Our mountain of debt

GRAPHIC BY TODD R. LINDEMAN • INTRODUCTION BY NEIL IRWIN

In the American political conversation, the national debt has become something almost mythical. The debt has become a metaphor for all that ails the United States, a scary monster under the bed.

It isn't. It's an accounting concept.

The debate over deficits and debt is frequently clouded with sloppy language and sloppy thinking. Here, as something of a primer, is an overview of how the nation is faring, as well as some basic concepts every American — and every member of Congress — should understand about the U.S. fiscal situation.

The nation's numbers, in the billions and trillions of dollars, start to get away from us quickly. But the challenge is not unlike any household's juggle to manage its finances. Many Americans take on debt to secure a home or an education. When we take on more debt than we can handle, we're faced with tough choices. And when we fall behind on payments, the costs can pile up quickly.

So let's look at it together:

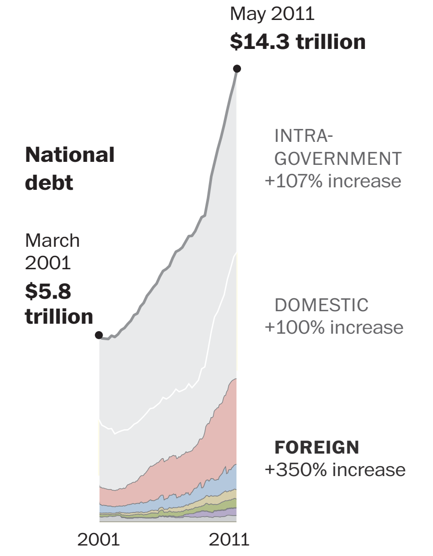
Below: Who owns the nation's debt and what happens if we default?

On G4: We also offer five truths (in a nod to our colleagues in Outlook, with their "five myths") about the deficit and debt.

In Outlook: How the debt-ceiling debate will shape American power and politics.

Buying power

Foreign investors hold the largest share of the national debt. Estimated foreign holdings of U.S. Treasury securities have more than tripled since 2001. Some worry about the geopolitical consequences of foreign governments investing so deeply in U.S. Treasurys. But the investments also tie the fortunes of foreign governments more closely to those of the United States.



Who owns the $14 trillion U.S. national debt?

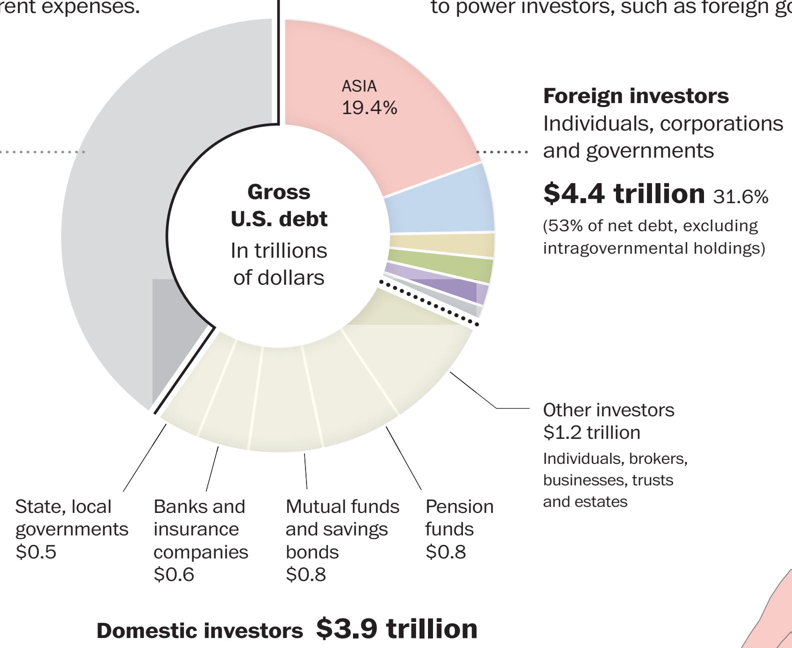
Estimated ownership of U.S. Treasury securities as of December

INTRAGOVERMENTAL AND FEDERAL RESERVE HOLDINGS

The government sometimes borrows from federal trust funds, such as the Medicare Trust Fund or Social Security Fund, to pay for current expenses.

PRIVATELY HELD DEBT

The government also raises money to pay for expenses by selling debt in the form of investment securities — savings bonds, bills, notes and bonds that the Treasury Department issues — to anyone from individuals to power investors, such as foreign governments and dealers.



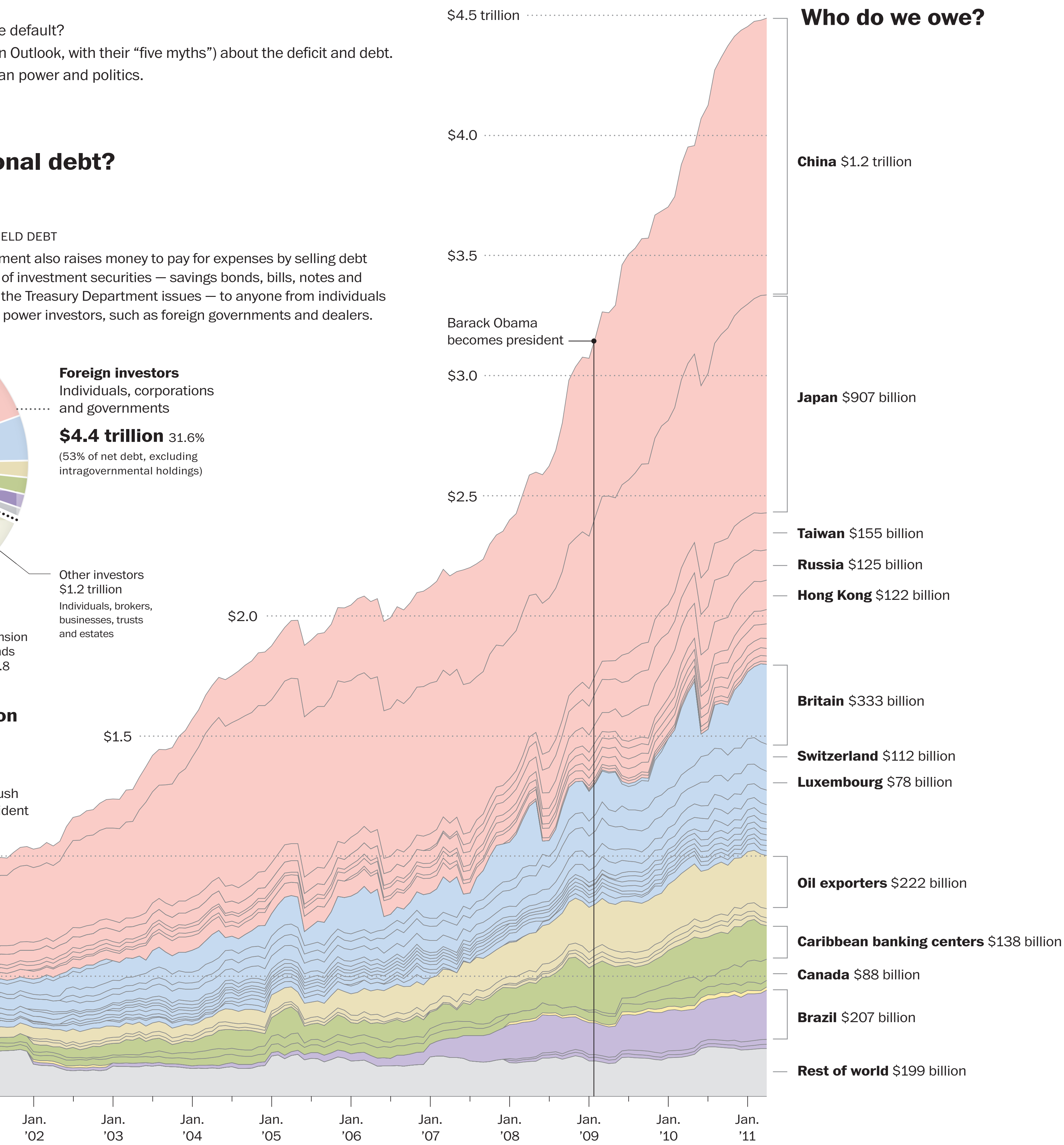
Who do we owe?

Foreign debt holders

- Asia
- Europe
- Oil-exporting countries
- North America
- Australia
- South America
- Rest of the world

Oil-exporting countries include Algeria, Bahrain, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

Caribbean banking centers include Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Netherlands Antilles and Panama.

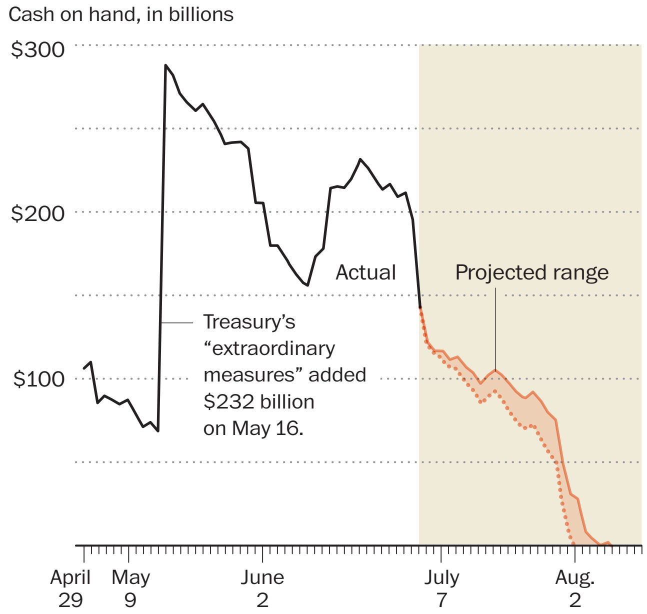


Countdown to default

MONEY IN THE BANK DWINDLES

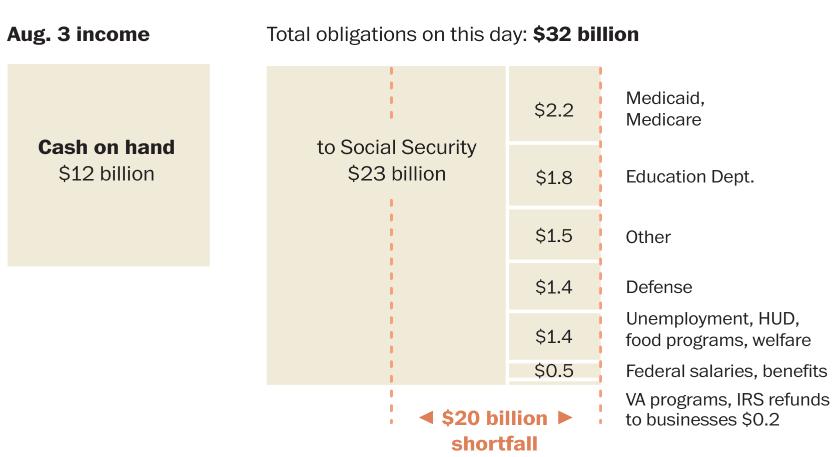
Imagine coming up short at the end of the month when it's time to pay the bills. This is what may happen Aug. 3 if Congress does not raise the debt ceiling and the government cannot roll over its debt or borrow any more money to cover its expenses.

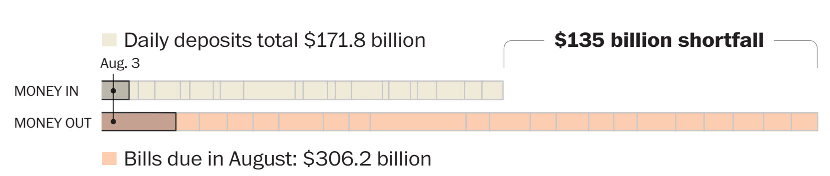
Cash on hand, in billions



PAYING SOME BILLS AND NOT OTHERS

The government takes in revenue from taxes and other sources each business day – and likewise has a list of obligations to pay. On Aug. 3, for instance, the government will take in enough to cover about half of its Social Security payments, and nothing else. And Aug. 4 and each day after will bring a new list of obligations.





THE COST OF NOT RAISING THE DEBT CEILING

Consumers who miss a credit card payment can be slapped with higher interest rates, which immediately drive up the cost of whatever debt they owe. Likewise, a government default – or even the threat of one – can push interest rates higher. Even a small increase would add billions of dollars to the cost of paying the U.S. debt.

IN BILLIONS	Net debt outstanding	Increased expense if interest rates go up by 0.25 percent
2011	$1,086	$27.1
2012	$1,188	$29.7
2013	$1,278	$31.9
2014	$1,356	$35.7
2015	$1,430	$37.6

Sources: Bipartisan Policy Center; Treasury Department; Congressional Budget Office; Congressional Research Service; Government Accountability Office; Office of Management and Budget; and Bill Gross, founder and co-chief investment officer of the investment management firm Pimco