

Official Debt and Public Debt

Source: <http://sci.tech-archive.net/Archive/sci.econ/2005-08/msg00306.html>

- *From:* William F Hummel <wfhummel@xxxxxxxxxxx>
 - *Date:* Tue, 23 Aug 2005 08:13:37 -0700
-

Official Debt and Public Debt

Congress has divided government spending into two classes, depending on whether it is accounted for on-budget or off-budget. Most spending, including interest paid on the debt, is on-budget. Spending on programs with dedicated taxes is considered off-budget, the largest being Social Security. The term unified budget refers to the combined on-budget and off-budget items. The unqualified terms, budget deficit or budget surplus, refer to the unified budget.

Accounting Systems for Federal Debt

The budget deficit is the difference between total government spending and total tax revenues. The difference is covered by the sale of Treasury securities to the public: bills, notes and bonds. The cumulative total of Treasury securities held by the public is the public debt. This is the debt on which real interest payments must be made. The public debt may therefore be regarded as the real debt.

The official debt is the public debt plus what the Treasury owes to government trust funds like the Social Security Trust Fund. That trust fund has been growing because the inflow from FICA taxes plus the interest credited on the trust fund bonds exceeds the outflow for Social Security benefit payments.

How Off-Budget Programs Affect the Debt

Any spending by the government not covered by tax revenues is financed out of receipts from debt securities sold by the Treasury to the public. That means the increase in public debt is the net deficit from both on-budget and off-budget spending.

However the official debt is not affected by off-budget spending if there is a positive balance in the off-budget accounts. The official debt rises or falls depending only on the on-budget imbalance. To understand why this is so, consider the following:

Assume an on-budget balance, and determine the effect of an off-budget surplus. That surplus will increase the intra-government debt in the

Official Debt and Public Debt

form of special purpose bonds which the Treasury issues to the appropriate trust funds. Since the Treasury has no other use for funds received, the funds will be spent to redeem some public debt. Thus the increase in intra-government debt will be balanced by an equal decrease in the public debt, leaving the official debt unchanged.

Conversely, an off-budget deficit will draw down intra-government debt. With no other source of funds, the Treasury must borrow from the public to redeem trust fund bonds as required to cover the off-budget deficit. Thus the increase in public debt will be balanced by an equal decrease in intra-government debt, again leaving the official debt unchanged.

We have assumed here that all trust funds have positive balances. However when a trust fund is depleted, any further payments on that program can no longer be covered by drawing on the fund. In that case an off-budget deficit will cause an increasing official debt as the Treasury borrows from the public to cover the payments.

The Brief Period of Budget Surplus

For many years prior to 1997, the deficit in the on-budget programs was far larger than the surplus in the off-budget programs. That meant the unified budget was at times in substantial deficit, which was covered by the sale of Treasury bonds to the public.

As the economy improved in the late 1990s, the on-budget programs moved into near budget balance. With the continued surplus in the off-budget programs, the unified budget thus moved into surplus. That allowed some of the Treasury debt to be retired. The recession of 2001 again moved the on-budget programs into large enough deficit to result in unified budget deficit, which is now growing at an unprecedented rate.

William F Hummel

<http://wfhummel.net/officialdebt.html>

-
- Prev by Date: [*Questions on the Economist's article: "The not-so-incredible shrinking deficit"*](#)
 - Next by Date: [*Re: Questions on the Economist's article: "The not-so-incredible shrinking deficit"*](#)
 - Previous by thread: [*Questions on the Economist's article: "The not-so-incredible shrinking deficit"*](#)
 - Next by thread: [*Why study general equilibrium models of perfect competition?*](#)
 - Index(es):
 - ◆ [*Date*](#)
 - ◆ [*Thread*](#)