TVA and Postal Service securities acquired by CSRDF replaced Treasury securities, which had been counted in gross Federal debt. It is assumed for purposes of the budget estimates that CSRDF will hold the agency debt until maturity (or call date), at which time the principal repayments will be invested in Treasury securities.[11]

TVA prepaid its entire $3.2 billion of debt securities held by CSRDF in October 1998. The Omnibus Consolidated and Emergency Appropriations Act of 1999 permitted TVA to prepay this debt at par and provided an appropriation to FFB to cover the prepayment charge otherwise owed. (The appropriation to FFB was used to make CSRDF whole.) The Act also prohibited TVA from borrowing from the FFB in the future. TVA financed the prepayment by borrowing from the public. As a result, its debt held by the public increased $2.9 billion in 1999, while its total debt decreased by $0.3 billion.

Debt Held by Government Accounts

Trust funds, and some public enterprise revolving funds and special funds, accumulate cash in excess of current requirements in order to meet future obligations. These cash surpluses are invested mostly in Treasury debt and, to a very small extent, in agency debt.

Investment by trust funds and other Government accounts has risen greatly over the past two decades. It was $216.1 billion in 1999, as shown in Table 12–4, and it is estimated to rise to $253.5 billion in 2001. The holdings of Federal securities by Government accounts are estimated to grow to $2,464.7 billion by the end of 2001, or 43 percent of the gross Federal debt. This percentage is estimated to rise further in the following years as the budget surpluses reduce the debt

[10] The debt securities of the FSLIC Resolution fund were also issued as a means of paying specified bills. The budgetary treatment of these and similar securities is further explained in Special Analysis E of the 1989 *Budget*, pp. E-25 to E-26; and Special Analysis E of the 1988 *Budget*, pp. E-27 to E-28.

[11] For further discussion of the debt limit dispute and the swap of securities between the FFB and CSRDF, see *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1998*, pp. 222 and 225.

held by the public and the trust funds continue to accumulate surpluses.

Table 12–4. DEBT HELD BY GOVERNMENT ACCOUNTS [1]

(In millions of dollars)

Description	Investment or disinvestment (–) 1999 actual	2000 estimate	2001 estimate	Holdings end of 2001 estimate
Investment in Treasury debt:				
Energy: Nuclear waste disposal fund [1]	548	1,190	1,012	10,136
Health and Human Services:				
Federal hospital insurance trust fund	35,517	9,677	37,827	201,271
Federal supplementary medical insurance trust fund	–12,973	17,956	–3,795	40,689
Vaccine injury compensation trust fund	145	97	87	1,615
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund	598	3,700	4,600	23,242
Other HUD	369	409	365	6,765
Interior: Abandoned Mine Reclamation fund	97	50	76	1,891
Labor:				
Unemployment trust fund	6,716	8,042	7,716	93,116
Pension Benefit Guaranty Corporation	599	1,121	1,504	11,921
State: Foreign Service retirement and disability trust fund	581	556	568	11,255
Transportation:				
Highway trust fund	10,157	3,354	817	32,254
Airport and airway trust fund	3,864	919	863	14,196
Oil spill liability trust fund	–56	94	–68	1,088
Treasury: Exchange stabilization fund	–748	762	800	16,794
Veterans Affairs:				
National service life insurance trust fund	–55	–161	–209	11,584
Other trust funds	37	20	32	1,848
Federal funds	–7	–9	–17	525
Defense-Civil:				
Military retirement trust fund	7,431	5,059	6,439	152,772
Harbor maintenance trust fund	329	....	....	1,603
Environmental Protection Agency:				
Hazardous substance trust fund	–702	32	1,565	6,190
Leaking underground storage tank trust fund	225	102	215	1,775
International Assistance Programs:				
Overseas Private Investment Corporation	241	118	18	3,220
Office of Personnel Management:				
Civil Service retirement and disability trust fund	33,883	30,623	29,526	540,789
Employees life insurance fund	1,379	979	1,321	23,055
Employees health benefits fund	–430	–226	–146	5,463
Social Security Administration:				
Federal old-age and survivors insurance trust fund [2]	108,944	129,116	138,292	1,029,634
Federal disability insurance trust fund [2]	15,670	20,547	21,810	135,023
Farm Credit System Insurance Corporation:				
Farm Credit Insurance Fund	60	143	....	1,519
Federal Deposit Insurance Corporation:				
Bank Insurance fund	914	665	....	29,024
FSLIC Resolution fund	217	531	–85	2,750
Savings Association Insurance fund	542	391	374	10,909
National Credit Union Administration: Share insurance fund	250	490	450	5,068
Postal Service fund [2]	–191	....	....	809
Railroad Retirement Board trust funds [1]	176	1,089	883	19,239
Other Federal funds	1,062	175	456	7,572
Other trust funds	3,590	–210	203	8,631
Unrealized discount [1]	376	....	....	–1,808
Total, investment in Treasury debt [1]	**219,353**	**237,401**	**253,499**	**2,463,426**
Investment in agency debt:				
Office of Personnel Management:				
Civil Service retirement and disability trust fund	–3,283	–83	....	551
Total, investment in agency debt	**–3,283**	**–83**	....	**551**
Total, investment in Federal debt [1]	**216,070**	**237,318**	**253,499**	**2,463,977**

Table 12–4. DEBT HELD BY GOVERNMENT ACCOUNTS [1]—Continued

(In millions of dollars)

Description	Investment or disinvestment (–)			Holdings end of 2001 estimate
	1999 actual	2000 estimate	2001 estimate	
MEMORANDUM				
Investment by Federal funds (on-budget)	4,741	9,736	9,553	131,336
Investment by Federal funds (off-budget)	–191	....	....	809
Investment by trust funds (on-budget)	86,529	77,919	83,844	1,168,984
Investment by trust funds (off-budget)	124,615	149,663	160,102	1,164,657
Unrealized discount [1]	376	....	....	–1,808

[1] Debt held by Government accounts is measured at face value except for the Treasury zero-coupon bonds held by the Nuclear Waste Disposal fund and the Railroad Retirement Board (Rail Industry Pension Fund), which are recorded at market or redemption price; and the unrealized discount on Government account series, which is not distributed by account. Changes are not estimated in the unamortized discount of the zero-coupon bonds or the unrealized discount. If recorded at face value, the debt held by the Nuclear Waste Disposal fund would be $7.3 billion higher than recorded in this table at the end of 1999 and the debt held by the Railroad Retirement Board would be $7.1 billion higher.

[2] Off-budget Federal entity.

The large investment by Government accounts is concentrated among a few trust funds. The two social security trust funds—old-age and survivors insurance and disability insurance—have a large combined surplus and invest an increasing amount each year: a total of $434.4 billion during 1999–2001, which constitutes 61 percent of the total estimated investment by Government accounts.

In addition to these two funds, the largest investment is by the Federal employee retirement and disability trust funds. The principal trust fund for Federal civilian employees is the civil service retirement and disability trust fund, which accounts for 13 percent of the total investment by Government accounts during 1999–2001. The military retirement trust fund accounts for 3 percent. Altogether, social security and these two retirement funds account for 77 percent of the investment by all Government accounts during this period. At the end of 2001, they are estimated to own 75 percent of the total debt held by Government accounts. The largest other holdings are by the hospital insurance trust fund and the unemployment trust fund.

Technical note on debt reclassifications.—Two holdings of debt have been reclassified from debt held by Government accounts to debt held by the public. Both involve deposit funds. Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States). Because the amounts are not owned by the Government, the transactions of deposit funds are not included in the unified budget receipts, outlays, and surplus or deficit, and the Treasury securities held by deposit funds have normally been included in debt held by the public rather than debt held by Government accounts. [12]

The first reclassification was from applying this dividing line more consistently. Since 1977, two or three deposit funds have been classified as Government accounts, the largest being for Outer Continental Shelf receipts whose ownership was in dispute. The Treasury securities held by these deposit funds have been reclassified as debt held by the public, rather than debt held by Government accounts, and the historical data have been revised retroactively to 1977. The amount reclassified as of September 30, 1999, was $1,742 million.

Second, Indian tribal funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes' behalf were reclassified from trust funds (within the budget) to deposit funds as of October 1, 1999, and their holdings of Treasury securities were accordingly reclassified from debt held by Government accounts to debt held by the public. The amount of the securities reclassified was $355 million, which, as noted in footnote 4 to table 12–2, means that the decrease in publicly held debt in 2000 will be $355 million less than the repayment of debt. The change in classification is explained in chapter 15, "Trust Funds and Federal Funds."

Technical note on measurement.—The Treasury securities held by Government accounts consist almost entirely of the Government account series. Most were issued at par value (face value), and the securities issued at a discount or premium have traditionally been recorded at par in the OMB and Treasury reports on Federal debt. However, there are two kinds of exceptions. First, in 1991, Treasury began to issue zero-coupon bonds to a very few Government accounts. Because the purchase price is a small fraction of par value and the amounts are large, the holdings are recorded in table 12–4 at purchase price plus amortized discount. The only two Government accounts currently affected are the Nuclear Waste Disposal fund in the Department of Energy, and the Rail Industry Pension fund under the Railroad Retirement Board. The total unamortized discount of these zero-coupon bonds was $8.5 billion at the end of 1999.

Second, in September 1993 Treasury began to subtract the unrealized discount on other Government account series securities in calculating "net federal securities held as investments of government accounts." Unlike the discount recorded for zero-coupon bonds or for any debt held by the public, this discount is the amount

[12] Deposit funds are further discussed in a section of chapter 24, "Budget System and Concepts and Glossary."

at the time of issue and is not amortized over the term of the security. In Table 12–4 it is shown as a separate item at the end of the table and not distributed by account. The amount was $1.8 billion at the end of 1999.

Limitations on Federal Debt

Definition of debt subject to limit.—Statutory limitations have usually been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount of debt for each separate issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. This last type of limitation has been in effect since 1941. The limit currently applies to most debt issued by the Treasury since September 1917, whether held by the public or by Government accounts; and other debt issued by Federal agencies that, according to explicit statute, is guaranteed as to principal and interest by the United States Government.

The middle part of Table 12–2 compares total Treasury debt with the amount of Federal debt that is subject to the limit. Most of the Treasury debt not subject to limit was issued by the FFB (Federal Financing Bank). The FFB is authorized to have outstanding up to $15 billion of publicly issued debt, and this amount was issued several years ago to the Civil Service Retirement and Disability trust fund. The remaining Treasury debt not subject to limit consists almost entirely of silver certificates and other currencies no longer being issued.

The sole type of agency debt currently subject to the general limit is the debentures issued by the Federal Housing Administration, which were only $114 million at the end of 1999. Some of the other agency debt, however, is subject to its own statutory limit. For example, the Tennessee Valley Authority is limited to $30 billion of securities outstanding.

The comparison between Treasury debt and debt subject to limit also includes an adjustment for measurement differences in the treatment of discounts and premiums. As explained elsewhere in this chapter, debt securities may be sold at a discount or premium, and the measurement of debt may take this into account rather than recording the face value of the securities. However, the measurement differs between gross Federal debt (and its components) and the statutory definition of debt subject to limit. An adjustment is needed to derive debt subject to limit (as defined by law) from Treasury debt, and this adjustment is defined in footnote 6 to Table 12–2. The amount is relatively small: $5.5 billion at the end of 1999 compared to the total discount (less premium) of $78.7 billion on all Treasury securities.

Methods of changing the debt limit.—The statutory debt limit has frequently been changed. Since 1960, Congress has passed 68 separate acts to raise the limit, extend the duration of a temporary increase, or revise the definition.[13]

The statutory limit can be changed by normal legislative procedures. It can also be changed as a consequence of the annual congressional budget resolution, which is not itself a law. The budget resolution includes a provision specifying the appropriate level of the debt subject to limit at the end of each fiscal year. The rules of the House of Representatives provide that, when the budget resolution is adopted by both Houses of the Congress, the vote in the House of Representatives is deemed to have been a vote in favor of a joint resolution setting the statutory limit at the level specified in the budget resolution. The joint resolution is transmitted to the Senate for further action. It may be amended in the Senate to change the debt limit provision or in any other way. If it passes both Houses of the Congress, it is sent to the President for his signature. This method directly relates the decision on the debt limit to the decisions on the Federal deficit and other factors that determine the change in the debt subject to limit. Both methods have been used numerous times.

Recent changes in the debt limit.—Major increases in the debt limit were enacted as part of the deficit reduction packages in the Omnibus Budget Reconciliation Acts of 1990 and 1993. Both changes in law were preceded by one or more temporary increases in the limit before agreement was reached on the debt and the deficit reduction measures together. Both increases in the debt limit were large enough to last over two years without a further change in law, the longest times without an increase since the period from 1946 to 1954.

The debt again approached the limit in 1995, and the limit again became part of the larger issue of deficit reduction. During an extended period of dispute between the President and the Congress, the Treasury Department took a number of administrative actions to keep within the limit and the Congress passed two acts providing temporary exemptions from the limit. In March 1996, although agreement had not been reached on deficit reduction, Congress passed the Contract with America Advancement Act of 1996, one provision of which increased the debt limit from $4,900 billion to $5,500 billion. The President signed the bill into law on March 29.

During 1997, unlike 1996, the President and the Congress reached agreement on a plan to balance the budget. This included a sufficient increase in the debt limit to accommodate Government finances for longer than possible under the limit enacted in the previous year, even though the amount of debt at that time was considerably under the limit. As a result, the Balanced Budget Act of 1997, which the President signed into law on August 5, 1997, increased the debt limit to

[13] The Acts and the statutory limits since 1940 are enumerated in *Historical Tables, Budget of the United States Government*, table 7.3.

$5,950 billion. According to the estimates in Table 12–2, the debt limit will not be reached until 2004.

Federal funds financing and the change in debt subject to limit.—The change in debt held by the public, as shown in Table 12–2, is determined primarily by the total Government deficit or surplus. The debt subject to limit, however, includes not only debt held by the public but also debt held by Government accounts. The change in debt subject to limit is therefore determined both by the factors that determine the total Government deficit or surplus and by the factors that determine the change in debt held by Government accounts.

The budget is composed of two groups of funds, Federal funds and trust funds. The Federal funds, in the main, are derived from tax receipts and borrowing and are used for the general purposes of the Government. The trust funds, on the other hand, are financed by taxes or other collections earmarked by law for specified purposes, such as paying social security benefits or making grants to State governments for highway construction.[14]

A Federal funds deficit must generally be financed by borrowing, either by selling securities to the public or by issuing securities to Government accounts that are not within the Federal funds group. Federal funds borrowing consists almost entirely of the Treasury issuing securities that are subject to the statutory debt limit. Trust fund surpluses are almost entirely invested in these securities, and trust funds hold most of the debt held by Government accounts. Very little debt subject to statutory limit is issued for other reasons. The change in debt subject to limit is therefore determined primarily by the Federal funds deficit, which is equal to the difference between the total Government surplus and the trust fund surplus.

Table 12–5 derives the change in debt subject to limit. In 2001 the Federal funds deficit is estimated to be $57.3 billion, and other factors increase the requirement to borrow subject to limit by $26.0 billion. The largest other factor ($17.7 billion) is the direct loan financing accounts. As explained in an earlier section, their net financing disbursements are excluded from the budget by law because they do not represent a cost to the Government, but they have to be financed and they are currently sizable. The next largest factor ($9.6 billion) is investment in Treasury securities by revolving funds and special funds in the Federal funds group. As a result of all these factors, the debt subject to limit is estimated to increase by $83.3 billion, in contrast to a $170.9 billion decrease in debt held by the public.

The budget surplus or deficit equals the sum of the Federal funds surplus or deficit and the trust fund surplus or deficit. The trust funds currently have a large surplus, as they have had for a number of years, and it is estimated to grow throughout the projection period.

[14] For further discussion of the trust funds and Federal funds groups, see chapter 15, "Trust Funds and Federal Funds."

Table 12–5. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT

(In billions of dollars)

Description	1999 actual	Estimate 2000	2001	2002	2003	2004	2005
Federal funds surplus or deficit (–)	–88.3	–57.6	–57.3	–71.8	–77.6	–74.3	–72.5
Means of financing other than borrowing:							
Change in:[1]							
Treasury operating cash balance	–17.6	16.5	....	....	....	....	....
Checks outstanding, etc.[2]	–4.3	–2.3	–1.0	....	....	....	....
Deposit fund balances[3]	0.1	....	....	....	....	....	....
Seigniorage on coins	1.0	1.4	1.6	1.6	1.6	1.6	1.6
Less: Net financing disbursements:							
Direct loan financing accounts	–18.6	–28.9	–17.7	–17.6	–17.2	–15.7	–15.6
Guaranteed loan financing accounts	5.2	0.4	1.3	1.4	1.5	1.6	1.7
Total, means of financing other than borrowing	**–34.1**	**–12.6**	**–15.8**	**–14.6**	**–14.2**	**–12.5**	**–12.3**
Decrease or increase (–) in Federal debt held by Federal funds	–4.9	–9.8	–9.6	....	....	....	....
Increase or decrease (–) in Federal debt not subject to limit	–0.8	–0.5	–0.7	–0.8	–1.1	–0.9	–1.8
Total, requirement for Federal funds borrowing subject to debt limit	**128.1**	**80.4**	**83.3**	**87.2**	**92.9**	**87.7**	**86.6**
Adjustment for change in discount or premium[4]	0.1	....	....	....	....	....	....
Adjustment for reclassification of debt	....	0.4	....	....	....	....	....
Increase in debt subject to limit	128.2	80.7	83.3	87.2	92.9	87.7	86.6
ADDENDUM							
Debt subject to statutory limit[5]	5,567.7	5,648.4	5,731.7	5,818.6	5,911.5	5,999.2	6,085.8

[1] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing the deficit and therefore would have a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing the deficit and would therefore also have a positive sign.
[2] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as offsets, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.
[3] Does not include investment in Federal debt securities by deposit funds.
[4] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.
[5] The statutory debt limit is $5,950 billion.

The Federal funds, in contrast, as shown in Table 12–5, continue to have a deficit every year over this period. Mainly because of the Federal funds deficit, the debt subject to limit continues to increase every year while the debt held by the public decreases. This can be seen by comparing the annual increase in debt subject to limit in Table 12–5 with the annual decrease in debt held by the public in Table 12–2. In 2005, for example, when the Government has a $215.4 billion total surplus and the debt held by the public decreases by $203.2 billion, the debt subject to limit increases by $86.6 billion. From the end of 1999 to 2005, debt held by the public decreases by $1,055 billion while debt subject to limit increases by $518 billion.

Debt Held by Foreign Residents

During most of American history, the Federal debt was held almost entirely by individuals and institutions within the United States. In the late 1960s, as shown in Table 12–6, foreign holdings were just over $10.0 billion, less than 5 percent of the total Federal debt held by the public.

Foreign holdings began to grow significantly starting in 1970. This increase has been almost entirely due to foreign decisions, both official and private, rather

Table 12–6. FOREIGN HOLDINGS OF FEDERAL DEBT

(Dollar amounts in billions)

Fiscal year	Debt held by the public			Borrowing from the public		Interest on debt held by the public		
	Total	Foreign [1]	Percentage foreign	Total [2]	Foreign [1]	Total [3]	Foreign [4]	Percentage foreign
1965	260.8	12.3	4.7	3.9	0.3	9.6	0.5	4.9
1966	263.7	11.6	4.4	2.9	–0.7	10.1	0.5	5.1
1967	266.6	11.4	4.3	2.9	–0.2	11.1	0.6	5.1
1968	289.5	10.7	3.7	22.9	–0.7	11.9	0.7	5.6
1969	278.1	10.3	3.7	–1.3	–0.4	13.5	0.7	5.3
1970	283.2	14.0	5.0	3.5	3.8	15.4	0.8	5.5
1971	303.0	31.8	10.5	19.8	17.8	16.2	1.3	7.9
1972	322.4	49.2	15.2	19.3	17.3	16.8	2.4	14.2
1973	340.9	59.4	17.4	18.5	10.3	18.7	3.2	17.2
1974	343.7	56.8	16.5	2.8	–2.6	22.7	4.1	17.9
1975	394.7	66.0	16.7	51.0	9.2	25.0	4.5	18.2
1976	477.4	69.8	14.6	82.2	3.8	29.3	4.4	15.1
TQ	495.5	74.6	15.1	18.1	4.9	7.8	1.2	14.9
1977	549.1	95.5	17.4	53.6	20.9	33.8	5.1	15.0
1978	607.1	121.0	19.9	58.0	25.4	40.2	7.9	19.5
1979 [5]	640.3	120.3	18.8	33.2	–0.7	49.9	10.7	21.5
1980	711.9	121.7	17.1	71.6	1.4	62.8	11.0	17.5
1981	789.4	130.7	16.6	77.5	9.0	81.7	16.4	20.1
1982	914.6	140.6	15.2	135.2	9.9	101.2	18.7	18.5
1983	1,137.3	160.1	14.1	212.7	19.5	111.6	19.2	17.2
1984	1,307.0	175.5	13.4	169.7	15.4	133.5	20.3	15.2
1985 [5]	1,507.4	222.9	14.8	200.3	47.4	152.9	23.0	15.1
1986	1,740.8	265.5	15.3	233.4	42.7	159.3	24.2	15.2
1987	1,889.9	279.5	14.8	149.2	14.0	160.4	25.7	16.0
1988	2,051.8	345.9	16.9	161.9	66.4	172.3	29.9	17.4
1989	2,191.0	394.9	18.0	139.1	49.0	189.0	37.1	19.6
1990 [5]	2,411.8	440.3	18.3	220.9	45.4	202.4	40.2	19.9
1991	2,689.3	477.3	17.7	277.5	37.0	214.8	41.3	19.2
1992	3,000.1	535.2	17.8	310.8	57.9	214.5	39.3	18.3
1993	3,248.8	591.3	18.2	247.4	56.1	210.2	39.0	18.6
1994	3,433.4	655.8	19.1	184.7	64.5	210.6	41.9	19.9
1995 [5]	3,604.8	800.4	22.2	171.3	144.6	239.2	54.5	22.8
1996	3,734.5	978.1	26.2	129.7	177.7	246.6	63.7	25.8
1997	3,772.8	1,218.2	32.3	38.3	240.0	250.8	84.2	33.6
1998	3,721.6	1,216.9	32.7	–51.2	–1.2	250.0	91.3	36.5
1999	3,632.9	1,281.3	35.3	–88.7	57.1	234.9	92.7	39.5

[1] Estimated by Treasury Department. These estimates exclude agency debt, the holdings of which are believed to be small. The data on foreign holdings are not recorded by methods that are strictly comparable with the data on debt held by the public. Projections are not available.

[2] Borrowing from the public is defined as equal to the change in debt held by the public from the beginning of the year to the end, except to the extent that the amount of debt is changed by reclassification.

[3] Estimated as interest on the public debt less ''interest received by trust funds'' (subfunction 901 less subfunctions 902 and 903). Does not include the comparatively small amount of interest on agency debt or the offsets for interest on public debt received by other Government accounts (revolving funds and special funds).

[4] Estimated by Bureau of Economic Analysis, Department of Commerce. These estimates include small amounts of interest from other sources, including the debt of Government-sponsored enterprises, which are not part of the Federal Government.

[5] Benchmark revisions reduced the estimated foreign holdings of Federal debt as of December 1978; increased the estimated foreign holdings as of December 1984 and December 1989; and reduced the estimated holdings as of December 1994. As a result, the data on foreign holdings in different time periods are not strictly comparable, and the ''borrowing'' from foreign residents in 1979, 1985, 1989, and 1995 reflects the benchmark revision as well as the net purchases of Federal debt securities.

than the direct marketing of these securities to foreign residents. At the end of fiscal year 1999 foreign holdings of Treasury debt were $1,281.3 billion, which was 35 percent of the total debt held by the public.[15] Foreign central banks owned 43 percent of the Federal debt held by foreign residents; private investors owned nearly all the rest. All the Federal debt held by foreign residents is denominated in dollars.

Although the amount of Federal debt held by foreign residents grew greatly over this period, the proportion they own, after growing abruptly in the very early 1970s, did not change much again until about 1995. During 1995–97, however, foreign holdings increased on average by about $200 billion each year, considerably more than total Federal borrowing from the public.[16] As a result, the Federal debt held by individuals and institutions within the United States decreased in absolute amount during those years, and the percentage of Federal debt held by foreign residents grew from 19 percent at the end of 1994 to 32 percent at the end of 1997. The rapid growth of foreign debt holdings ceased in 1998 and turned into a slight decline, almost the only year with a decrease since 1970. In 1999, the debt held by foreigners increased again. Because total debt held by the public decreased in 1998 and 1999, the percentage held by foreigners continued to rise in both years.

Foreign holdings of Federal debt are about one-fifth of the foreign-owned assets in the United States. The foreign purchases of Federal debt securities do not measure the full impact of the capital inflow from abroad on the market for Federal debt securities. The capital inflow supplies additional funds to the credit market generally, and thus affects the market for Federal debt. For example, the capital inflow includes deposits in U.S. financial intermediaries that themselves buy Federal debt.

[15] The amounts of debt reported by the Bureau of Economic Analysis, Department of Commerce, are different, but similar in size, due to a different method of valuing the securities.

[16] Table 12–6 shows foreign holdings increasing by only $144.6 billion in 1995. However, as explained in footnote 5 to that table, a benchmark revision reduced the estimated holdings as of December 1994 (by $47.9 billion). Because debt estimates were not revised retroactively, the increase in 1995 was more than the table shows. Before the benchmark revision, the increase was estimated to be $192.6 billion.

Federal, Federally Guaranteed, and Other Federally Assisted Borrowing

The effect of the Government on borrowing in the credit market arises not only from its own borrowing to finance Federal operations but also from its assistance to certain borrowing by the public. The Government guarantees borrowing by private and other non-Federal lenders, which is another term for guaranteed lending. In addition to its guarantees, it has established private corporations called "Government-sponsored enterprises," or GSEs, to provide financial intermediation for specified public purposes; it exempts the interest on most State and local government debt from income tax; and it insures the deposits of banks and thrift institutions, which themselves make loans.

Federal credit programs and other forms of assistance are discussed in chapter 8, "Credit and Insurance." Detailed data are presented in tables at the end of that chapter. Table 12–7 brings together the totals of Federal and federally guaranteed borrowing and lending and shows the trends since 1965 in terms of both dollar amounts and, more significantly, as percentages of total credit market borrowing or lending by domestic nonfinancial sectors. The Federal and federally guaranteed lending is recorded at the principal amount. It does not measure the degree of subsidy provided by the credit assistance, nor does it indicate the extent to which the credit assistance changed the allocation of financial and real resources. Tables 8–11 and 8–12 in chapter 8 summarize GSE borrowing and lending.

Table 12–7 shows that the participation rate for Federal and federally guaranteed borrowing trended strongly upward from the 1960s to the early 1990s, though with cyclical variation. The trend was dominated by Federal borrowing to finance the growing deficit. Federally guaranteed borrowing, though much larger in absolute terms in 1990 than 1965, was smaller as a percentage of total new borrowing in the credit market. The participation rate has declined sharply since the early 1990s due to the budget surplus and was a negative amount in 1999. These results do not reflect the credit assistance that the Federal Government provides by other means.

Table 12–7. FEDERAL AND FEDERALLY GUARANTEED PARTICIPATION IN THE CREDIT MARKET

(Dollar amounts in billions)

	Actual											Estimate	
	1965	1970	1975	1980	1985	1990	1995	1996	1997	1998	1999	1999	2000
Total net borrowing in credit market [1]	66.8	88.2	169.6	336.9	829.3	704.1	720.4	727.1	713.5	975.3	1,091.4	....	....
Federal borrowing from the public	3.9	3.5	51.0	71.6	200.3	220.9	171.3	129.7	38.3	–51.2	–88.7	–157.1	–170.9
Guaranteed borrowing	5.0	7.8	8.6	31.6	21.6	40.7	26.2	89.9	57.8	58.5	60.8	93.6	94.9
Total, Federal and federally guaranteed borrowing	8.9	11.3	59.6	103.2	221.9	261.6	197.5	219.6	96.1	7.3	–27.9	–63.5	–76.0
Borrowing participation rate (percent)	**13.3**	**12.8**	**35.1**	**30.6**	**26.8**	**37.2**	**27.4**	**30.2**	**13.5**	**0.7**	**–2.6**	....	....
Total net lending in credit market [1]	66.8	88.2	169.6	336.9	829.3	704.1	720.4	727.1	713.5	975.3	1,091.4	....	....
Direct loans	2.0	3.0	12.7	24.2	28.0	2.8	1.6	4.0	12.8	6.8	13.4	14.1	9.9
Guaranteed loans	5.0	7.8	8.6	31.6	21.6	40.7	26.2	89.9	57.8	58.5	60.8	93.6	94.9
Total, Federal and federally guaranteed lending	7.0	10.8	21.3	55.8	49.6	43.5	27.8	93.9	70.6	65.3	74.2	107.7	104.8
Lending participation rate (percent)	**10.5**	**12.2**	**12.6**	**16.6**	**6.0**	**6.2**	**3.9**	**12.9**	**9.9**	**6.7**	**6.8**	....	....

[1] Total net borrowing (or lending) in credit market by domestic nonfinancial sectors, excluding equities. Credit market borrowing (lending) is the acquisition (loan) of funds other than equities through formal credit channels. Financial sectors are omitted from the series used in this table to avoid double counting, because financial intermediaries borrow in the credit market primarily to finance lending in the credit market. Equities, trade credit, security credit, and other sources of funds are also excluded from this series. Source: Federal Reserve Board flow of funds accounts. Projections are not available.