Insight

Running a Surplus and Increasing the Debt

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During the surpluses of the late 1990's and early 2000's, a curious thing happened: the national debt still went up. In the 1990's, the Federal Government ran four consecutive budget surpluses of $69 billion in 1998, $126 billion in 1999, $236 billion in 2000 and $128 billion in 2001. However, the national debt went up by $109 billion in 1998, $127 billion in 1999, $23 billion in 2000 and $141 billion in 2001.

To understand how that could occur, it's important to understand what exactly is meant by debt and deficit. The national debt is really two separate pools of debt. The first pool is debt held by the public, which is what most people think of when they think of the debt. It's what the government owes the public – individual savers, pension funds, other governments, etc. – for financing government deficits by buying Treasury debt. The second pool of debt is known as intragovernmental debt. This pool of debt is essentially a bookkeeping mechanism that keeps track of what the federal government owes to other programs within the government. The largest example of this is the Social Security Trust Fund. Social Security payroll taxes come in, and Social Security payments go out. Whatever the difference in taxes coming in and payments going out, assuming it is positive as it was in the 90's, gets credited to the Trust Fund. But that credit is a really just a Treasury bond issued from one part of the government to another, hence the term intragovernmental debt.

When the government runs a surplus, it doesn't need to borrow from the public, and the extra cash it takes in from taxes (including payroll taxes) can be used to pay down debt. But that only affects the debt held by the public. Intragovernmental debt can still be growing even as the federal government is running surpluses. That's exactly what happened in the late 1990's and early 2000's. A booming economy increased tax collections including payroll taxes. So, higher tax revenue could pay down some debt, but large excess payroll collections increased credits to the Social Security Trust Fund. Debt held by the public went down by

$51 billion in 1998, $89 billion in 1999, $223 billion in 2000, and $90 billion in 2001. However, intragovernmental debt went up by $160 billion in 1998, $216 billion in 1999, $246 billion in 2000, and $231 billion in 2001. These increases in intergovernmental debt were more than enough to swamp the decreases in debt held by the public over the time, and explain why the overall debt still went up, even while the federal government was running surpluses.