Order Code IB92049

CRS Issue Brief for Congress

Received through the CRS Web

The Federal Debt: Who Bears Its Burdens?

Updated December 9, 1999

William A. Cox
Domestic Social Policy Division

CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

Old and New Ideas on the "Burden of the Debt"

Who Lends to the Government, and Who Pays?
- Servicing the Federal Debt
- Effects on Other Lending
- How Much Are Interest Rates Affected?
- Effects on Asset Values

Significance of Foreign Capital

Effects on Future Living Standards

FOR ADDITIONAL READING

The Federal Debt: Who Bears Its Burdens?

SUMMARY

U.S. government debt held outside government accounts quintupled from FY1980 to FY1995 and went from 26% to 50% of GDP. Net interest payments rose from 9% to 15% of federal outlays. These percentages fell somewhat from FY1997 to FY1999 with a smaller budget deficit and then surpluses. Taxpayers and beneficiaries of federal spending must accept sacrifices to make the larger interest payments while keeping the budget in surplus.

Even as surpluses replace deficits, refinancing today's debt of roughly 40% of GDP burdens credit markets more than yesteryear's debt of 26% of GDP. Heavy flotations of government securities hold down securities prices, raising interest rates not only on federal borrowing but also on other new and variable-rate loans. Although nominal interest rates now seem moderate, they remain high compared to low inflation. This raises payments from younger, middle-income households, who bear heavy debt, to older and wealthy households, who receive most of the investment income.

When federal deficits exceeded net federal investment through periods of high employment, such as the late 1980s and mid-1990s, government impeded modernization and expansion of the economy by raising the cost of and crowding out private investment. Real interest rates rose steeply in the late 1980s and in 1994, suggesting that crowding out intensified as the economy reached high employment. Over a long period, such a budget policy has hampered the rise of U.S. living standards.

Elevated interest rates attract foreign capital. Without such inflows, U.S. interest rates would have been higher, and budget deficits would have displaced more private investment. Capital inflows, which continue due to low private saving, despite budget surpluses, bring spreading foreign ownership of U.S. assets and a transfer of resources to the United States via an international trade deficit.

The budget agreements of 1990 and 1993 raised taxes and imposed caps on discretionary spending (that under annual appropriations) and restraints on legislation affecting revenues and entitlements. These policies, plus sustained economic growth and booming stock markets, cut deficits steadily from FY1992 on. Spending cuts in FY1996 also played a role. In 1997 Congress enacted a tax reduction and further limits on entitlements and future discretionary spending extending through 2002. Appropriations for FY2000, however, exceeded the spending limits by $37 billion, and the limits for future years may have to be raised.

With budget surpluses federal debt was reduced by $49.5 billion in FY1998 and $88.3 billion in FY1999. Growing surpluses are projected for the next several years. As debt is retired, or even if the budget remains only balanced or shows small deficits with no debt retirement, debt will fall as a share of GDP, and interest payments will take smaller shares of outlays, because GDP and outlays grow over time.

Even if the budget shows surpluses for the next several years, they are unlikely to continue for long after the baby-boom generation begins retiring in 2008. Preventing a resurgence of large deficits after that time will prove very difficult.

MOST RECENT DEVELOPMENTS

In FY1999 the amount of federal debt held by the public (that is, outside of federal government accounts) was reduced from $3721.6 billion to 3633.3 billion, or by 2.4%. It was reduced from 44.3% to 39.9% of GDP. Projections indicate substantial further debt reduction in FY2000 that could continue in subsequent years in the absence of major changes in budget policies.

The existence of sizeable budget surpluses, however, has launched vigorous debate about how to divide them between debt reduction, tax cuts and spending increases. Both political parties agree in principle that amounts equal to the surpluses of Social Security — projected to reach about $1.9 trillion from FY2000 through FY2009 — should be reserved for debt reduction, at least until measures to restore the long-term financial soundness of Social Security are agreed on.

Budget action for FY2000 produced no substantial cuts in revenues, after President Clinton vetoed a large tax cut, but spending was authorized that will exceed the previously set limit by some $37 billion, cutting into this year's budget surplus and increasing doubt that spending will be held below the limits for future years.

BACKGROUND AND ANALYSIS

The significance of the federal debt and interest payments on it may be gauged against the size of the national economy that generates revenues to finance the government, that is, as percentages of the gross domestic product (GDP). During World War II, the federal government relied heavily on borrowing to mobilize resources for the war effort. Federal debt held by the public (i.e., outside of government accounts) rose from 44% of GDP in 1940 to 109% in 1946. During the postwar period until 1975, GDP grew faster than the federal debt, in part because of inflation. The value of publicly held federal securities fell from 109% of GDP in 1946 to 24% in 1974 and then drifted upward to 26% in 1981. (For data on the inflation-adjusted value of the debt and on the government's net debt and net worth after allowing for its assets, see Robert Eisner, *How Real is the Federal Deficit?* 1986.)

Interest rates were very low after the Great Depression and were held throughout World War II at less than 1.5% by the Federal Reserve. Rates rose after the Federal Reserve, in 1951, ended its commitment to hold them at wartime levels and then rose much further from 1965 through 1981, as inflation accelerated. Interest payments became a substantial item in the federal budget, amounting to 10% of outlays in 1981.

From 1982 to 1997 the federal debt soared, and interest rates remained high relative to inflation. The value of publicly held federal securities (those held outside of federal government accounts) increased from $785 billion at the end of FY1981 to $3,771 billion at the end of FY1997, a compound rate of increase of about 10% annually. In FY1998 this debt was reduced by $49.5 billion to $3,721.6 billion, and in FY1999 by $88.3 billion to $3,633.3 billion. (Federal debt is not reduced by the full amount of unified budget surpluses because

parts of the surpluses are used to acquire assets under federal lending programs and to raise cash balances.) About $1,973 billion were held by government accounts at the end of FY1999.

After stabilizing at about 41% of GDP from FY1987 to FY1989, federal debt held outside of federal government accounts rose to 50% by FY1993 and stabilized again at that level. The percentage is stable when the national debt grows at the same pace as nominal GDP. The small deficit of FY1997, together with rapid growth of GDP, reduced the debt held by the public to 47.3% of GDP, and subsequent surpluses have brought it down to 39.9%. If the budget remains in balance or surplus or even shows small deficits, these percentages will continue to fall. If CBO's baseline projections were to be fulfilled through FY2001, the debt would fall to less than 35% of GDP. Revised baseline projections will be released in January 2000 taking account of legislation passed since mid-1999 as well as of recent strong economic growth.

Historical data on federal outlays, receipts and deficits and on federal debt and net interest payments, as well as projections for FY2000 through FY2003, are shown in the Statistical Appendix to this issue brief. The deficit reached a post-World-War-II record as a percent of GDP (6.1%) in FY1983 and a record dollar level ($290 billion) in FY1992. It declined from the latter amount for 5 straight years, benefitting from tax increases, spending cuts, and a consistently strong economy. A continuing surge in revenues yielded surpluses of $69 billion (0.8% of GDP) in FY1998 and$123 billion (1.3%) in FY1999. Net interest payments rose from 10% of outlays in FY1981 to more than 15% from FY1995 through FY1997 but subsided to 13.5% in FY1999 and under CBO's projections would continue to decline to 11.9% in FY2001.

Old and New Ideas on the "Burden of the Debt"

In the early postwar period many economists held that the national debt incurred during the Great Depression and World War II imposed no burden on the economy at large, "because we owe it to ourselves;" the claims of bondholders and the obligations of taxpayers offset each other in the national balance sheet. The real cost of government services, they contended, is paid in terms of foregone alternative uses of the resources devoted to government activities when they occur. These resources cannot be consumed or invested in the private sector.

Soon this analysis was extended to encompass the effects of public borrowing on investment and hence on economic growth and future income levels. Increasing deficits at times of high unemployment and unused production capacity can cushion downturns and foster recovery of production and investment, thus enhancing living standards. They put to work resources left idle by the private sector. Such was the case for rising deficits in 1975-76, in 1982-83 and in 1991-92.

On the other hand, at times of low unemployment and high capacity utilization, government borrowing in excess of the optimal rate of government net investment preempts higher-yielding private-sector investments in competition for scarce funds and resources. By boosting interest rates and slowing private capital formation, it hampers the growth of productivity and living standards. This occurred in the late 1980s, years of relatively full use

of production capacity, rising interest rates, and accelerating inflation. This effect of excessive debt financing on living standards constitutes a shift of the cost of such debt to future generations. Except for rising inflation, these conditions returned in 1994, although the deficit since then has shrunk and turned to surplus.

When surpluses replace deficits, government no longer dips into the pool of new saving but rather adds to it, tending to ease pressure on interest rates. If federal debt outstanding, however, were only 26% of GDP, as it was in 1980, instead of today's 40%, interest rates would be somewhat lower still. Government deficits and the resulting debt outstanding result in burdens on all borrowers. If larger than optimal government borrowing or debt keeps interest rates and other returns to capital higher than otherwise throughout the economy, it exacts higher payments from all users of funds to providers of funds.

Increased debt can hamper the ability of future generations to finance their government even after deficits decline. If interest payments claim an increased share of federal revenue and GDP, taxes have to be higher and/or government services reduced to make payments to bondholders, involving a transfer of costs from the period of excessive deficits to the future.

Finally, it is not true that we owe it all to ourselves. About 38% of outstanding federal securities are now held directly by foreign and international holders, official and private. Furthermore, higher investment returns caused by government borrowing and low private saving draw foreign capital into many other types of U.S. assets. Although Americans invested more abroad from about 1920 until 1982 than foreigners invested in the United States, the balance since then has been reversed. As the United States became a persistently large capital importer, the balance of investment income, long a positive component of the U.S. balance of payments, declined and turned negative in 1998 for the first time since about 1930.

The following section deals with the effect of the rise in federal debt on the distribution of income among lenders, taxpayers and other users of funds. Then attention turns to the significance of foreign capital in funding the federal deficit and in supplying U.S. credit markets in general. Finally, the effect of an enlarged federal debt on the welfare of future generations is examined.

Who Lends to the Government, and Who Pays?

At the end of 1998 nearly 11% of the total value of U.S. government debt held outside of government accounts and the Federal Reserve System were held directly by U.S. individuals. Nearly 8% were held by commercial banks in the United States, including U.S. operations of foreign-owned banks. Some 20% were accounted for by insurance companies and by state and local governments (largely by their pension funds). More than 24% of the outstanding federal securities were in the hands of a mixture of other domestic holders including corporations and corporate pension funds, money market funds, savings and loan associations, nonprofit institutions, securities dealers, and others.

Thirty-eight percent of federal securities outside of government accounts and the Federal Reserve were owned by foreign holders, official and private, and by international institutions. From 1981 to mid-1994 this foreign share fluctuated between 15% and 20%, but in barely 3

years it rose steadily to more than 35%, due in part to purchases of dollars by foreign central banks and investment of these dollars in Treasury securities. (U.S. Department of Treasury, *Treasury Bulletin*, March 1999, p 51, table OFS -2.)

The ownership of new financial wealth, on which returns are higher than otherwise because of the heavy federal borrowing of the last 15 years, is very concentrated in the upper-income classes; holdings of pre-existing wealth, the value of which is lower than otherwise because of these higher returns, are likewise concentrated. (See further discussion of asset values on p. 6 below. For data on concentration of financial assets, see *Federal Reserve Bulletin*, January 1997: 1 ff.) Younger middle-income households incur a disproportionately large share of the debt-service obligations of the household sector, the burden of which is increased by the enlarged federal debt, while upper-income and older households receive a disproportionate share of the income from capital, which is increased as a result of the larger debt.

What is the effect of the larger federal debt on payments from borrowers to lenders? One must distinguish between interest payments on the debt and repayments of principal. Despite current baseline projections of large budget surpluses, changes in tax and spending policies or in the economy's performance may require much of the debt to be refinanced indefinitely, and interest must be paid so long as the debt remains outstanding. One must also expand the focus of the analysis to consider effects of federal debt on the economy at large.

Servicing the Federal Debt

Just as total consumer and corporate debt normally grows with the economy, the federal government's debt also can do so without increasing the burden it imposes. As part of the outstanding stock of financial instruments, it becomes a component of private-sector wealth. Part of the debt is being repaid as long as the unified federal budget (including off-budget accounts) remains in surplus.

From 1981 through 1993, however, federal debt grew faster than the economy. As it became a larger share of GDP, taxpayers and beneficiaries of federal spending programs were required to sacrifice to accommodate interest payments taking larger shares of federal outlays. Net interest payments rose, in fact, from 9% of federal outlays in FY1980 to 15% in FY1995 and remained about 13.5% in FY1999.

These interest obligations require higher taxes than would otherwise be necessary and preempt other outlays, affecting would-be recipients who range from Medicare and Medicaid doctors, hospitals and patients to farmers, federal workers, defense contractors and others. The increase in federal debt has been incurred for the benefit of these and other groups, but to the extent that annual deficits exceeded net federal investment spending that increased future wherewithal, these groups now face further sacrifices to bring the debt and interest payments back down.

The spending cuts of FY1996 and spending limits of the Balanced Budget Act of 1997 imposed some of these sacrifices by restraining spending. If the budget remains in surplus, however, as the CBO now projects under current fiscal policies, interest outlays would decline from 13.5% of outlays this year to 3.1% by FY2009. Even if potential surpluses are eliminated through additional spending or tax cuts, leaving the budget roughly balanced,

interest outlays could decline to about 9% of outlays by FY2009, because the debt would remain roughly constant while outlays continued to grow.

Effects on Other Lending

Heavy flotations of government securities hold down securities prices, making interest rates higher than they otherwise would be. By holding rates up, the swollen national debt not only raises the government's interest costs but also those of other newly issued loans. Interest rates on outstanding adjustable-rate loans also are affected as well as yields on other newly issued assets, such as corporate stock. A decline in the prominence of federal borrowing, however, is now reducing its impact on interest rates.

How Much Are Interest Rates Affected?

Interest rates in the United States rose sharply in response to tight monetary policies in 1980, even before the development of federal deficits exceeding $100 billion per year in FY1982 and after. Yet real rates (i.e., net of expected inflation) remained at historically high levels throughout the 1980s despite a relaxation of monetary restraint. Private as well as government borrowing was rising fast.

After subsiding during the 1990-91 recession and the initially anemic recovery, interest rates rose sharply in 1994 as the economy's growth accelerated and deficits remained large. Rates continue to be high relative to today's low inflation. Risk-free 90-day Treasury bills yield about 5%, while inflation is projected to be less than 3%. Now that the federal budget is in surplus, high real interest rates must be attributed to low private saving, plus large federal refinancing requirements, in conjunction with heavy private-sector demand for capital at this advanced stage of a business-cycle expansion.

The Congressional Budget Office projected in 1995 that eliminating a budget deficit of 3.5% of GDP over 7 years would reduce interest rates by 1 to 2 percentage points and would boost economic growth by about 0.1% of GDP per year (*Economic and Budget Outlook: An Update*, August 1995, pp. 44-45).

Somewhat larger effects of government deficits and debt on long-term bond yields have been estimated by other researchers. (See, for example, the Prudential, *Economic Review*, April 1993, pp. 7-8; also Tanzi, Vito, Fiscal Deficits and Interest Rates in the United States: An Empirical Analysis, 1960-84, *International Monetary Fund Staff Papers*, December 1985: 571-72.) As the federal budget today is in surplus, the benefits referred to above presumably have been realized. Nevertheless, the fact that outstanding federal debt is 41% of GDP instead of 26%, as it was in 1980, makes interest rates higher than they otherwise would be.

Capital inflows from abroad declined during the recession of 1990-91 but have risen dramatically with U.S. economic recovery and expansion. U.S. interest rates rose in 1994 to induce this flow to continue. A vital question is at what interest rates foreign capital will continue its inflow if the U.S. economy remains at high employment while economic growth accelerates in Europe and/or Japan. Unless the gap between investment and saving in the United States is reduced in the meantime, as by moving the federal budget into larger surplus (which would increase saving), the upward pressure on U.S. interest rates could be dramatic.

Effects on Asset Values

Not benefitting borrowers, but offsetting some of the rise in income to lenders and other investors, are the lower values of preexisting long-term fixed-income securities, which would be higher in the absence of the large federal debt. For example, about 10% of the face value of marketable federal securities held by private investors are in the form of bonds with 20 years or more to maturity (see *Treasury Bulletin*, Table FD-5). Although U.S. stock markets have risen remarkably in recent years, prices of common stocks also tend to move inversely with interest rates. Mortgage debt outstanding (now more than $5 trillion) is another large category of long-term security, although some of these loans now bear adjustable interest rates, which avert much of the change in their capital value stemming from interest-rate fluctuations (see *Federal Reserve Bulletin*, Table 1.54).

Significance of Foreign Capital

Between 1981 and 1998, holdings of federal debt securities explicitly by foreign entities and international organizations rose at a compound rate of about 13% per year. Total federal securities outside of U.S. government accounts rose rapidly also, but the share of the total outstanding held directly by foreigners rose from about 21% to 38%. (*Treasury Bulletin*, Table OFS-2.) Most of the rise has occurred since mid-1994, as foreigners and foreign central banks purchased large amounts of dollars.

The capital inflow from abroad, however, flows not only into federal securities but into all types of U.S. assets. From 1981 through 1998, more than three-quarters of the inflow went into assets other than Treasury securities. Direct investment in U.S. companies and real estate accounted for 20%. Purchases of other American securities accounted for 23%, and 29% went into trade credits and other short-term loans to U.S. businesses and banks. About 4% was accounted for by acquisitions of U.S. currency as a store of wealth in countries with unstable local currencies. Although foreigners invested $1.1 trillion in U.S. Treasury securities over those 18 years, they invested $3.7 trillion in other U.S. assets for a total of $4.8 trillion.

Meanwhile Americans purchased nearly $2.7 trillion in foreign assets. Capital inflows from abroad hence exceeded outflows by about $2.1 trillion, reducing the U.S. international investment position accordingly. (U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, v. 79, n. 7 (July 1999), pp. 84-85, table 1, lines 40-69.)

Major creditor countries, including Japan, now have large government deficits relative to GDP. Those countries, unlike ours, however, have private saving rates adequate to finance their private domestic investment and government deficits, plus part of our capital requirements as well. This inflow helps substantially to ease the shortage of resources that would exist in the United States without it and to permit capital formation here to continue at higher rates than otherwise, even though some of the capital belongs to foreigners.

Net inflows of capital are accompanied by transfers of the corresponding real resources from abroad via deficits in trade of goods and services. It is a basic rule of international accounts that net capital inflows are matched by equal current-account deficits. The trade

imbalance has imposed some of the costs of federal budget deficits and low private saving on America's exporting and import-competing industries and their workers as the dollar's exchange rate is supported by the capital inflow, making foreign goods more competitive.

For many years prior to 1982 America's role as the preeminent international lender and investor yielded a growing positive balance of investment income, allowing the nation to import more goods and services than it exported perennially and to pay for them without net foreign borrowing. The balance of investment income declined from $33 billion in 1981 to -$12 billion in 1998, turning negative for the first time in close to 70 years, as the United States continues to rely heavily on foreign capital. The decline in the balance of investment income must be funded by still larger capital imports and/or matched by a rise in the balance of trade in goods and services. Up to now it has been the former.

If world investors should become unwilling to continue such large purchases of U.S. assets at prevailing interest and exchange rates, then interest rates would rise and/or the dollar's exchange rate fall. This possibility has been of concern recently as the economies of Japan and Europe are resuming faster growth. Meanwhile the U.S. current-account (trade) deficit remains very large. Sooner or later the dollar's exchange rate will fall to levels at which American industries can generate smaller trade deficits together with smaller capital imports. It may ultimately have to fall to levels at which they even can produce surpluses in competition with other nations producers. This process would require large adjustments in production patterns both for the United States and for our major trading partners.

While an exchange rate that is lower (after allowance for inflation) would benefit U.S. exporting and import-competing industries, it also would mean a deterioration in America's terms of trade; that is, an exchange of more American dollars (and hence goods and services) for any amount of foreign currency (any basket of foreign goods and services). In turn, this means more U.S. resources and more work of American labor and capital would be traded for a given amount of imports. Thus, as today's deficit in international trade ultimately declines, or even turns to a surplus, American consumers will have fewer goods and services at their disposal at higher prices. To pay for today's capital inflows, tomorrow's economy will have to ship more abroad in exchange for fewer foreign products. These payments will be a consequence in part of heavy federal borrowing from 1982 and 1997.

Effects on Future Living Standards

In addition to such potential effects on the terms of trade, the effect of debt financing on future Americans has been exerted by slowing the modernization and expansion of the private capital stock, holding back growth of productivity and hence of living standards. This occurred when government used resources that otherwise would have been invested in productive capital (including human capital) and used them in ways that did not enhance productive capacity; for instance, by boosting the consumption of the nonworking population via transfer payments, by purchasing unneeded military equipment, or by spending on investment-type projects with low returns. The same goes for revenue-losing tax preferences that induced economically inefficient private-sector activity.

Under what conditions federal borrowing crowds out private activity is a hotly debated topic. If rising deficits augment demand in an underemployed economy, boosting real income

and employment, they may stimulate private investment that otherwise would not take place. This is sometimes referred to as "crowding in." In this case, rising government deficits increase capital stock and enhance future productivity. With a few exceptions, large deficits before 1980 occurred in association with recessions.

Prior to 1980, under circumstances of business expansion, when private investment was on the upswing, government borrowing normally was reduced because of rising tax revenues and falling income-support payments. The effect on revenues has been weakened since the mid-1980s by adjustment of tax brackets, the personal exemption and the standard deduction to offset the effect of inflation.

Because federal deficits remained large in the 1980s even when the economy was close to full employment, government resource demands displaced sizable amounts of private investment on net, even though the squeeze was eased by large inflows of foreign capital. As the economy's expansion reached its 1980s peak, in fact, gross private domestic investment, instead of increasing as a share of GDP, declined steadily toward recession levels below 16% of GDP and fell to a low of about 12.5% in 1991 and 1992 that had not been seen since the 1930s. It barely exceeded 16% in 1998, the eighth year of the 1990s business expansion, although business equipment investment was stronger than these overall figures suggest.

Steep rises in interest rates as the economy approached full employment in 1994 signified substantial crowding out again. Rising federal revenues since then, due to higher tax rates, steady economic growth and booming securities markets, nearly eliminated the federal deficit in FY1997 and almost eliminated net new federal demands on credit markets. In FY1998 the federal government, with its first surplus since 1969, channeled $49.5 billion in surplus revenues into credit markets, as federal debt held by the public was reduced by that amount. In FY1999 it channeled another $88.3 billion into those markets.

Less up-to-date capital per worker in production processes, which prolonged displacement of investment signified, means lower output per labor hour. Scarcer capital relative to labor implies higher real returns to capital and lower real wages than would have been the case with lower deficits and more investment. In sum, government spending on consumption-enhancing programs or on investments with low cost-effectiveness, at times when idle resources were scarce, retarded economic development.

In fact, average inflation-adjusted compensation per hour, including benefits, of all persons employed in the private business sector was slightly lower in 1996 than it had been in 1988 before the last recession, according to the Bureau of Labor Statistics. It was only 7% higher than 15 years earlier in 1981. Since the end of 1996, with the advent of full employment, real compensation has advanced more steadily.

Of course, government itself invests in productive capital such as roads, airports, waterways, air traffic control systems, electric power generation, defense equipment, recreation facilities, public health, research and education. Government should make all investments that promise to yield social benefits as large as or larger than the social benefits of marginal private-sector investments. Borrowing is justified to cover the optimal net increase in government capital stock after paying to replace depreciation of government capital from current revenues. This approach would require a so-called capital budget.

Investment by the federal government in civilian infrastructure, R&D, education and training was cut back sharply in the early 1980s in favor of military spending, plus tax cuts and entitlement growth, which fostered mainly consumption. Federal nonmilitary investment has barely regained its levels of 1980 in purchasing-power terms (see *Budget of the United States Government, FY2000 — Historical Tables, p. 145, table 9.1).*

Even if heavy government borrowing has curtailed the nation's living standards, Americans nevertheless have gradually increasing living standards. For the past 25 years, however, the growth in average living standards has been insufficient to raise by much the economic welfare of the lower two-thirds of the income distribution; the gains have gone mainly to the top third. With today's full employment, this is now changing. Whether today's population should sacrifice to raise living standards for future generations of Americans above what they otherwise would be involves a value judgment to be decided in the political process.

Statistical Appendix. Federal Outlays, Receipts and Deficits/Surpluses FY1980-FY1999 and Projections through FY2003

Fiscal Year	Outlays		Receipts		Deficit or Surplus	
	$ Billions	% of GDP	$ Billions	% of GDP	$ Billions	% of GDP
2003 (proj.)	1,869	17.8	2,116	20.2	247	2.4
2002 (proj.)	1,798	17.9	2,045	20.3	246	2.5
2001 (proj.)	1,777	18.4	1,970	20.4	193	2.0
2000 (proj.)	1,744	18.8	1,905	20.6	161	1.7
1999	1,704.5	18.7	1827.3	20.0	122.7	1.3
1998	1,652.2	19.7	1,721.5	20.5	69.2	0.8
1997	1,601.2	20.1	1,579.3	19.8	-21.9	-0.3
1996	1,560.5	20.7	1,453.1	19.3	-107.4	-1.4
1995	1,515.7	21.1	1,351.8	18.8	-163.9	-2.3
1994	1,461.7	21.3	1,258.6	18.4	-203.1	-3.0
1993	1,409.4	21.8	1,154.4	17.8	-255.0	-3.9
1992	1,381.7	22.5	1,091.3	17.8	-290.4	-4.7
1991	1,324.4	22.6	1,055.0	18.0	-269.4	-4.6
1990	1,253.2	22.1	1,032.0	18.2	-221.2	-3.9
1989	1,143.7	21.4	991.2	18.5	-152.5	-2.8
1988	1,064.5	21.5	909.3	18.4	-155.2	-3.1
1987	1,004.1	21.8	854.4	18.6	-149.8	-3.3
1986	990.5	22.7	769.2	17.6	-221.2	-5.1
1985	946.4	23.0	734.1	17.9	-212.3	-5.2
1984	851.9	22.3	666.5	17.5	-185.4	-4.9
1983	808.4	23.6	600.6	17.6	-207.8	-6.1
1982	745.8	23.2	617.8	19.2	-128.0	-4.0
1981	678.2	22.2	599.3	19.7	-79.0	-2.6
1980	590.9	21.7	517.1	19.0	-73.8	-2.7

Sources: For historical data see Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2000 — Historical Tables*, Washington, Feb. 1998, tables 1.1 and 1.2. For FY1998 and FY1999 see U.S. Govt Print. Off., *Economic Indicators*, October 1999, p 32. For future projections, see Congressional Budget Office, *The Economic and Budget Outlook: An Update*, Washington, July 1, 1999, p. 16, table 7.

Note: Projections do not take account of legislation or of economic developments since mid-1999.

Statistical Appendix. Federal Debt and Interest Outlays FY1980-FY1999 and Projections through FY2003

Fiscal Year	Federal Debt				Net Interest Outlays		
	Gross Debt		Debt Held by the Public				
	$ Billions	% of GDP	$ Billions	% of GDP	$ Billions	% of Budget Outlays	% of GDP
2003 (proj.)	5,760	56.1	2,835	27.1	179	9.6	1.7
2002 (proj)	5,737	58.3	3,066	30.5	194	10.8	1.9
2001 (proj.)	5,721	60.6	3,297	34.2	212	11.9	2.2
2000 (proj.)	5,664	62.3	3,473	37.5	222	12.7	2.4
1999	5606.5	61.5	3633.3	39.9	230.3	13.5	2.5
1998	5,478.7	65.2	3,721.6	44.3	243.4	14.7	2.9
1997	5,369.7	67.4	3,771.1	47.3	244.0	15.2	3.1
1996	5,181.9	68.8	3,733.0	49.6	241.1	15.4	3.2
1995	4,921.0	68.4	3,603.4	50.1	232.2	15.3	3.2
1994	4,643.7	67.8	3,432.1	50.1	203.0	13.9	3.0
1993	4,351.4	67.2	3,247.5	50.2	198.8	14.1	3.1
1992	4,002.1	65.1	2,998.8	48.8	199.4	14.4	3.2
1991	3,598.5	61.4	2,688.1	45.9	194.5	14.7	3.3
1990	3,206.6	56.4	2,410.7	42.4	184.2	14.7	3.2
1989	2,868.0	53.6	2,189.9	40.9	169.3	14.8	3.2
1988	2,601.3	52.5	2,050.8	41.4	151.8	14.3	3.1
1987	2,346.1	50.9	1,888.7	41.0	138.7	13.8	3.0
1986	2,120.6	48.5	1,736.7	39.7	136.0	13.7	3.1
1985	1,817.5	44.3	1,499.9	36.6	129.5	13.7	3.2
1984	1,564.7	41.0	1,300.5	34.1	111.1	13.0	2.9
1983	1,371.7	40.1	1,131.6	33.1	89.8	11.1	2.6
1982	1,137.3	35.4	919.8	28.6	85.0	11.4	2.6
1981	994.8	32.6	785.3	25.8	68.8	10.1	2.3
1980	909.1	33.4	709.8	26.1	52.5	8.9	1.9

Sources: For historical data see *Budget of the United States Government: Fiscal Year 2000 — Historical Tables*, Washington, February 1999, table 7.1 and table 3.1. For FY1998 and FY1999, see U.S. Govt. Print. Off., *Economic Indicators*, p 32-33. For projections see Congressional Budget Office, *The Economic and Budget Outlook: An Update*, Washington, July 1, 1999, p. 16, table 7, and p 19, table 10.

FOR ADDITIONAL READING

Eisner, Robert. *How Real is the Federal Deficit?* New York, The Free Press, 1986. 240 p.

Executive Office of the President. Office of Management and Budget. *Budget of the United States Government*: *Fiscal Year 2000*. Washington, Govt. Print. Off., February 1999, in six volumes, including Budget, A Citizen's Guide to the Federal Budget, Analytical Perspectives, Historical Tables, The Budget System and Concepts, and Appendix.

U.S. Congressional Budget Office. *The Economic and Budget Outlook: Fiscal Years 2000-2009,* January 1999, 155 p.

—— *An Analysis of the President's Budgetary Proposals for Fiscal Year 2000,* April 1999.

—— *The Economic and Budget Outlook: An Update*, July 1999.

CRS Issue Briefs

CRS Issue Brief IB10017. *The Budget for Fiscal Year 2000*, by Philip D. Winters. (Updated regularly.)

CRS Reports

CRS Report RL30200. *Appropriations for FY2000: An Overview*, by Mary Frances Bley.

CRS Report 97-931. *Budget Enforcement Act of 1997: Summary and Legislative History*, by Robert Keith.

CRS Report 98-96. *Budget Surpluses: Economic Effects of Using Them for Debt Repayment, Tax Cuts, or Spending — An Overview*, by William Cox.

CRS Report 96-256. *A Capital Budget for the Federal Government: Economic Issues*, by Dennis Zimmerman.

CRS Report RL30199. *Budget FY2000: A Chronology with Internet Access*, by Susan E. Watkins.

CRS Report 98-833. *Social Security: Economic and Financial Issues Concerning Current Operations and Reform Proposals*, by William A. Cox.

CRS Report 98-97. *The Budget Enforcement Act: Fact Sheet on Its Operation under a Budget Surplus*, by James V. Saturno.