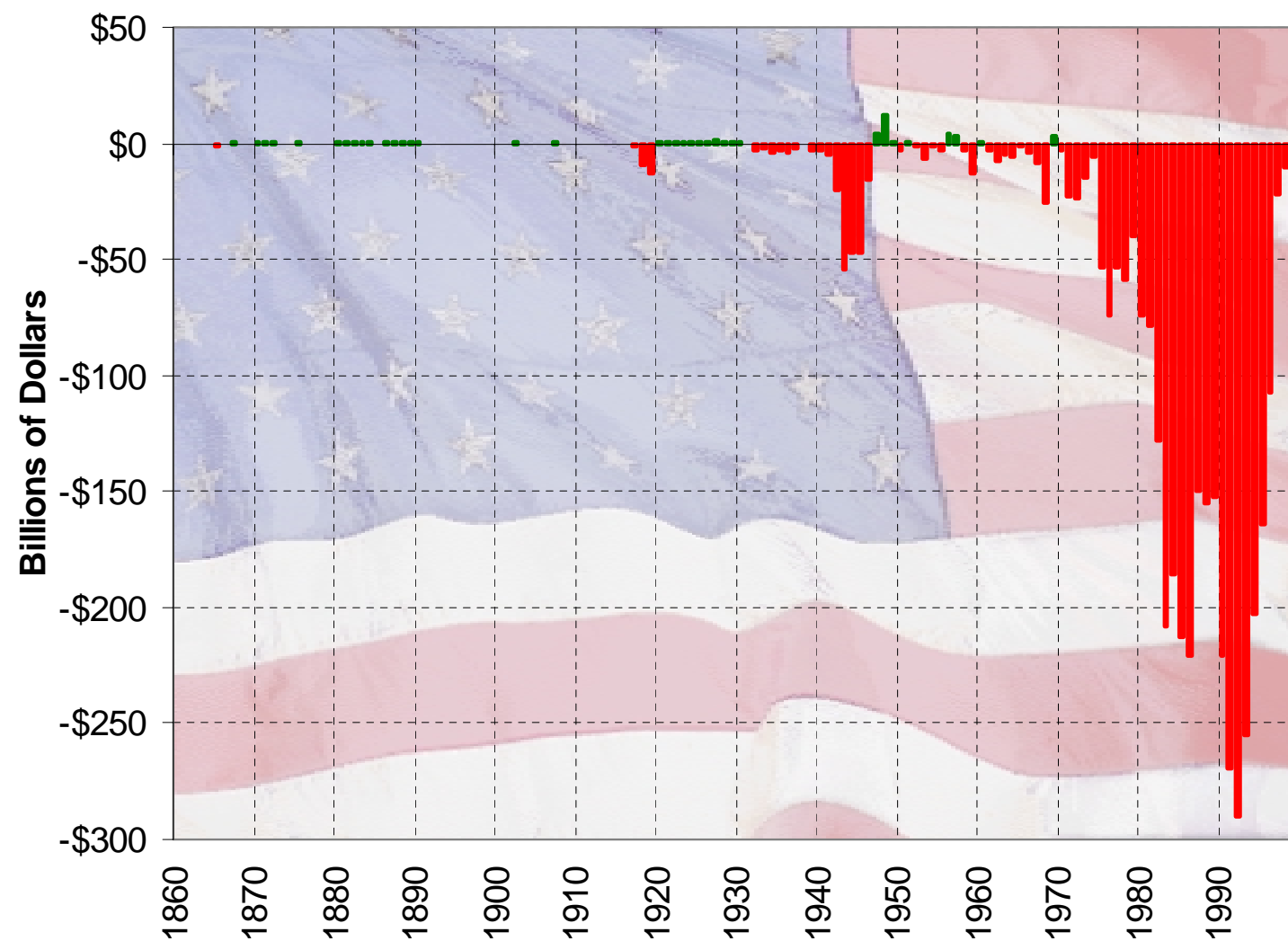


The Explosion of Government Debt: A First Look

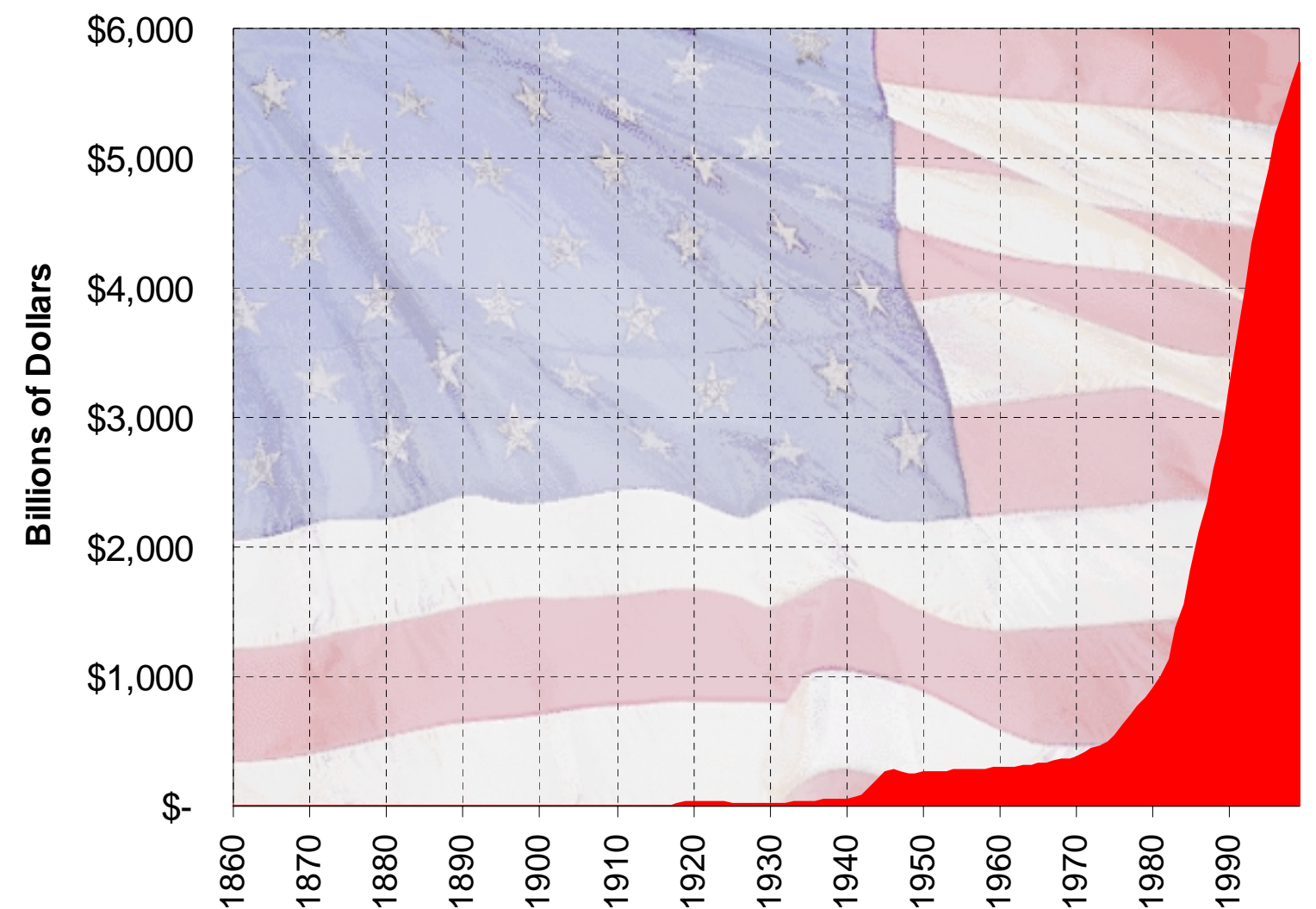
The federal government has borrowed record amounts of money over the past two decades. It now owes over **5.5 Trillion dollars!** That's about \$20,500 for every man, woman, and child in the United States.

The U.S. Federal Govt. **Deficit (-)** or **Surplus (+)**



The deficit is the amount the federal government borrows in a given year. It is that year's spending minus taxes collected.

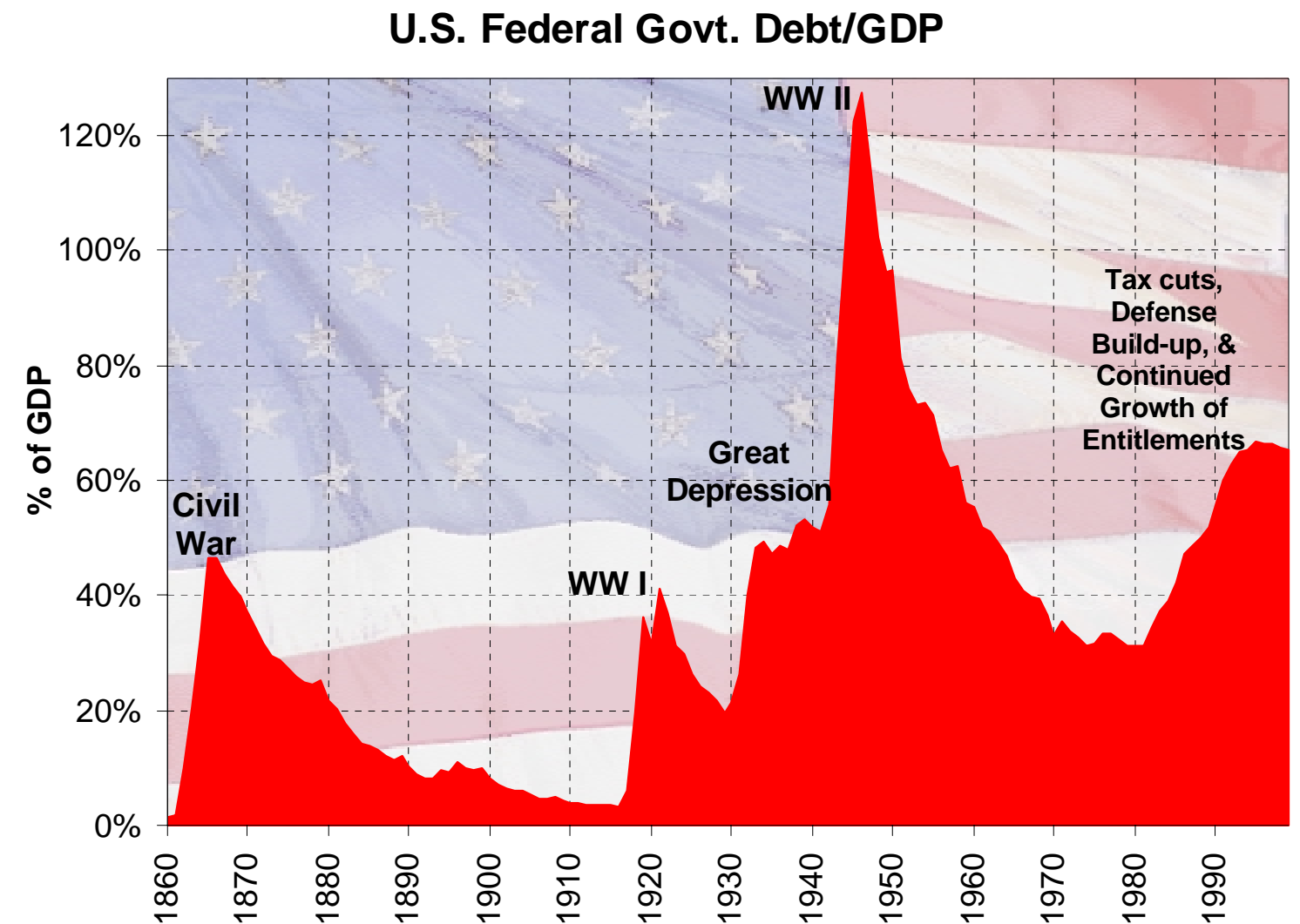
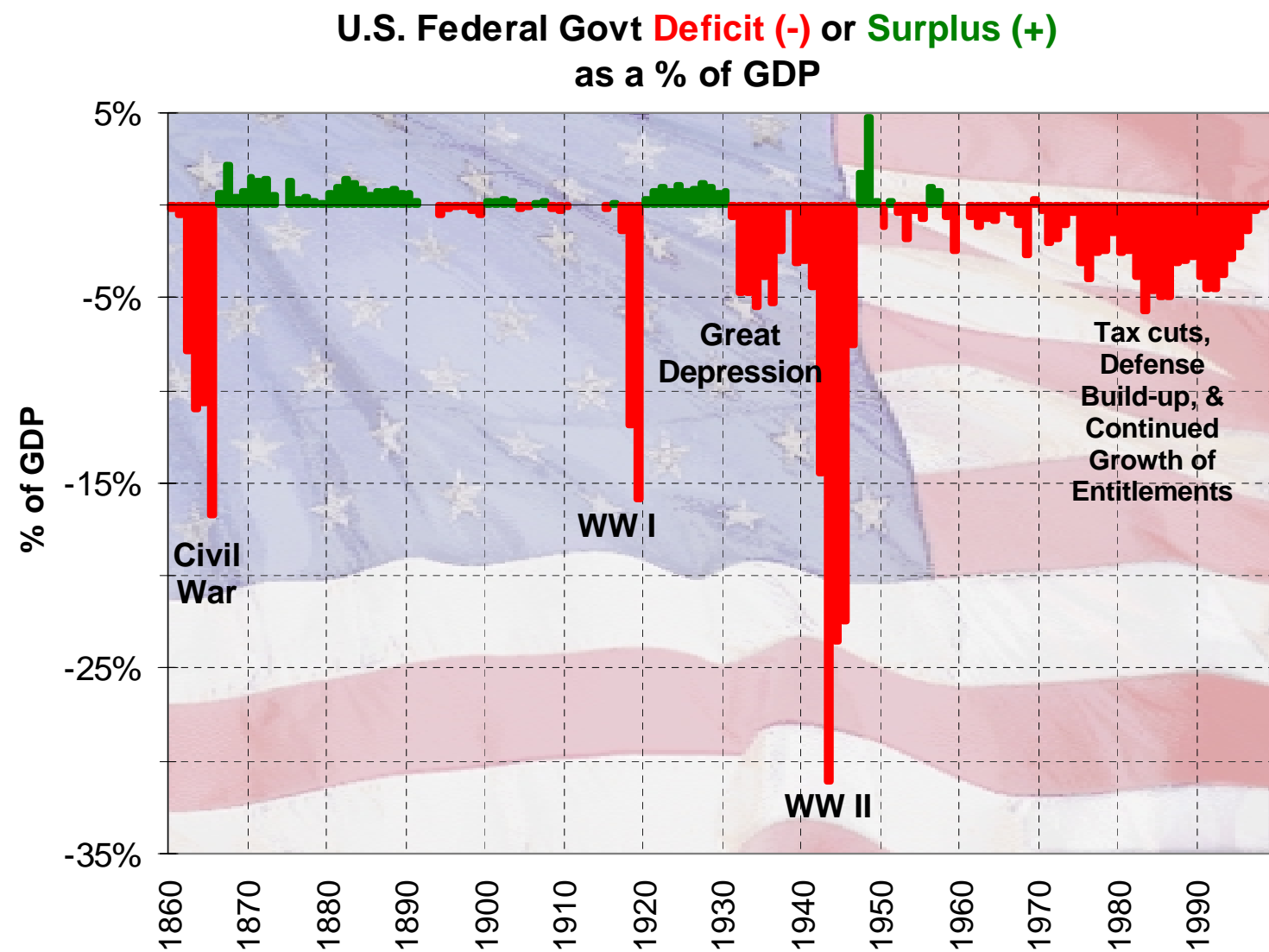
U.S. Federal Govt. Debt



The debt is the total amount owed by the federal government. It is the result of all past deficits and surpluses.

Government Debt & Deficit: A Closer Look

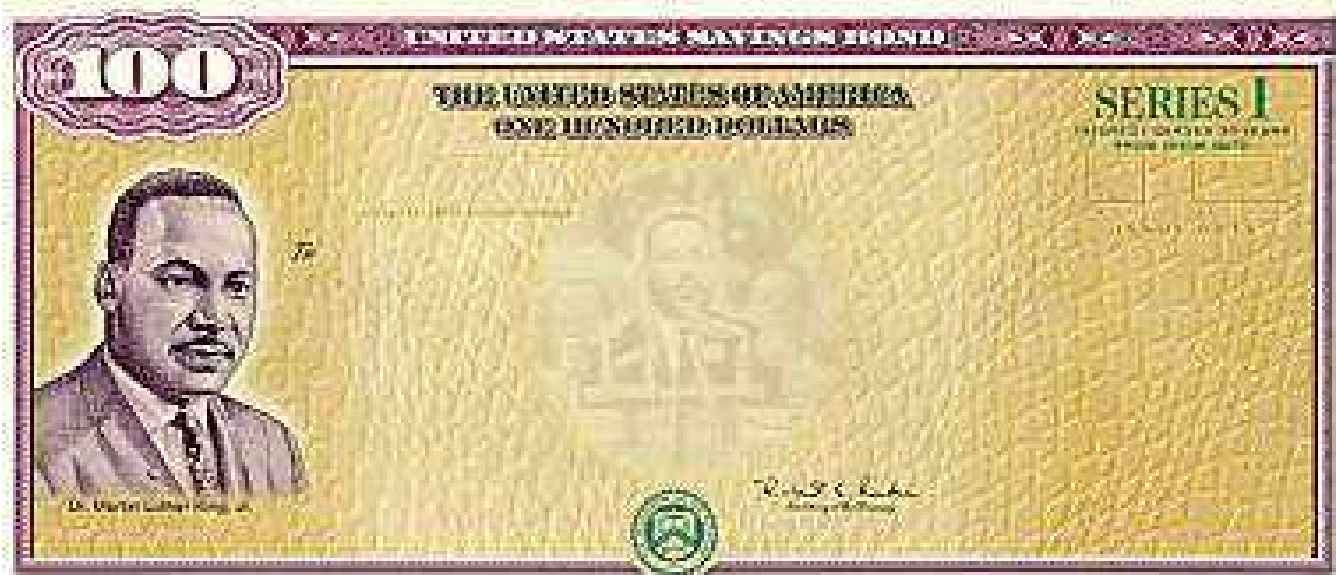
A lot of things have changed since 1860. Population has boomed, everything costs much more because of inflation, & the economy has grown greatly. Looking at today's debt & deficits relative to the size of the U.S. economy gives a more accurate picture.



Recent debt and deficits are not unusually large by historical standards. However, they are unusual for peacetime.

Where Does the Debt Come From? Who Owns it?

Where Govt Debt Comes From



series I government bond

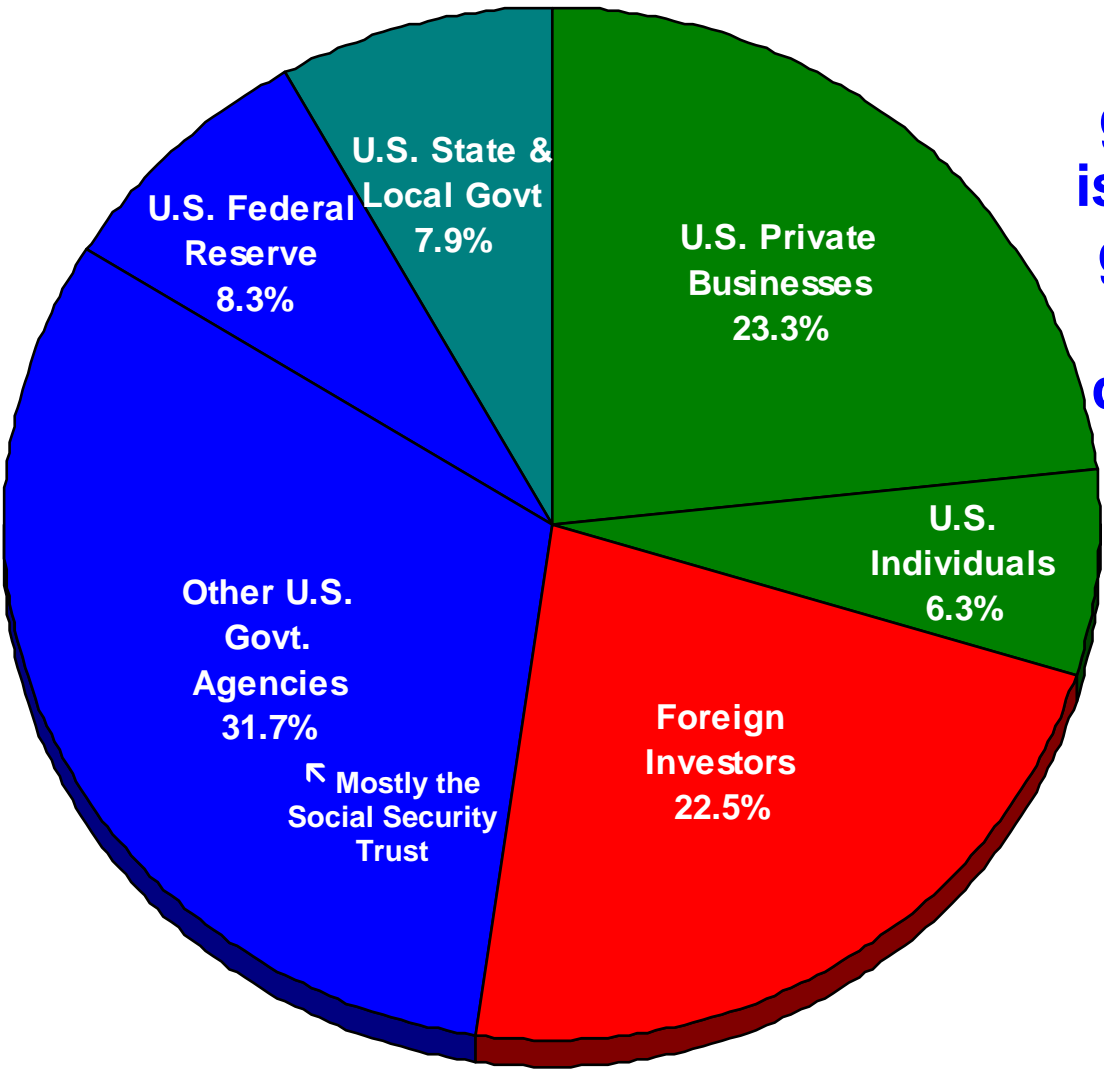
When the government spends more than it raises in taxes, it has to borrow money (run a deficit). It borrows money by selling government bonds.¹ Bonds are IOUs. Someone purchases the bond giving the government money today. In return, the government gives the bondholder payments in the future.

¹ Short-term government bonds are called treasury bills or treasury notes.

Ownership of the U.S. Govt. Debt

June 1998

Source: U.S. Treasury Bulletin Sept '98



41% of the government's debt is owned by the U.S. government itself.² Payments on this debt go back to the U.S. government.

Another 38% of the debt is owned by American businesses, local governments, or individuals.

The 22.5% owned by foreign investors represent future payments that will be leaving the United States.

² The U.S Federal Reserve, Social Security Trust, and Medicare Trust funds are the main government owners.

The Burden of the Debt

Is the Debt a Heavy Burden?

- **Because of the debt, 14% of all federal government spending goes to interest payments.**³ This leaves less room for other types of spending.
- **22.5% of the debt is owned by foreigners.** Future generations will have to finance payments through taxes, printing money, or more borrowing. These payments will then leave the country.
- **The government may borrow money that otherwise would be used by the private sector.** In effect, the government may “crowd out” private sector activities such as expanding businesses or building new homes.

³This excludes interest the federal government pays to itself.

Is the Debt a Relatively Small Burden?

- **The U.S. government is unlikely to default or go bankrupt.** The government can earn income through taxes or printing money.
- **41% the debt is owned by the U.S. government itself.**
- **The debt has financed government spending;** military goods, food stamps, etc, which benefit present & future Americans.
- **U.S. Debt/GDP is about average by international standards.**

