US National Debt And Government Bonds

First established in 1789 by an act of Congress, the United States Department of the Treasury is responsible for federal finances. This department was created to manage the U.S. government's expenditures and revenue, and hence the means by which the state could raise money to function. Here we examine the Treasury's responsibilities and the reasons and means by which it takes on debt.

The Treasury's Responsibilities

The U.S. Treasury is divided into two divisions: departmental offices and operating bureaus. The departments are mainly in charge of policy making and managing the Treasury, while the bureaus' duties are to take care of specific operations. Bureaus such as the Internal Revenue Service (IRS), which is responsible for tax collection, and the Bureau of Engraving and Printing (BEP), in charge of printing and minting all U.S. money, take care of most Treasury work.

The Treasury's primary tasks include:

Collecting taxes and custom duties
Paying all bills owed by the federal government
Printing and minting U.S. notes and U.S. coinage and stamps
Supervising state banks
Enforcing government laws including taxation policies
Advising the government on both national and international economic, financial, monetary, trade and tax legislation
Investigating and federal prosecuting of tax evaders, counterfeiters and/or forgers
Managing federal accounts and the national public debt

The National Debt

A government creates budgets to determine how much it needs to spend to run a nation. Often, however, a government may run a budget deficit by spending more money than it receives in revenues from taxes (including customs duties and stamps). To finance the deficit, governments may seek to raise money by taking on debt, often by borrowing from the public.

The Role of Congress

Up until World War I, the U.S. government needed approval from Congress every time it wanted to borrow money from the public. Congress would determine the number of securities that could be issued, their maturity date and the interest that would be paid on them.

With the Second Liberty Bond Act of 1917, however, the U.S. Treasury was given a debt limit expressed as a number, or a ceiling, of how much it could borrow from the public without seeking Congress's consent. The Treasury was also given the discretion to decide maturity dates, interest rate levels and the type of instruments that would be offered. The total amount of money that can be borrowed by the government without further authorization by Congress is known as the total public debt subject to limit. Any amount above this level has to receive additional approval from the legislative branch. In September 2013 the debt ceiling was $16.699 trillion. When that limit is maxed out by spending and interest obligations, the president must ask Congress to raise the limit again. In 2013, the government shut down over disagreements on raising the debt limit

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Who Owns the Debt?

The debt is sold in the form of securities to both domestic and foreign investors, as well as corporations and other governments. U.S. securities issued include Treasury bills (T-bills), notes and bonds, as well as U.S. savings bonds. There are both short-term and long-term investment options, but short-term T-bills are offered regularly, as well as quarterly notes and bonds.

When the debt instrument has matured, the Treasury can either pay the cash owed (including interest) or issue new securities. Debt instruments issued by the U.S. government are considered to be the safest investments in the world because interest payments do not have to undergo yearly authorization by Congress. In fact, the money the Treasury uses to pay the interest is automatically made available by law.

The public debt is calculated daily. After receiving end-of-day reports from about 50 different sources (such as Federal Reserve Bank branches) regarding the amount of securities sold and redeemed that day, the Treasury calculates the total public debt outstanding, which is released the following morning. It represents the total marketable and non-marketable principal amount of securities outstanding (i.e. not including interest)

War Time

In times of war, a government needs more money to support the effort. To finance its needs, the U.S. government will often issue what are commonly known as war bonds. These bonds appeal to the nation's patriotism to raise money for a war effort.
Following Sept. 11, 2001, Congress passed the U.S.A. Patriot Act. Among other things, it authorized federal agencies to initiate ways to combat global terrorism. To raise money for the "war on terrorism," the U.S. Treasury issued war bonds known as Patriot Bonds. These Series EE savings bonds hold a five-year maturity. The U.S. Treasury has also become a key institution working with financial institutions to draft new policies aimed at battling counterfeiting and money laundering related to terrorism.

Conclusion

The public debt is a liability to the U.S. government, and the Bureau of Public Debt is responsible for the technical aspects of its financing. However, the only way to reduce debt is for the federal budget's expenditures to cease to exceed its revenues. Budget policy lies with the government's legislative branch. Thus, depending on the circumstances at the time of budget formulation, running a deficit may be the country's only choice.