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Off the Charts

## A Rich Uncle Is Picking Up the Borrowing Slack

By [FLOYD NORRIS](#)

THE United States government is borrowing money like never before. The national debt rose by more than a third over a one-year period, far more than it ever did at any time since World War II.

In the past, when the government became a heavy borrower, there was talk about crowding out private borrowers. But this time, interest rates have remained low and no one seems to be worried about that.

The reason is simple: Rather than crowding out the private sector, Uncle Sam is now standing in for it. Much of the government borrowing went to investments in financial institutions needed to keep them alive. Other hundreds of billions went to a variety of programs aimed at stimulating the private economy, including programs that effectively had the government pick up part of the cost for some home buyers and some auto buyers.

This week, the [Federal Reserve](#) published its quarterly report on debt levels in the economy. While Uncle Sam borrowed more, others borrowed less. The accompanying chart shows that total domestic debt — the amounts owed by individuals, governments and businesses — climbed just 3.7 percent from the second quarter of 2008 through the second quarter of this year. That is the smallest increase since the Fed started these calculations in the early 1950s.

Moreover, domestic debt declined in the second quarter, falling 0.3 percent to \$50.8 trillion. The figures are not seasonally adjusted, making quarter-to-quarter comparisons risky, but it was the first such decline since the first quarter of 1954, when total debt was less than \$500 billion.

Over the 12-month period, nonfinancial businesses increased their debt by just 1.3 percent. Since that number is well below the interest rate most of those companies pay, it indicates that they paid back more in old loans than they took out in new ones.

Until this [recession](#), the idea that American individuals would ever cut their overall debt levels seemed as likely as an August snowfall in Miami. But that was before the bottom fell out of the housing market, something that Florida condo developers had considered to be equally unlikely.

Over the year, total household debt fell by 1.7 percent, and mortgage debt — the largest component of household debt — fell a bit more, at a 1.8 percent pace. This is the 10th recession since the Fed began collecting the numbers, but the first in which the amount of home mortgage debt fell. Some of that decline, of course, came from foreclosures that canceled debt and left lenders with big losses.

For most of the last two decades, the biggest increase in debt in America came from financial companies. Much of that debt came from financial innovation rather than actual economic activity. Once, a homeowner took out a mortgage, and household debt increased. But by early this decade, the mortgage could be used to secure a mortgage-backed security, and the mortgage-backed security could be used to secure a [collateralized debt obligation](#). Those last two loans counted as financial obligations. There was no more real economic activity, but there was a lot more borrowing.

In some cases, the newly created financial debt was guaranteed only by the underlying assets — like the home mortgage. But other financial borrowing became the equivalent of government debt, at least as seen by the lenders. That was because the money was either borrowed by government-sponsored enterprises like [Fannie Mae](#), or guaranteed by them or by government agencies.

Such debts rose at a 10.2 percent rate over the last two decades. Debt issued by financial companies without such guarantees rose even faster, at a 10.6 percent rate. By contrast, the debt of nonfinancial businesses climbed at a rate of 5.9 percent.

Twenty years ago, nonfinancial businesses in the United States borrowed \$1.70 for every dollar borrowed by the financial sector, government-guaranteed or not. Now the figure is 68 cents.

*Floyd Norris's blog on finance and economics is at [nytimes.com/norris](http://nytimes.com/norris)*

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