

# **FUNCTION 900: NET INTEREST**

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## **FUNCTION SUMMARY**

Function 900 displays net interest, which is a mandatory payment. There are no discretionary programs in Function 900. Net interest includes interest on the public debt after deducting the interest income received by the federal government.

Interest on the public debt, or gross interest, is the cost of financing the entire public debt of the U.S. government. Gross interest costs, however, are not a comprehensive measure of government borrowing costs because the government holds much of the debt itself, which generates interest income. In 1997, \$1.6 trillion (about 30 percent) of the total public debt was held by the government, mostly by trust funds such as Social Security and federal civilian and military retirement. The government both pays and collects interest on these securities, resulting in no net cost. In addition, the federal government lends money outside the government through credit programs. These activities result in real interest income to the federal government. Since net interest reflects both the interest paid and interest earned by the government, it provides the best measure of the costs of federal borrowing.

In 1998, spending for Function 900 was \$245.1 billion in BA and outlays, which was a 0.4 percent increase over the 1997 spending level. As reflected in the spending summary table, under the freeze baseline, Function 900 will decrease by 8 percent from 1998 to 2003. This is primarily due to expectations of continuing surpluses and declining interest rates.

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### SPENDING SUMMARY (\$ billions)

		1998	1999	2000	2001	2002	2003
Chairman's Mark	BA	245.1	247.2	242.6	236.7	230.4	225.5
	OT	245.1	247.2	242.6	236.7	230.4	225.5
BBA	BA	245.1	247.2	242.8	236.8	230.4	225.1
	OT	245.1	247.2	242.8	236.8	230.4	225.1
Freeze Baseline	BA	245.1	247.2	242.8	236.8	230.4	225.1
	OT	245.1	247.2	242.8	236.8	230.4	225.1
Chairman's Mark compared to:							
BBA	BA	--	-0.1	-0.2	-0.2	-0.1	+0.4
	OT	--	-0.1	-0.2	-0.2	-0.1	+0.4
Freeze Baseline	BA	--	-0.1	-0.2	-0.2	-0.1	+0.4
	OT	--	-0.1	-0.2	-0.2	-0.1	+0.4

### CHAIRMAN'S MARK

The surpluses under the Chairman's Mark are slightly higher than the surpluses under the BBA and the freeze baseline. As a result, the Chairman's Mark proposes to spend \$0.1 billion less on net interest over five years compared with the BBA or a freeze.

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