

# SPECIAL REPORT

March 1993, No. 17

## Washington's Largest Monument: The National Debt *Exploding Federal Government Debt Over Half the Nation's GDP; Annual Interest Payments Exceed 14 Percent of Federal Spending*

By *Chris R. Edwards*  
*Economist*  
*Tax Foundation*  
*and*  
*Peter J. Neff*  
*Adjunct Analyst*  
*Tax Foundation*

At the end of 1992, federal, state, and local governments had accumulated total credit market debt of \$3.81 trillion, representing \$15,117 in additional future taxes for each person in the United States. The federal government was responsible for \$2.89 trillion of this total, while state and local governments added \$917 billion to the debt load.

### Federal Government Debt

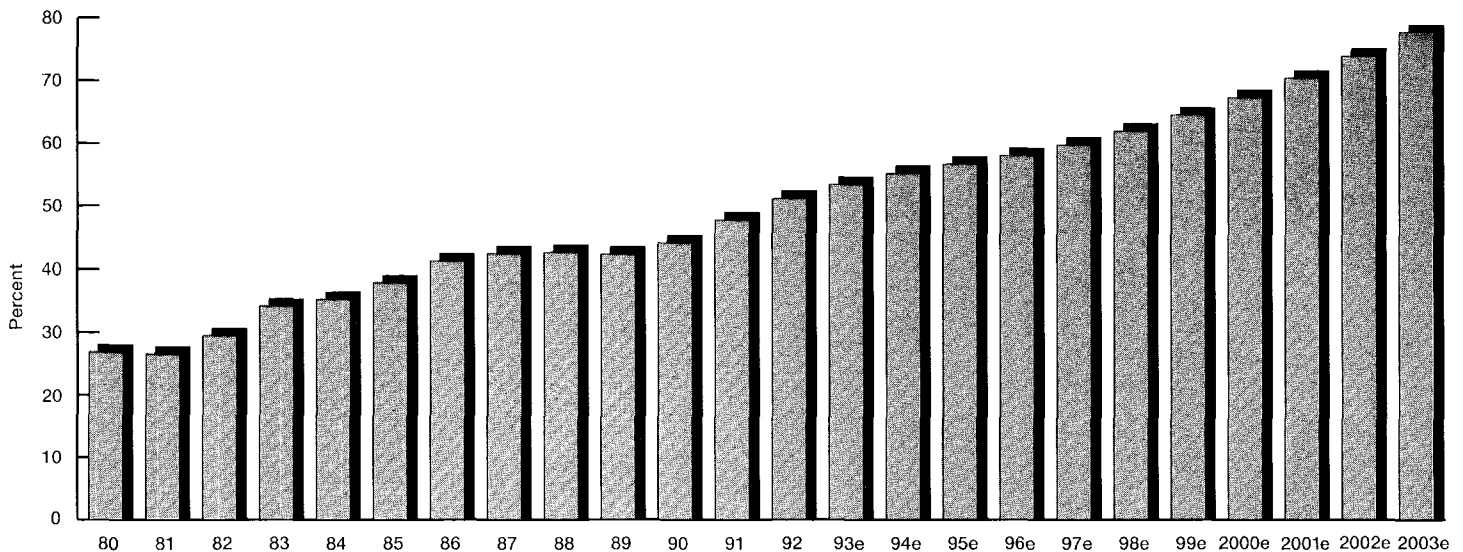
Federal government debt is growing quickly, averaging over 12 percent growth annually since 1980. Legislative efforts during this period to stem the tide of red ink failed, and the Congressional Budget Office (CBO) projects

federal public debt will grow at 8.6 percent per year over the next 10 years. Figure 1 shows the rapidly growing size of the federal debt compared to the overall size of the U.S. economy.

### Ways to Measure the Debt

Numerous measures of the federal government's debt are used. The largest figure is "gross debt," which stood at over \$4 trillion, or almost \$16,000 per capita, in 1992 (see Table 1). However, this figure includes over \$1 trillion of public debt held by the various trust funds maintained by the federal government in support of programs such as Social Security. In effect, these are liabilities owed by the federal gov-

Figure 1  
*Federal Public Debt as a Percentage of Gross Domestic Product*  
*Fiscal Years 1980-2003*



Source: Congressional Budget Office, 1993-2003 Forecast.

*Table 1  
Federal Government Debt Measures  
Fiscal Year 1992*

	Total	Percent of GDP	Per Capita
Gross Debt	\$4,002.7	68.2%	\$15,671
Less Debt Held in Government Accounts	\$1,004.0		
Debt Held by Public	\$2,998.6	51.1	\$11,740
Less Debt Held by the Federal Reserve	\$296.4		
Net Public Debt	\$2,702.2	46.0	\$10,580

Source: Budget Baselines, Office of Management and Budget, 1993.

ernment to itself which do not place additional current financing demands on the private sector.

Excluding this portion of gross debt yields "debt held by the public," which totaled almost \$3 trillion in 1992. This figure is a widely used measure of the federal government's debt obligations.

Of debt held by the public, nearly \$300 billion is held by Federal Reserve Board banks. Like the \$1 trillion borrowed from the federal trust funds, this \$300 billion does not reduce the capital available in the private sector. Therefore, the net public debt of \$2.7 trillion in 1992 is a good measure of the federal debt's impact on the credit markets and of the present value of budget surpluses that would have to be run in the future to pay back federal debt.

*How Much Debt Is Too Much?*

While the question of how much debt is too much has no definitive answer, we can determine whether debt is growing at too fast a rate. As the

federal government runs annual deficits it increases the accumulated debt load. Such a policy is not sustainable if the accumulated debt grows faster than the overall economy. High annual deficits have meant that growth in the real federal public debt has exceeded the growth in real GDP in every year except two since 1980 (see Figure 2). This trend is expected to continue through the Office of Management and Budget's (OMB) current forecast period which extends through 1998.

It is widely believed that the growth rate of federal debt relative to GDP must be reduced or the economy will face slower growth in the future and risk a return to high inflation rates. These risks can be reduced directly through a combination of reducing future federal budget deficits and increasing the economy's growth rate.

The rapidly rising debt-to-GDP ratio (see Table 2) presents the nation with a fiscal situation unprecedented in peacetime America. The debt-to-GDP ratio doubled from 26.8 percent in 1980 to

*Table 2  
Trends in Federal Public Debt  
(\$Billions)  
Fiscal Years 1980-1998*

Year	Public Debt	Percent of GDP
1980	\$709.3	26.8%
1981	784.8	26.5
1982	919.2	29.4
1983	1,131.0	34.1
1984	1,300.0	35.2
1985	1,499.4	37.8
1986	1,736.2	41.2
1987	1,888.1	42.4
1988	2,050.3	42.6
1989	2,190.3	42.3
1990	2,410.4	44.1
1991	2,687.9	47.7
1992	2,998.6	51.1
1993 est.	3,310.0	53.1
1994 est.	3,607.0	54.3
1995 est.	3,882.0	55.1
1996 est.	4,151.0	55.6
1997 est.	4,459.0	56.4
1998 est.	4,782.0	57.1

Source: Budget Baselines, Office of Management and Budget, January 1993.

*Table 3  
Federal Budget Deficits and Net Interest Outlays  
Fiscal Years 1980-1998  
(\$Billions)*

Year	Budget Deficit	Percent Change	Net Interest Outlays	Percent Change
1980	\$73.8	-	\$52.5	-
1981	79.0	7.0%	68.8	31.0%
1982	128.0	62.1	85.0	23.5
1983	207.8	62.4	89.8	5.6
1984	185.4	-10.8	111.1	23.7
1985	212.3	14.5	129.5	16.6
1986	221.2	4.2	136.0	5.0
1987	149.8	-32.3	138.7	2.0
1988	155.2	3.6	151.8	9.4
1989	152.5	-1.7	169.3	11.5
1990	221.4	45.2	184.2	8.8
1991	269.5	21.7	194.5	5.6
1992	290.2	7.7	199.4	2.5
1993 est.	327.3	12.8	202.8	1.7
1994 est.	292.4	-10.7	220.1	8.5
1995 est.	272.4	-6.8	244.1	10.9
1996 est.	266.4	-2.2	262.5	7.5
1997 est.	305.0	14.5	286.0	9.0
1998 est.	319.8	4.9	308.4	7.8

Source: Budget Baselines, Office of Management and Budget, January 1993.

51.1 percent in 1992. CBO expects this ratio to reach 77 percent by 2003 (see Figure 1).

### Rising Interest Payments

As federal debt increases, larger and larger portions of total federal outlays are needed to pay interest on accumulated debt. In 1992, 14.4

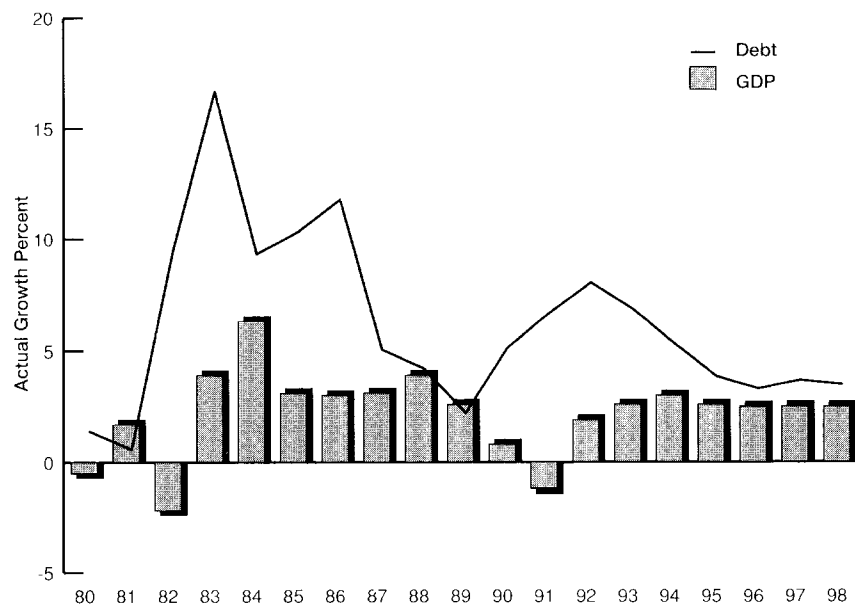
percent of federal outlays went toward interest payments compared to 8.9 percent in 1980. What this amounts to is a gigantic \$200 billion annual "transfer program" operated by the federal government which takes from new bondholders and gives to previous bondholders. By 1992 this transfer program had become the third largest

**Table 4**  
Total U.S. Credit Market Debt Outstanding  
(\$Billions except per capita)  
Selected Fiscal Years 1960-1992

	Total Debt Outstanding			Federal Government (a)			State/Local Governments			Households			Non-Financial Business		
	Total	Per Capita	Percent of GDP	Total	Per Capita	Percent of GDP	Total	Per Capita	Percent of GDP	Total	Per Capita	Percent of GDP	Total	Per Capita	Percent of GDP
1960	\$ 727.3	\$4,026	141.7%	\$236.3	\$1,308	46.0%	\$ 72.0	\$399	14.0%	\$218.2	\$1,208	42.5%	\$200.8	\$1,111	39.1%
1965	1,011.6	5,206	144.0	262.4	1,350	37.3	103.1	531	14.7	343.2	1,766	48.8	302.9	1,559	43.1
1970	1,424.4	6,947	140.9	300.8	1,467	29.8	150.3	733	14.9	471.8	2,301	46.7	501.5	2,446	49.6
1975	2,256.0	10,446	142.3	446.3	2,066	28.1	219.4	1,016	13.8	750.4	3,475	47.3	839.9	3,889	53.0
1980	3,897.7	17,116	143.9	742.8	3,262	27.4	286.6	1,259	10.6	1,430.2	6,281	52.8	1,438.1	6,315	53.1
1981	4,279.6	18,611	141.2	830.1	3,610	27.4	303.7	1,321	10.0	1,549.2	6,737	51.1	1,596.6	6,943	52.7
1982	4,667.6	20,104	148.2	991.4	4,270	31.5	331.4	1,427	10.5	1,626.3	7,005	51.6	1,718.5	7,402	54.6
1983	5,208.5	22,230	153.0	1,177.9	5,027	34.6	355.0	1,515	10.4	1,791.9	7,648	52.6	1,883.7	8,040	55.3
1984	5,959.4	25,215	157.8	1,376.8	5,825	36.5	383.0	1,621	10.1	2,018.8	8,542	53.4	2,180.8	9,227	57.7
1985	6,804.5	28,534	168.5	1,600.4	6,711	39.6	473.9	1,987	11.7	2,296.0	9,628	56.8	2,434.2	10,208	60.3
1986	7,646.3	31,772	179.1	1,815.4	7,543	42.5	510.1	2,120	12.0	2,596.1	10,788	60.8	2,724.8	11,322	63.8
1987	8,343.9	34,362	183.8	1,960.3	8,073	43.2	558.9	2,302	12.3	2,879.1	11,857	63.4	2,945.6	12,131	64.9
1988	9,316.3	37,130	190.1	2,104.9	8,389	43.0	752.5	2,999	15.4	3,177.3	12,663	64.8	3,281.6	13,079	67.0
1989	10,087.1	40,202	192.1	2,251.2	8,972	42.9	815.7	3,251	15.5	3,508.2	13,982	66.8	3,512.0	13,997	66.9
1990	10,760.7	42,887	194.9	2,498.1	9,956	45.2	864.0	3,443	15.6	3,780.6	15,067	68.5	3,618.0	14,419	65.5
1991	11,210.7	44,680	197.5	2,776.4	11,065	48.9	902.5	3,597	15.9	3,938.6	15,697	69.4	3,593.2	14,321	63.3
1992est	11,395.8	45,418	192.9	2,891.5	11,524	49.0	916.7	3,653	15.5	3,984.8	15,881	67.5	3,602.8	14,359	61.0

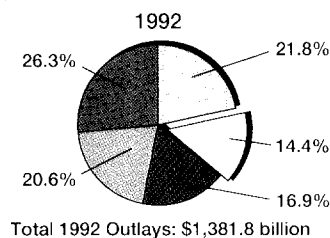
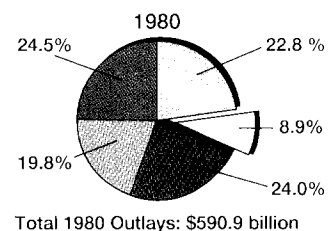
(a) Federal government debt excludes portion held by Federal Reserve and government agencies.  
Source: Board of Governors of the Federal Reserve System; and Tax Foundation computations.

**Figure 2**  
Growth in Real GDP vs. Growth in Real Federal Public Debt  
Fiscal Years 1980-1998



Source: Tax Foundation computations.

**Figure 3**  
Federal Outlays by Category  
Fiscal Years 1980 and 1992



Legend for Figure 3:  
 Defense  
 Net Interest  
 Discretionary Non-Defense  
 Social Security  
 Other Mandatory

Source: Budget Baselines, OMB, 1993.

**Table 5**  
**Federal Government Assets and Liabilities**  
**(Billions of 1992 Dollars)**

	1960	1970	1980	1990	1992
<b>Assets</b>					
Financial Assets	312	389	692	589	598
Physical Assets:					
Reproducible Capital	973	1,014	816	960	985
Inventories	252	200	216	206	187
Nonreproducible Capital	410	400	953	773	681
Total Physical Assets	1,635	1,614	1,985	1,938	1,852
Total Assets	\$1,947	\$2,003	\$2,677	\$2,527	\$2,450
<b>Liabilities</b>					
Financial Liabilities	1,179	1,060	1,293	2,726	3,123
Insurance Liabilities:					
Deposit Insurance	0	0	0	106	56
Pension Benefit Guarantees	0	0	41	35	38
Loan Guarantees	0	6	17	37	69
Other	28	19	17	14	15
Total Insurance Liabilities	28	25	85	193	178
Federal Pension Liabilities	646	949	1,337	1,237	1,250
Total Liabilities	\$1,853	\$2,033	\$2,715	\$4,156	\$4,550
Balance	\$94	-\$30	-\$38	-\$1,629	-\$2,100
Per capita	\$526	-\$148	-\$166	-\$6,533	-\$8,243

Source: Budget Baselines, Office of Management and Budget, 1993.

spending item in the federal government's budget after defense and social security (see Figure 3).

If a government starts with a balanced budget and no debt, it can initially run large deficits with interest payments representing only a very small part of total outlays. However, as debt accumulates, interest payments rise as a percentage of outlays, and more and more of the annual borrowing or deficit will go to pay interest on previous borrowings. Today, even as annual deficits are projected to fall from 1993 to 1996, past accumulated debt is so large that interest payments as a percent of total federal outlays will continue to rise (see Table 3).

## State and Local Government Debt

While federal government debt attracts the most amount of attention, state and local governments issue a significant amount of debt as well. State and local government debt totaled \$916.7 billion in 1992, approximately one third the amount of federal debt. The combined debt of state and local governments has more than tripled since 1981.

Throughout most of the 1980s, state and local debt hovered around 10.5 percent of GDP, but beginning in 1988 state and local debt has risen to over 15 percent and currently stands at 15.5 percent of GDP (see Table 4).

## Government Debt in the Credit Markets

One gauge of government debt is its size relative to total debt, government and private.

Private debt is incurred by non-financial business primarily to finance investment and is incurred by households to finance mortgages, credit card debt and other consumer spending and investment.

In 1992, federal, state, and local government debt represented 33 percent of all credit market debt. This is up from 26 percent in 1980. So while debt in all sectors – government, business, and household – has expanded rapidly, government debt is taking an increasingly large share of the total credit pool (see Table 4).

## Federal Balance Sheet

The federal government incurs liabilities in addition to the debt figures detailed in Table 1. Social Security, federal civilian and military employee pensions, pension guarantees for private sector workers, deposit insurance, and other commitments may cause significant budget impacts in future years which are not accounted for in deficit and public debt figures.

To balance these liabilities are federal assets, both financial and physical. These amounts are shown, along with the total balance and the per capita balance, in Table 5. Since the early 1980s, the balance has deteriorated sharply. The negative balance of \$2.1 trillion in 1992 shows, in effect, the total taxes that would be needed if the federal government were to close its doors, sell off its assets and pay off all its liabilities.

However, as an ongoing concern, the most important asset of the federal government is the ability of the private economy to produce and grow. It is to this end that federal tax and debt policies should be aimed.

*SPECIAL REPORT*  
(ISSN 1068-0306) is  
published 6 times yearly  
by the Tax Foundation, an  
independent 501 (c)(3) or-  
ganization chartered in the  
District of Columbia.

4-12 pp.  
Annual subscription: \$50.00  
Individual issues \$8 +\$2 p/b.

The Tax Foundation, a  
nonprofit, nonpartisan  
research and public  
education organization, has  
been monitoring tax and  
fiscal activities at all levels  
of government since 1937.

©1993 Tax Foundation

Librarians:  
Back issues (January 1990-  
November 1992) have been  
numbered retroactively and  
are all available from the  
Tax Foundation.

Editor  
Stephen Gold

Production  
Taccino/Gray Design, Inc.

Tax Foundation  
1250 H Street, NW  
Suite 750  
Washington, DC 20005  
(202) 783-2760