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INSIGHT

Structure of Federal Debt and Extraordinary Measures

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Structure of Federal Debt

Federal debt is the accumulated sum of unrepaid borrowing by the federal government over time, and to a lesser extent, the value of federal loan disbursements net of repayments. The total federal debt consists of debt held by the public and intragovernmental debt. Debt owed to the public represents borrowing from entities other than the federal government, and includes borrowing from state and local governments, foreign governments and investors, the Federal Reserve System, and foreign central banks, as well as private investors in the United States.

Figure 1 provides a breakdown of publicly held debt. As of December 31, 2022, total federal debt outstanding was $31,420 billion, debt held by the public was $24,528 billion, and intragovernmental debt was $6,902 billion.

Data were drawn from the U.S. Department of the Treasury's *Monthly Statement of the Public Debt* for December 2022. On January 19, 2023, Treasury Secretary Janet Yellen invoked authorities to employ extraordinary measures that allow resources of certain intragovernmental accounts to be used to meet federal obligations to avoid exceeding the statutory limit on federal debt. The *Monthly Statement of the Public Debt* for December 2022 is, therefore, the last issue before the use of extraordinary measures.

Federal debt has risen considerably since FY2001, the last fiscal year in which the U.S. government ran a surplus. At the end of FY2001, gross federal debt stood at $5.8 trillion, about 55% of gross domestic product (GDP). Since mid-January 2023, when extraordinary measures were deployed, federal debt has been held just below its statutory limit of $31.381 trillion, about 120% of GDP. Debt held by the public, the more relevant macroeconomic measure, was 94% of GDP.

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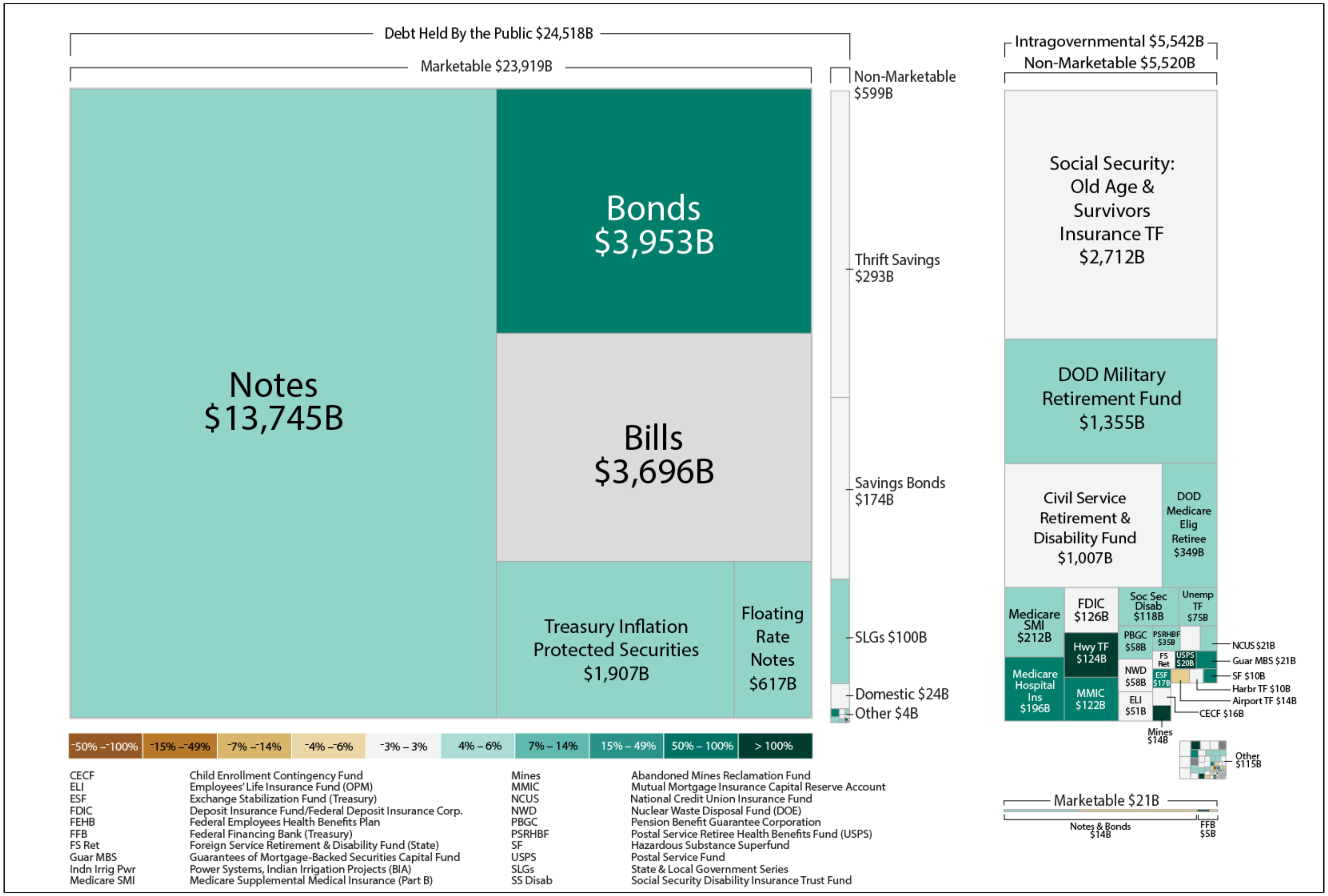
Figure 1. Federal Debt at the End of December 2022, $Billions



Source: Areas are proportionate to amounts of debt outstanding. Blue/green areas have increased since December 2019; tan/brown areas have decreased. Treasury bills mature in one year or less. Notes have maturities of 1 to 10 years. Bonds have maturities over 10 years. Savings Bonds item includes other savings securities.

Notes: CRS calculations based on U.S. Treasury data, https://fiscaldata.treasury.gov/static-data/published-reports/mspd-entire/MonthlyStatementPublicDebt_Entire_202212.xls.

Debt service costs, however, had been mitigated by a long-term decline in interest rates since the mid-1980s. How long recent interest rate increases—which added an estimated $2.5 trillion in debt service costs over the next decade—will persist is an important macroeconomic question.

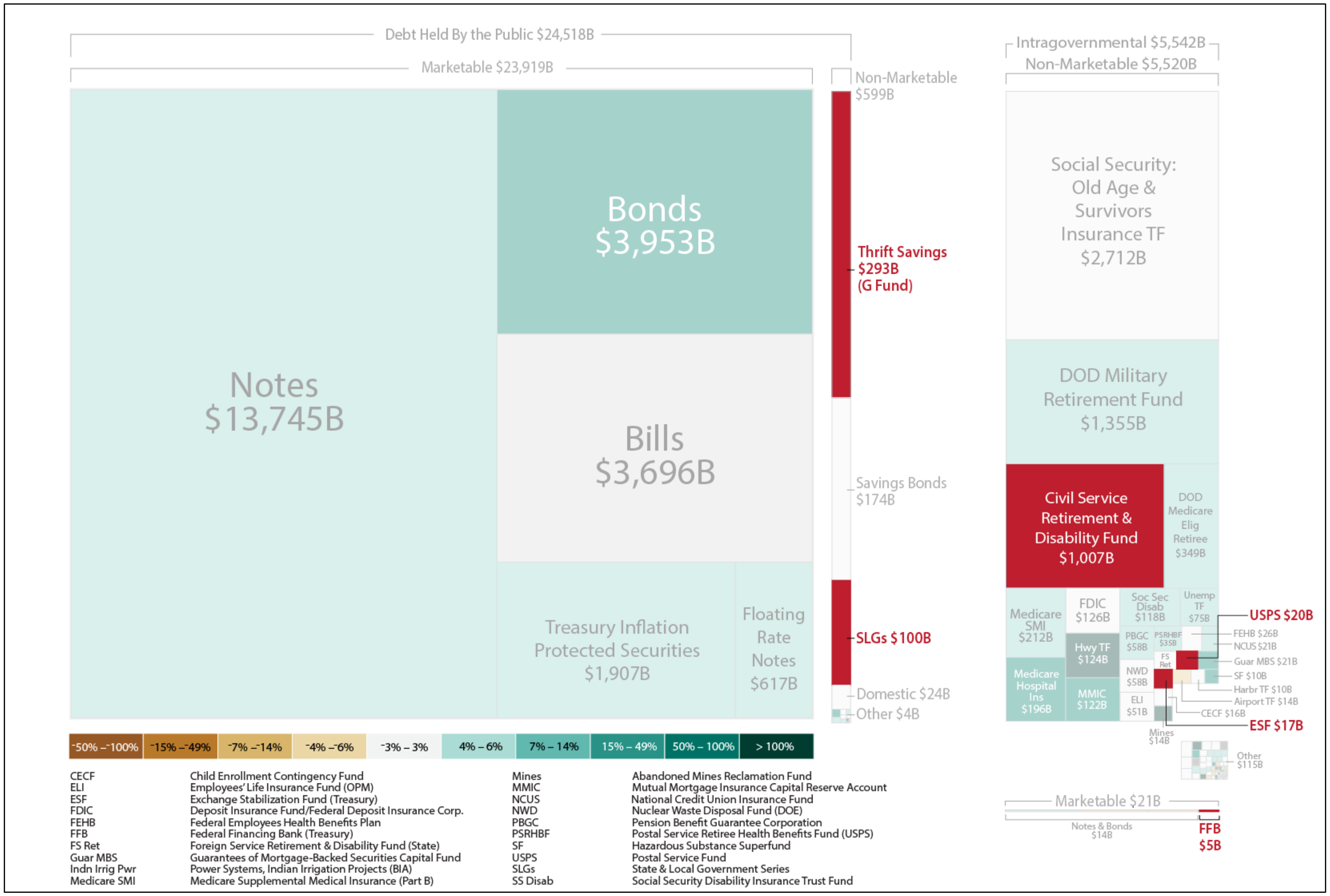
The bulk of debt held by the public is in the form of marketable securities, including Treasury bills, notes, and bonds, that can be freely traded in capital markets. U.S. savings bonds are an example of nonmarketable federal debt held by the public.

Nearly all intragovernmental debt is nonmarketable and held in various federal trust funds or special funds. In general, those funds hold special Treasury securities issued in exchange for revenues earmarked for those accounts and which can be redeemed for cash to cover outlays for programs associated with those funds. Debt held by the Federal Financing Bank (FFB), which had served as a liaison between the U.S. Treasury and government-sponsored enterprises, is an example of the small proportion of marketable intragovernmental debt.

Federal Funds and Extraordinary Measures

The Treasury Secretary can invoke authorities to use resources of certain federal civilian and postal service retirement funds to meet federal obligations when necessary to avoid exceeding the statutory debt limit. As noted above, Treasury Secretary Yellen invoked statutory authorities by declaring a debt issuance suspension period (DISP) in mid-January 2023. The Treasury Secretary also has authorities or discretion to use resources from certain other funds. **Figure 2** highlights the funds that may be used in extraordinary measures during a debt limit episode.

Figure 2. Funds Associated with Extraordinary Measures, December 2022, $Billions



Source: CRS calculations based on U.S. Treasury data.

Notes: Areas are proportionate to amounts of debt outstanding. Areas in red indicate funds that may be used in extraordinary measures during debt limit episodes.

Once the Treasury Secretary declares a DISP, she may defer investments in the Civil Service Retirement and Disability Fund (CSRDF) Federal Employees' Retirement System and need not roll over maturing securities held by the fund (5 U.S.C. §8348(j)). CSRDF supports both an older retirement scheme (Civil Service Retirement System; CSRS) and the retirement system that now covers most federal civilian employees (Federal Employees' Retirement System; FERS). The Thrift Savings Plan (TSP), one component of FERS, includes a G-Fund that holds Treasury securities. The Treasury Secretary can use G-Fund resources to meet federal obligations during a DISP. The Treasury Secretary can also redeem some CSRDF securities before maturity, but that is limited by the length of the DISP and by the pace of benefits payments (5 U.S.C. §8348(k)).

Parallel authorities exist for the newer and smaller Postal Service Retiree Health Benefits Fund (PSRHBF; 5 U.S.C. §8909a(c)). PSRHBF was created in 2006 in order to prefund retirement costs of the U.S. Postal Service. Once a debt limit episode is resolved, the Treasury Secretary is mandated to make those funds whole (5 U.S.C. §8348(j)(3)) and must report to Congress on how extraordinary measures were employed (5 U.S.C. §8348(k)). No authorities are provided to tap Social Security or military retirement funds for extraordinary measures during debt limit episodes.

The Treasury Secretary has broad authorities over the Exchange Stabilization Fund (ESF) and can therefore use U.S. dollar balances of the ESF to meet federal obligations. The State and Local Government Series (SLGS) are securities issued to subnational governments as one means of complying with a federal prohibition on gaining arbitrage profits from proceeds of tax-exempt municipal securities. Treasury Secretaries have typically halted issuance of SLGS a few days before a DISP is declared. In some previous debt limit episodes, swaps of assets with the FFB have been used to increase Treasury's headroom under the main debt limit.

Extraordinary measures extend Treasury's ability to meet federal obligations during a debt limit episode. Treasury cash balances, borrowing authority, and resources available via extraordinary measures, however, will eventually be exhausted when federal outlays outpace federal receipts, absent legislation to modify the debt limit. Recent data showing individual tax receipts falling short of last year's levels by about a third have led to concerns that Treasury's resources could fall to critical levels in early June 2023 (see Alec Phillips and Tim Krupa, "Tax Collections Weaken Again, Odds of a June Debt Limit Deadline Edge Up," Goldman Sachs US Global Macro Economics Research brief, April 21, 2023, available to congressional clients upon request).

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