NEED TO KNOW

AMERICANS FOR PROSPERITY FOUNDATION

THE COST OF SERVICING THE FEDERAL DEBT

Nearly every year the federal government spends more money than it takes in. To make up the difference from this budgetary imbalance, they must borrow from others by issuing treasury securities. Over the course of the last decade, the federal government has recorded huge budget deficits, including four straight trillion dollar shortfalls in fiscal years 2009, 2010, 2011, and 2012, and a shortfall projected for 2014 of $514 billion. As government spending continues to increase faster than revenues, America's debt levels will continue to rise.

WHAT IS "DEBT HELD BY THE PUBLIC"?

Federal government debt mainly falls into two categories. Debt held by the public is money owed to individuals and entities outside of the government. Think of it as all the treasury securities sold to individual domestic and foreign investors, state and local governments, and the Federal Reserve. Currently, over 12.6 trillion of the federal government's debts are owned by the public. Intra-governmental debt, on the other hand, is the amount of debt owed from one government account to another, such as the so-called Social Security trust fund – which currently stands at $4.9 trillion.

Combining these two types of debt yields the total national debt, which is currently over $17.6 trillion (roughly the same size as the total value of the United States Economy). It has skyrocketed from just $284 billion in 1960 to well over $17 trillion at the beginning of 2014 (2).

QUICK FACTS

- By 2020, the U.S. will to have to spend nearly $800 billion per year just to make interest payments on our enormous debt.
- As of March 2014 debt was 17.5 trillion--as of June 2016 the debt is 19.3 trillion1 Which is equal to 74% of GDP by the end of 2014, and in 2015 it will be 104.71% of GDP (2).

NOTABLE & QUOTABLE

"Obviously, there has to be a profound change in direction. Otherwise, interest on the national debt will start eating up virtually every penny that we have."

- **Bobby Scott,** Representative (D-VA)

WHO OWNS U.S. DEBT?

As of 2014, foreign countries own $5.8 trillion (more than 40%) of U.S. debt held by the public. The top five foreign debt-holders are: China ($1.27 trillion), Japan ($1.21 trillion), oil exporters like Saudi Arabia and Venezuela (a combined $243 billion), Brazil ($244 billion), and Caribbean banking centers like the Bahamas and the Cayman Islands (a combined $299 billion) (3). Americans will continue to pay billions for interest to foreign countries as our debt grow; this is the cost of borrowing so much from them in the first place.

As the level of federal debt increases, the federal government's interest payments rise as well, a cost ultimately borne by American taxpayers. In 2013, $222 billion was spent on debt service – 6.23% of the total budget (4). Currently, the government's interest payments are being held down by the economy's historically low interest rates. However, as those interest rates increase and the amount of debt increases, the government's interest payments will grow dramatically. The non-partisan Congressional Budget Office predicts that by 2020 interest payments will reach $778 billion per year. As government continues to spend more than it has today, Americans will pay dearly in the future (5).

Interest payments on federal debt tie up billions of dollar's worth of funds that could be spent on other bud- get priorities or, better yet, kept in the more-productive private sector. In fact, the federal government spends more on interest each year than what we spend on several federal departments, including the Departments of Education, Homeland Security, and Veteran's Affairs. The amount of funds used for debt service could also pay for half of the annual cost for Medicare.

Endnotes

1. Debt Clock http://www.usdebtclock.org/ 2 Debt to GDP Comparison
2. http://www.tradingeconomics.com/united-states/government-debt-to-gdp