



The US Deficit and Debt

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National Economic Education Delegation (NEED)



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 44 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 365 members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 42 Ph.D. Economists**

- Aid in slide deck development



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Of Debt, Deficits, and Surpluses

- **FLOW**

- **Deficit:** When government expenses exceed revenues in a single year.
- **Surplus:** The excess of revenues over expenses in a single year.

- **STOCK**

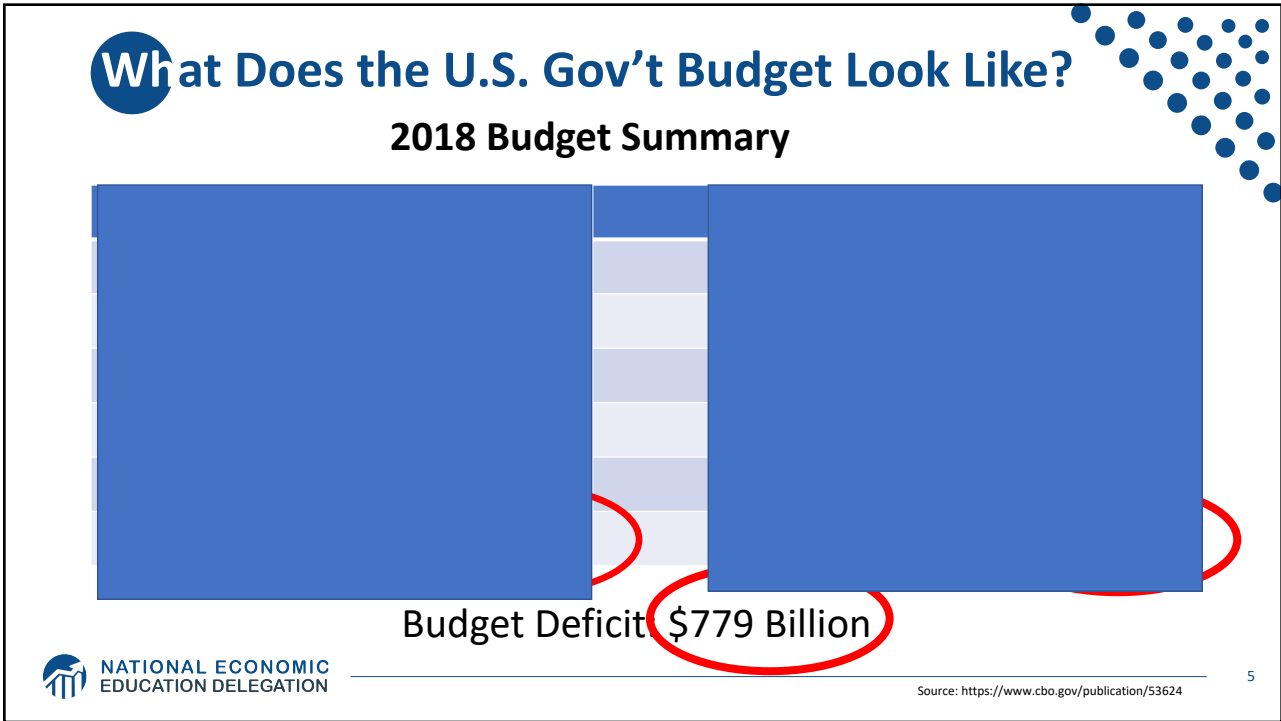
- **Debt:** The accumulation of debt over time.
 - The sum of all past deficits and surpluses.



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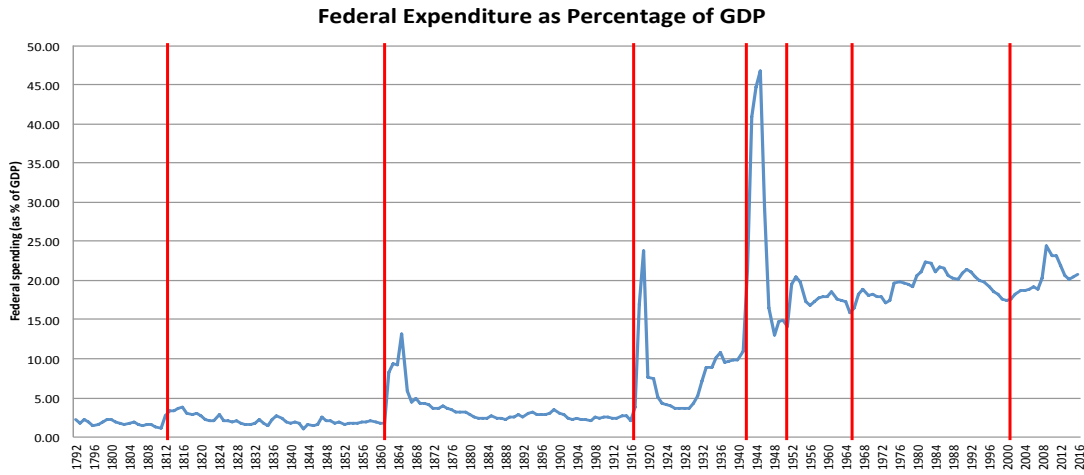


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Figure 1: Federal Expenditures

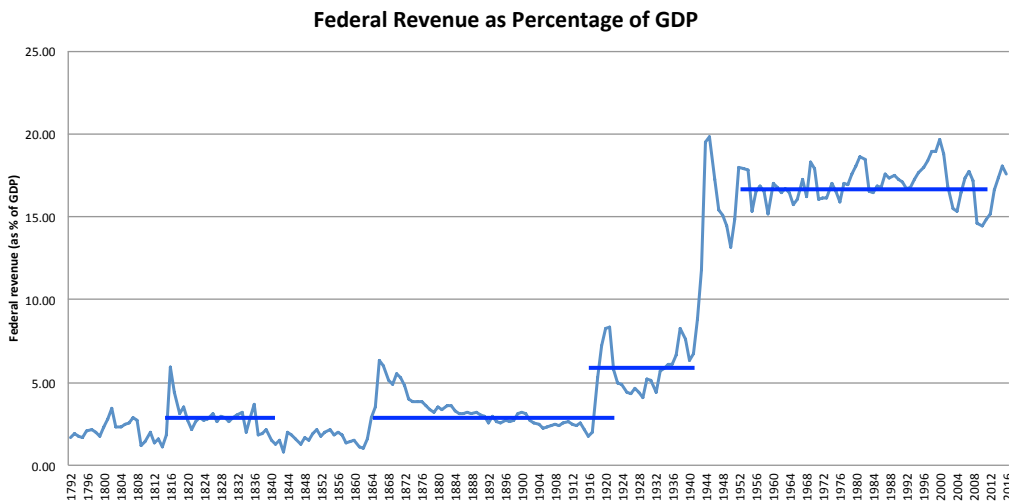


Appropriate to measure the "size" of the Federal Government relative to the size of the economy



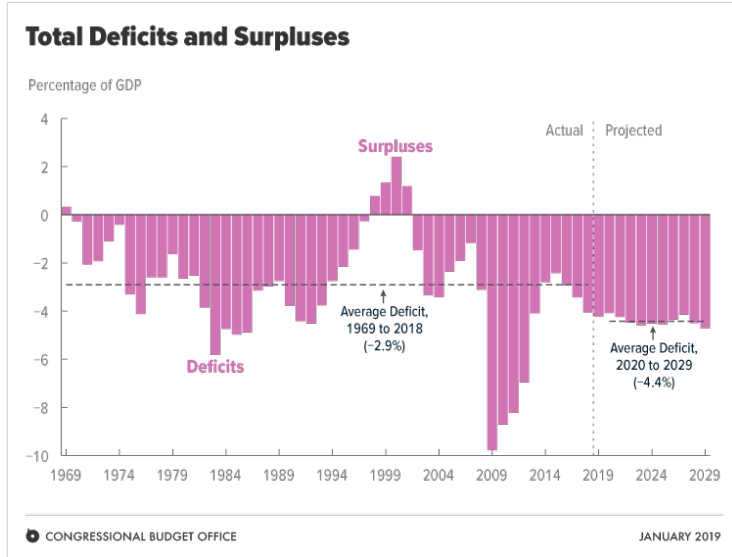
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Figure 2: Federal Revenue



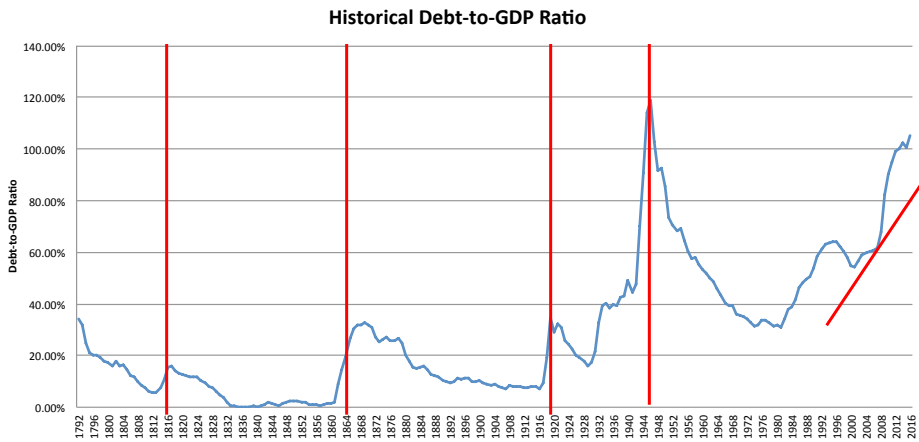
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Recent Past and Forecasted Future of Deficits



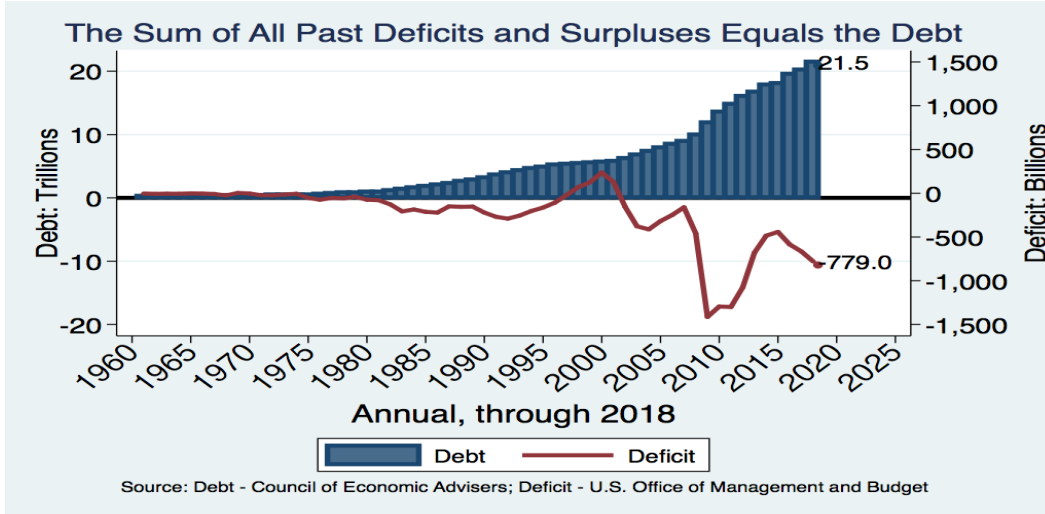
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Figure 3: Debt-to-GDP



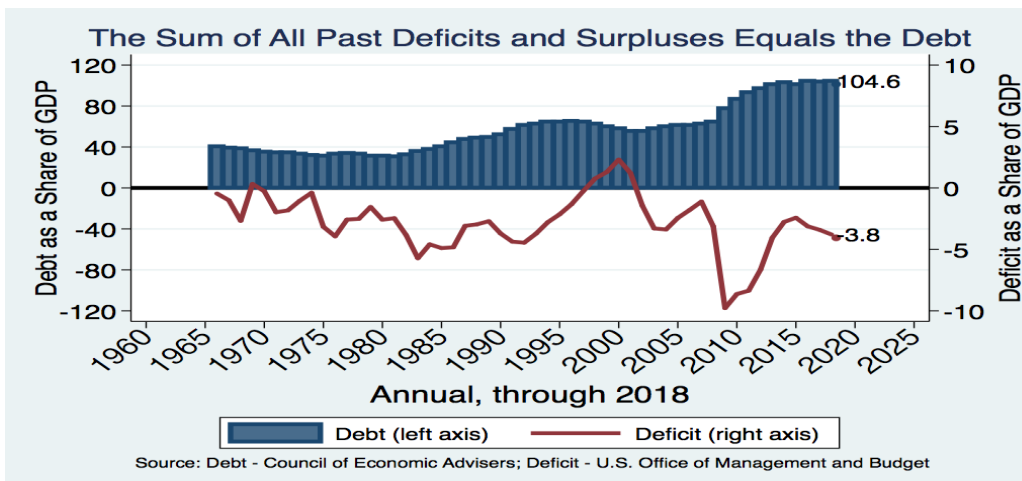
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Debt vs. Deficit



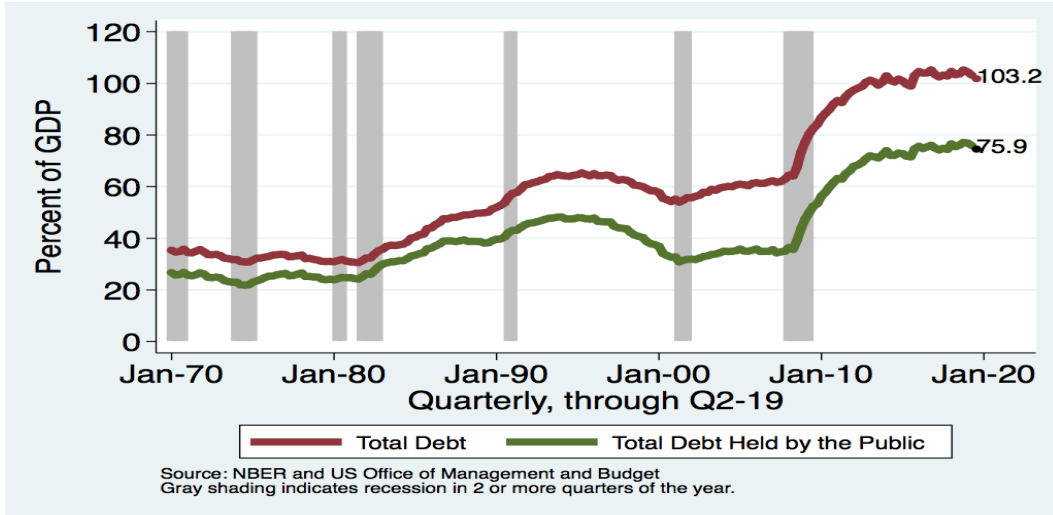
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Debt vs. Deficit: Share of GDP



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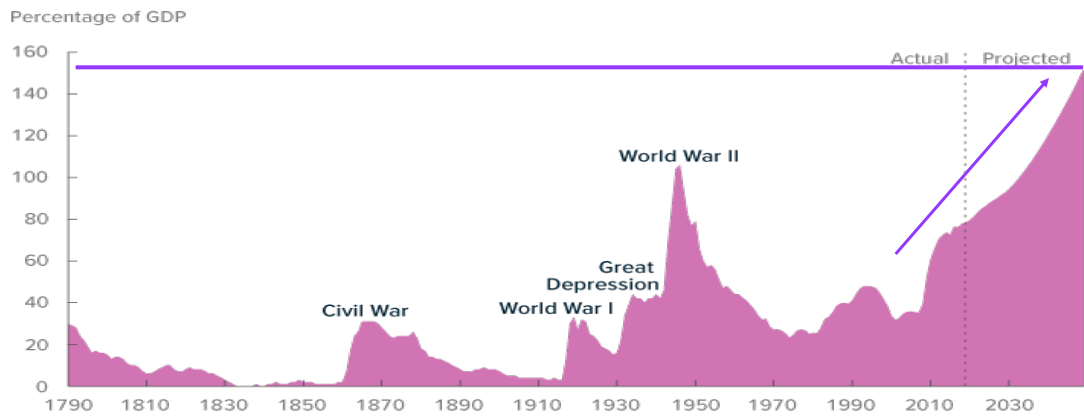
Two Measures of the Debt



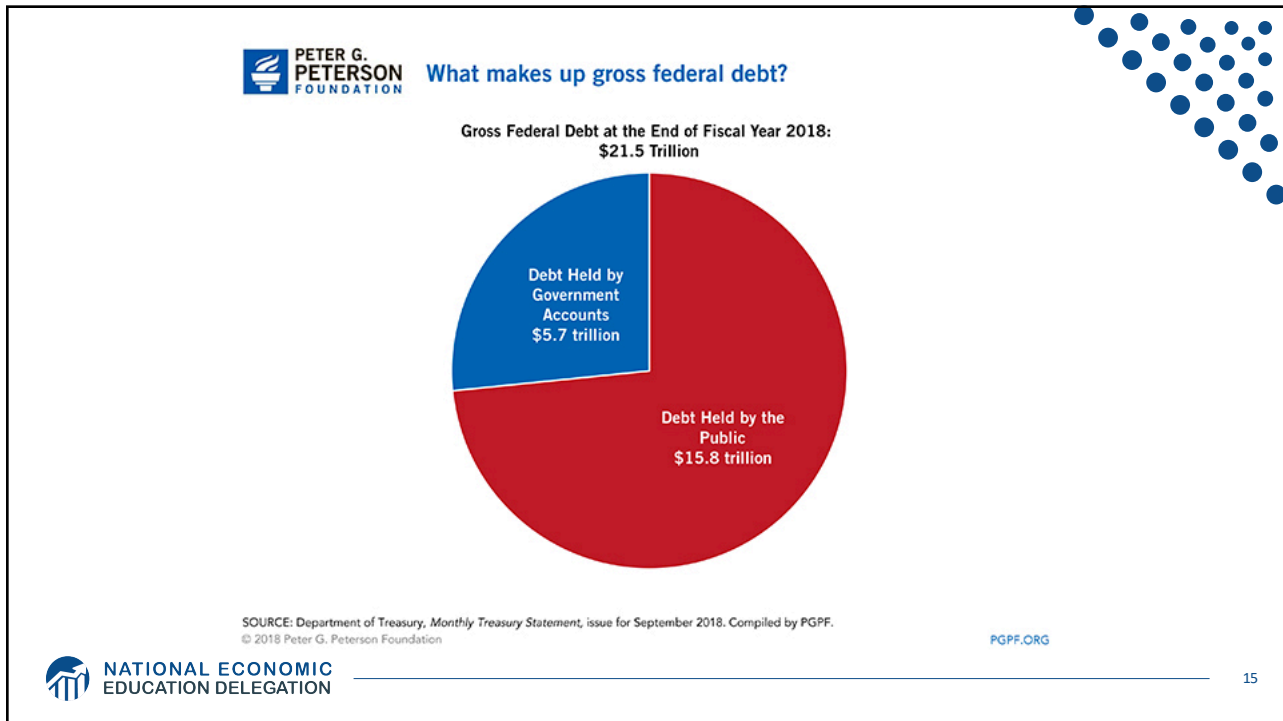
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Deficits add up: Debt

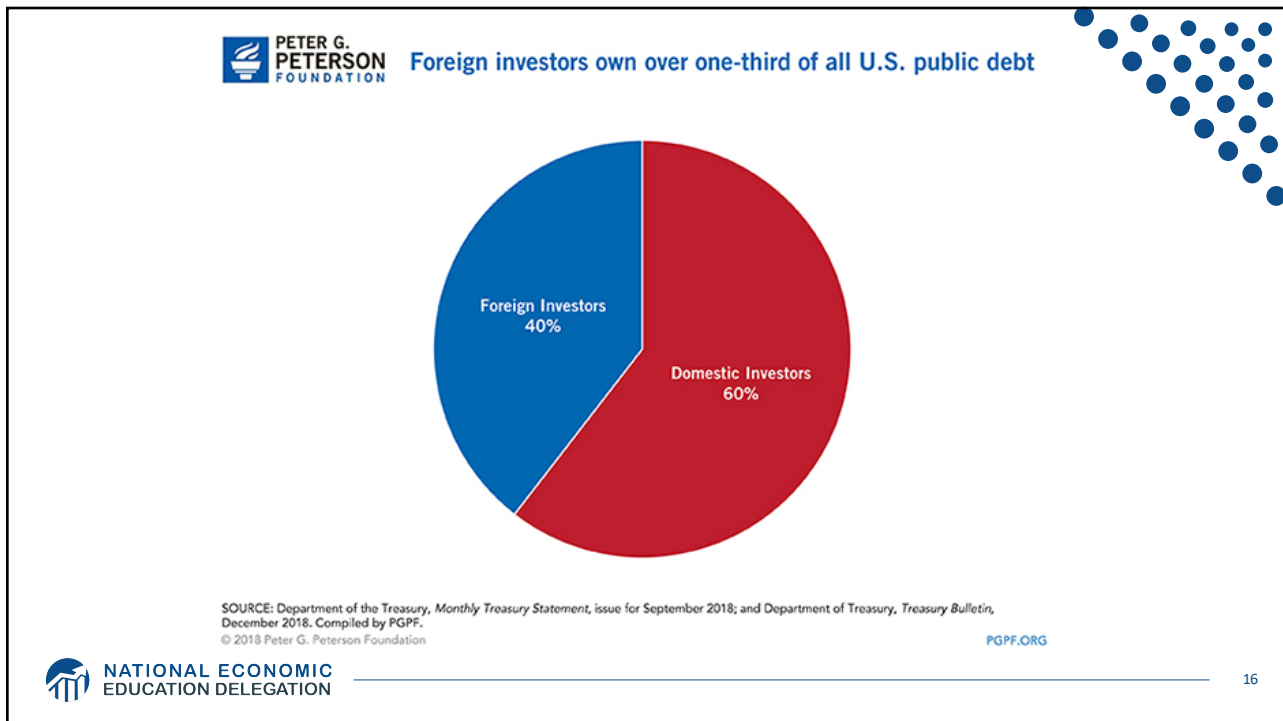
Federal Debt Held by the Public



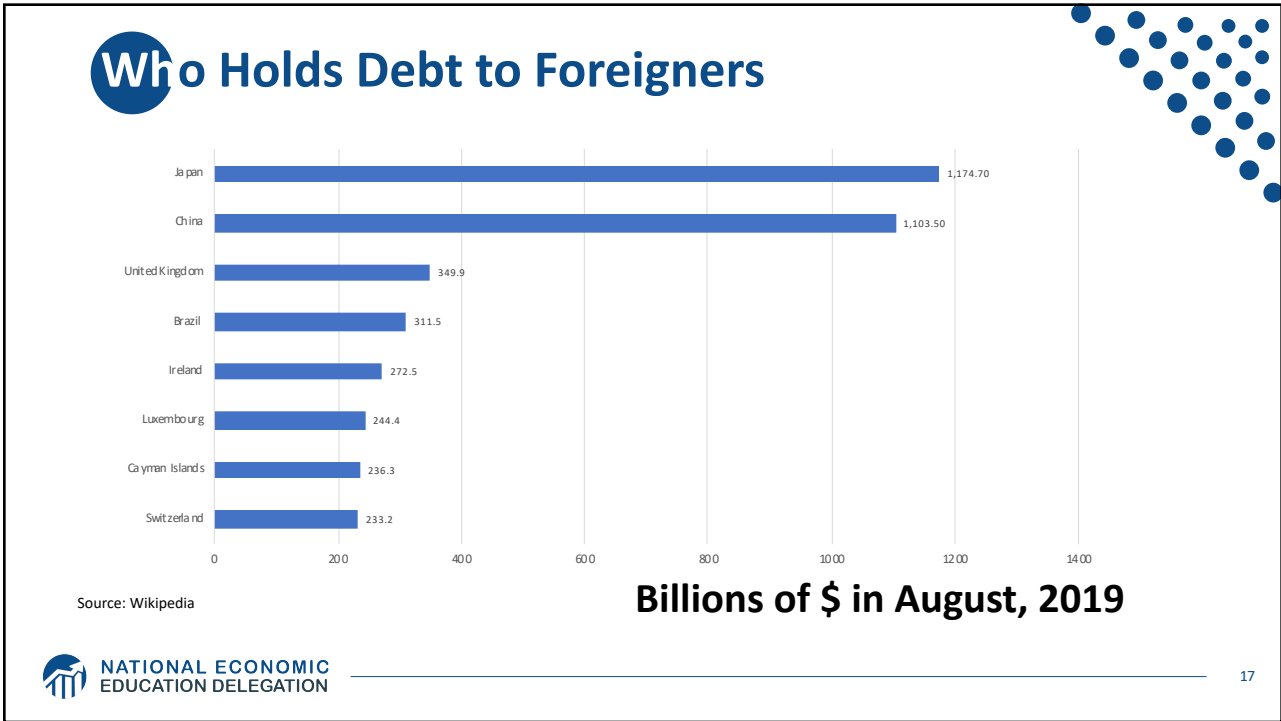
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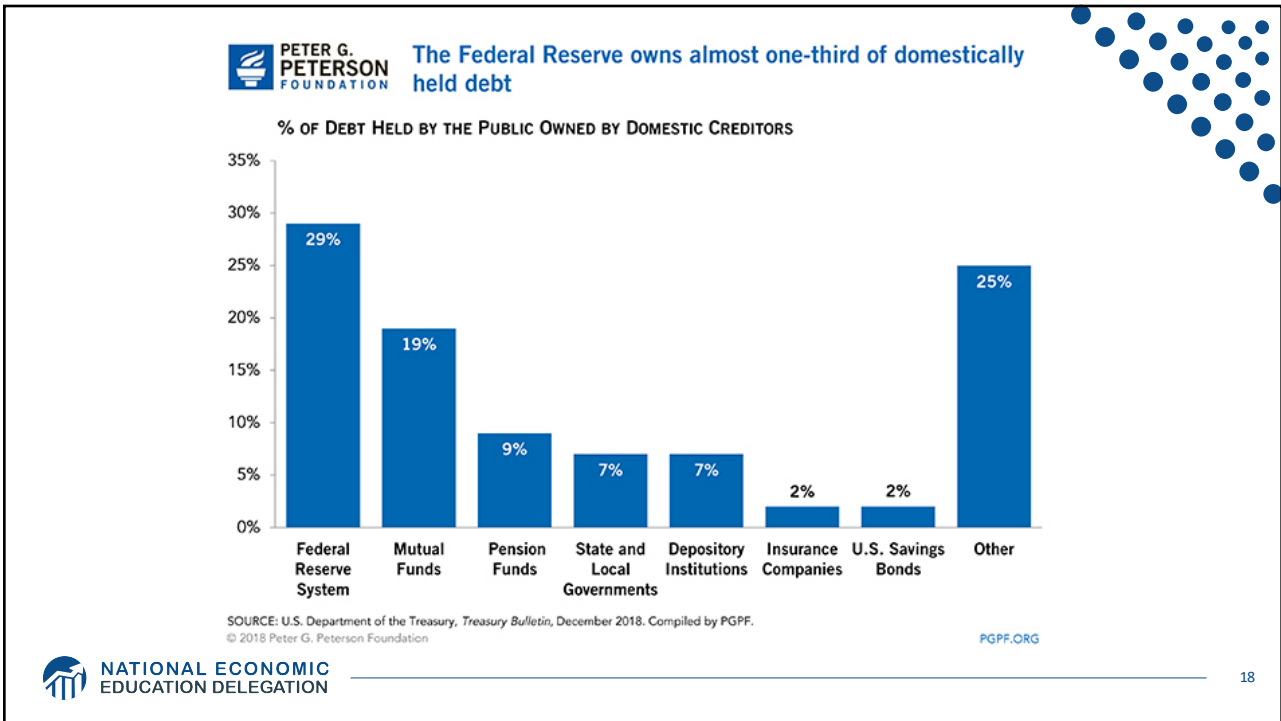
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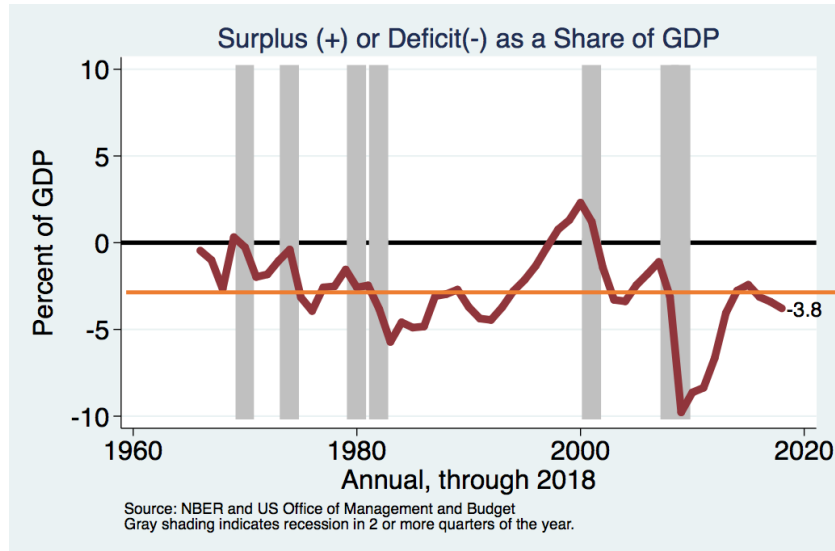


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Deficits and Recessions



How Does the U.S. Government Borrow?

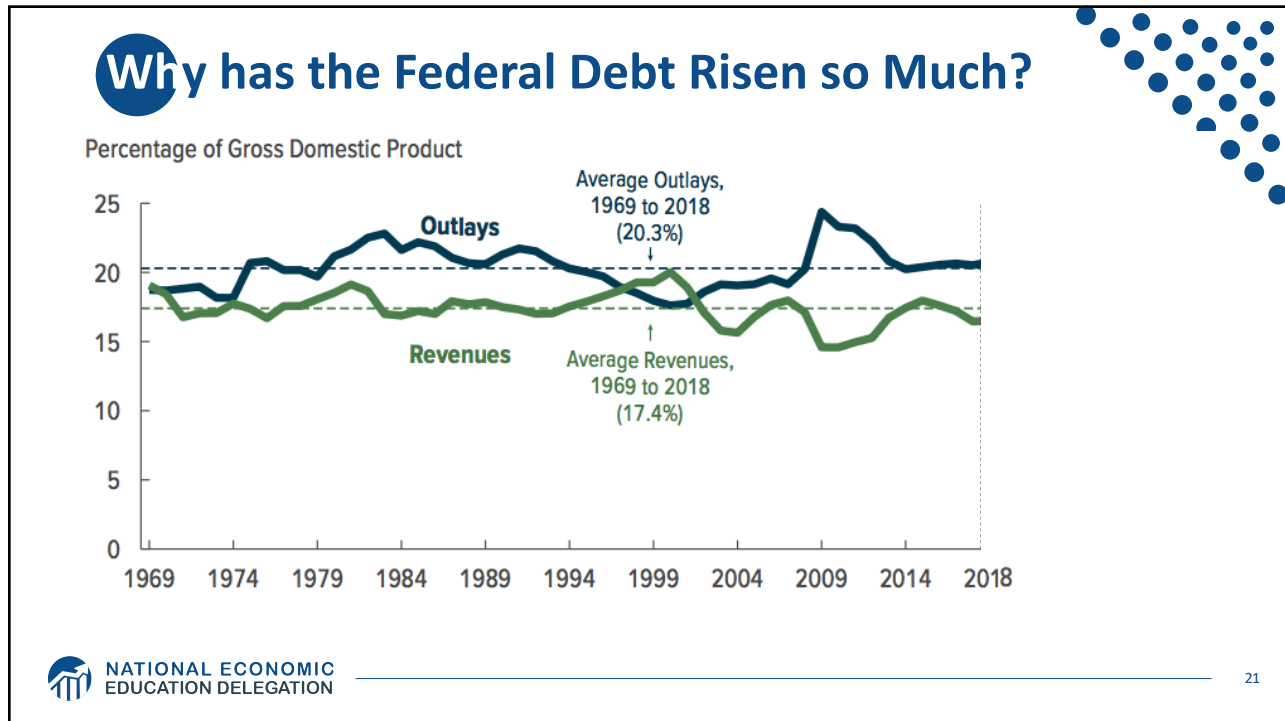
- **It issues debt**

- Treasury marketable securities:
 - Treasury bills, notes, and bonds
 - TIPS: Treasury inflation-protected securities

- **Who buys the debt?**

- Other federal government agencies
- Individuals and businesses
- State and local governments
- People, businesses, and governments from other countries.





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Why has the Federal Debt Risen so Much?

• Expenditures:

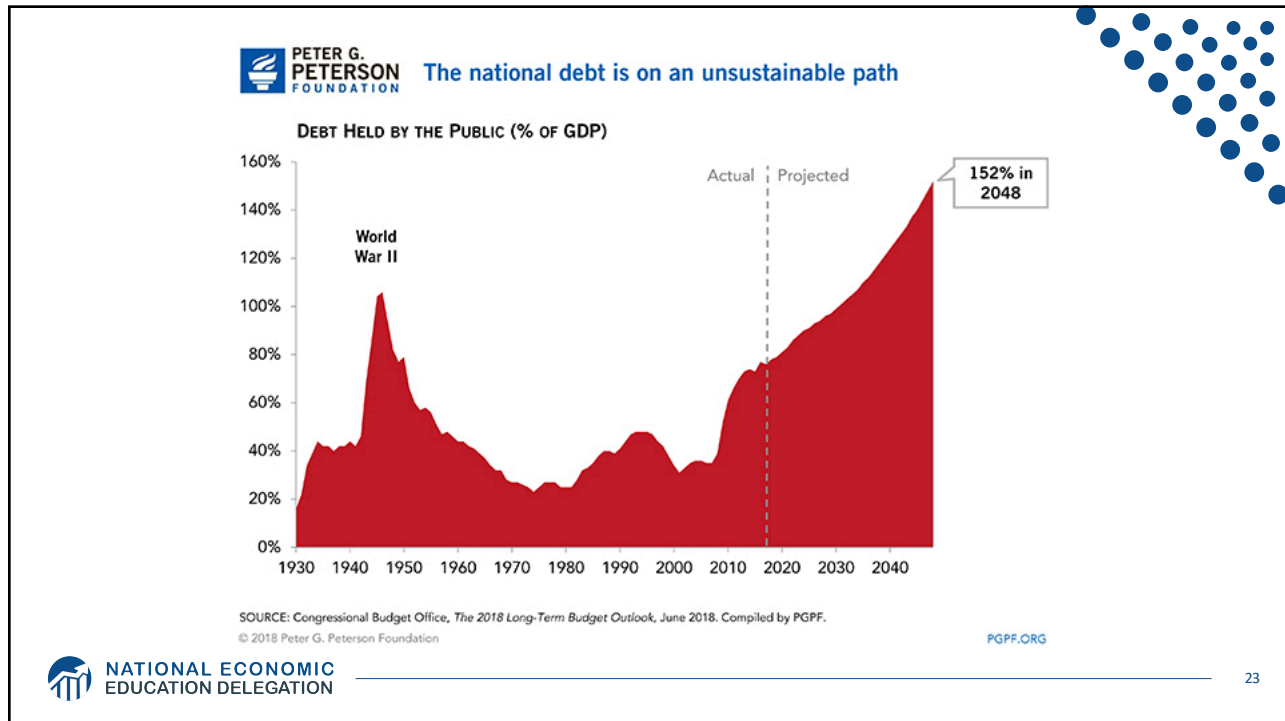
- Social Security
- Healthcare costs
- Economic stimulus
 - o In particular, during the Great Recession.
- Foreign entanglements

• Revenues

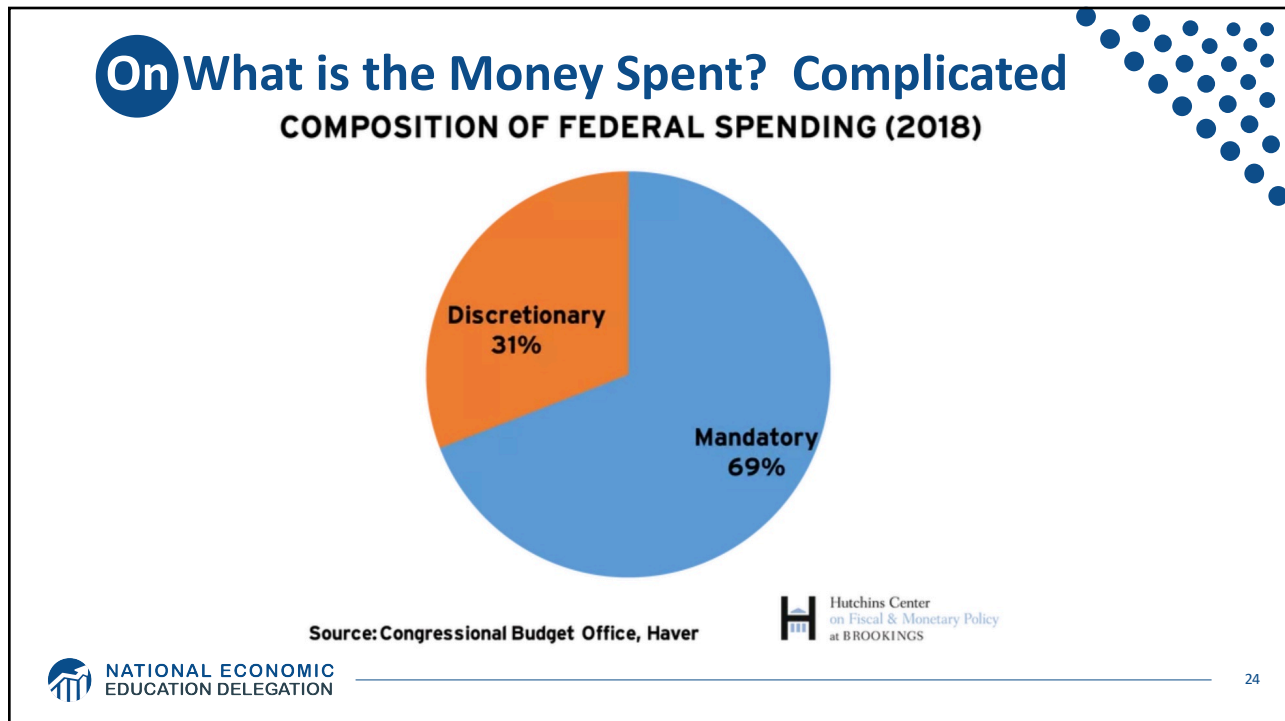
- Declining income tax revenues
 - o Stagnant wages
 - o Tax cuts
- Social security
 - o Declining revenues
- Corporate income taxes

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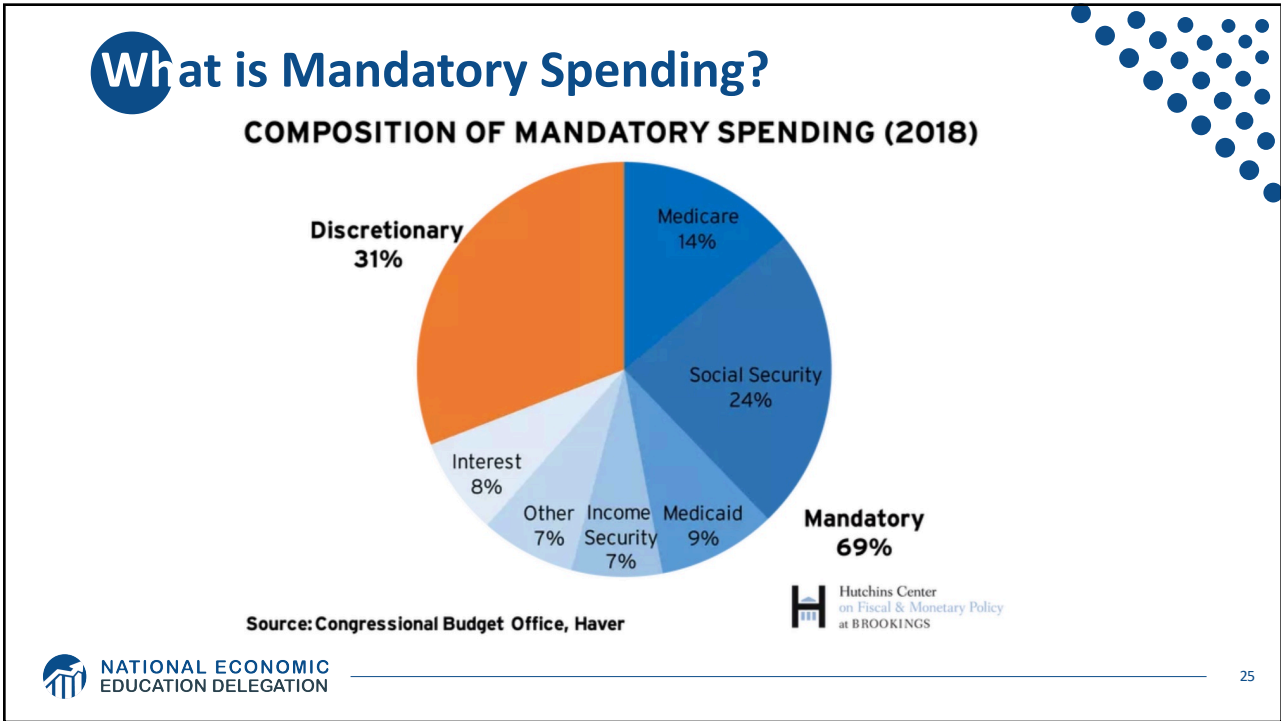
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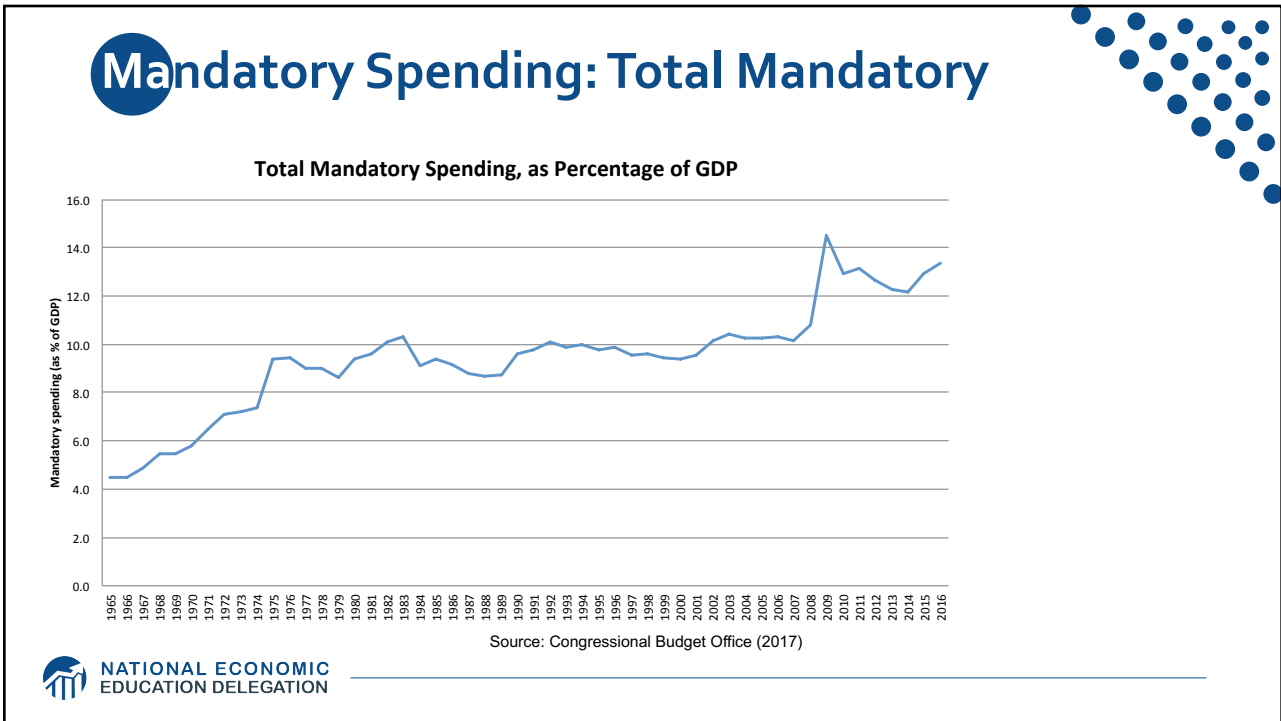
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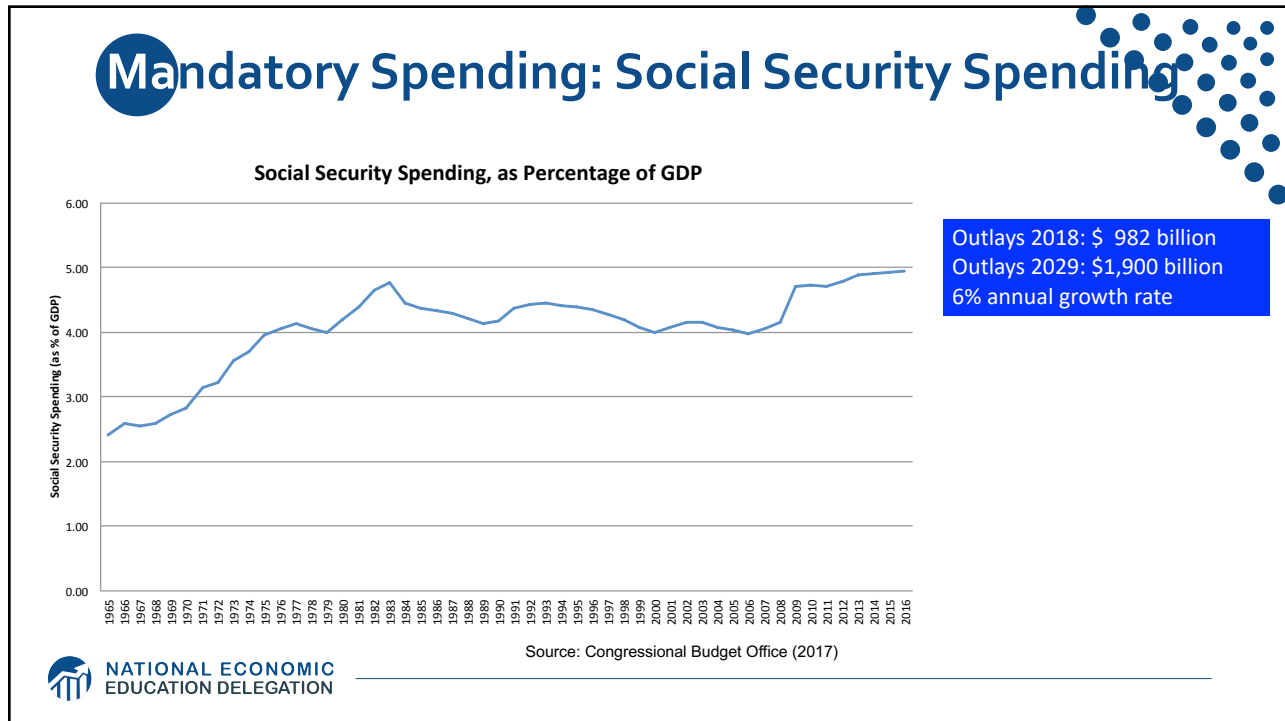
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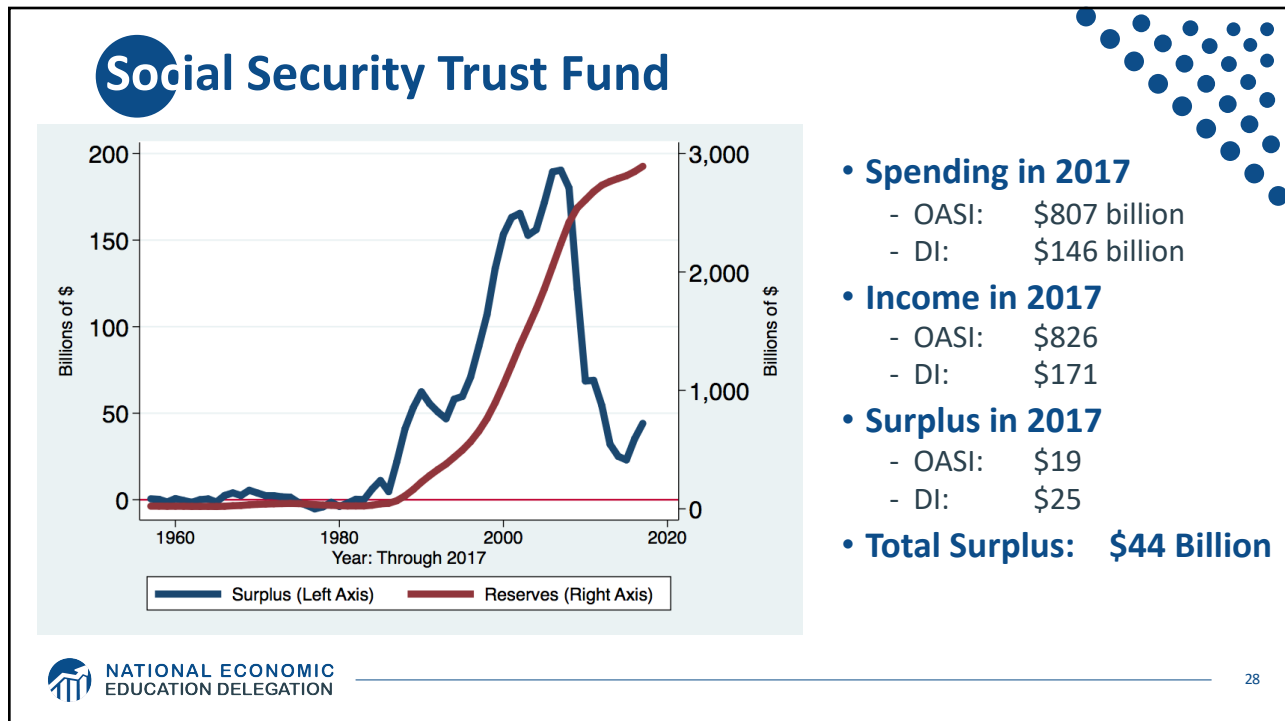
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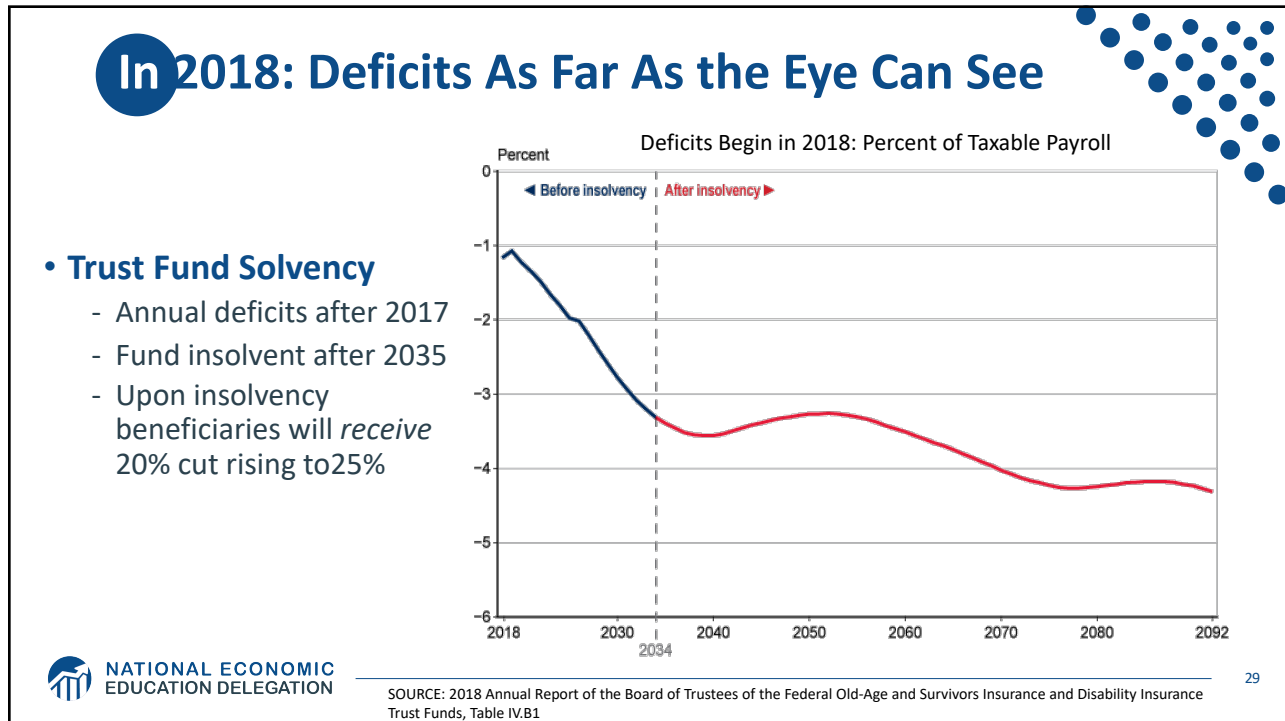
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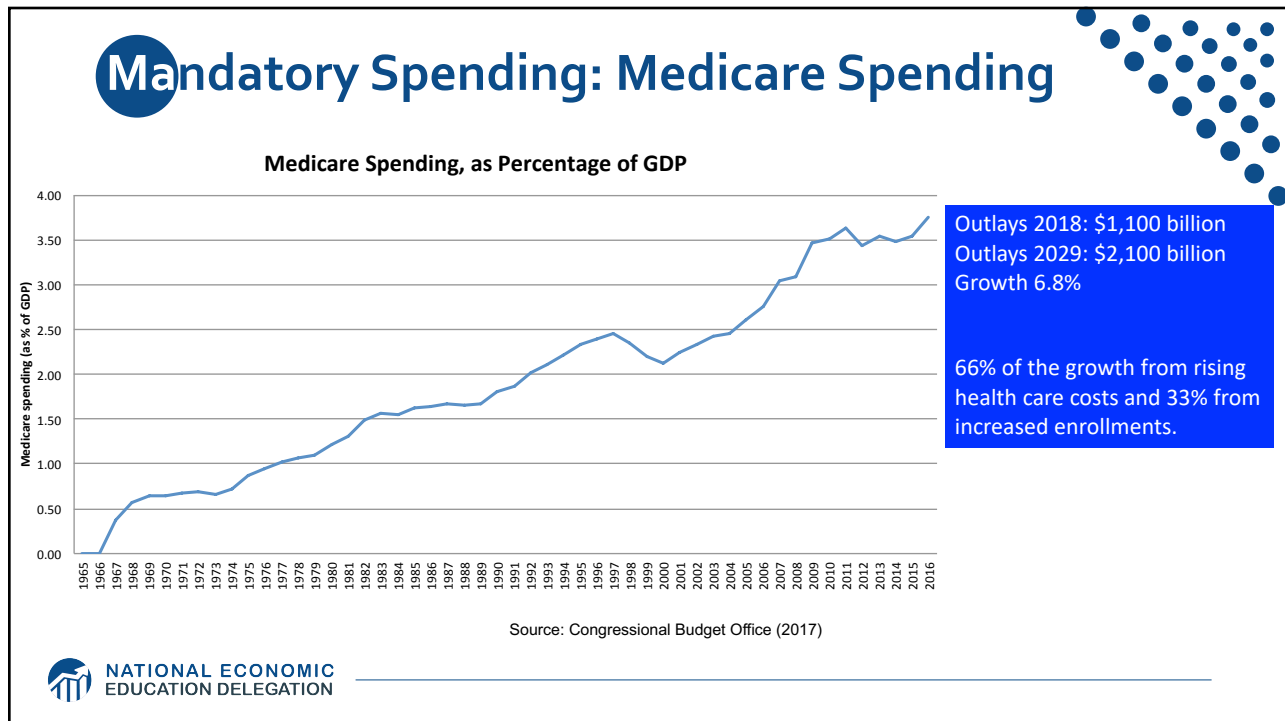
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Mandatory Spending: Medicare (14%)

- **Part A: Hospital Insurance**
- **Part B: Physician, outpatient, home health, and other services.**
- **Part D: Subsidized access to pharmaceuticals.**

- **Part C: Medicare Advantage Plans – offered by private companies approved by Medicare.**
 - Medicare Advantage Plans may offer extra coverage, such as vision, hearing, dental, and/or health and wellness programs.



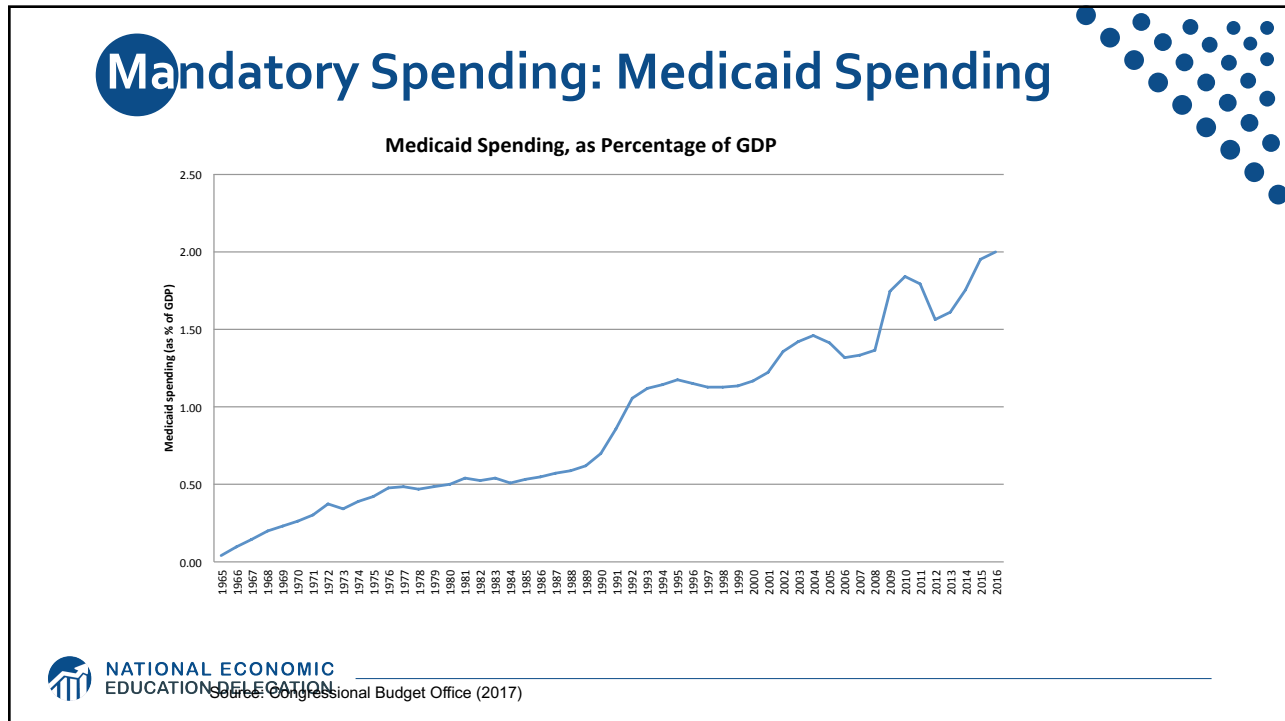
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Medicare Finances in 2018

- **Part A:**
 - Income in 2018: \$299 billion
 - Expenses in 2018: \$297 billion
 - Surplus: \$2.8 billion
- **Part B and Part D:**
 - Income in 2018: \$406 billion
 - Expenses in 2018: \$414 billion
 - Surplus: \$-7.9 billion
- **Long term sustainability:**
 - Deficits began in 2016
 - For as far as the eye can see
 - Insolvent in 2026 with current parameters.



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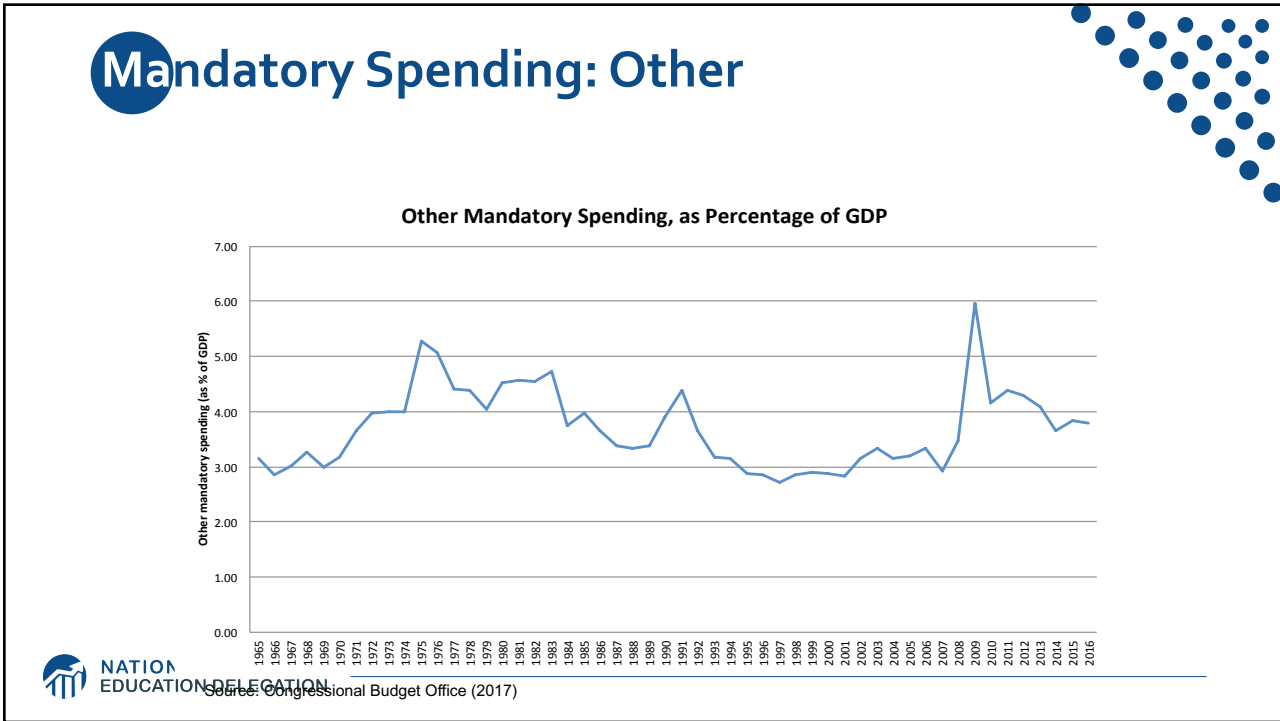
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Mandatory Spending: Medicaid (9%)

- **Medicaid provides medical insurance for those whose income and resources are insufficient to pay for health care.**
- **It is a program with costs shared with the states.**
- **Amount spent in 2017: \$576.6 Billion**
 - Federal: 61.5% or \$354.6 Billion
 - States: 38.5% \$222.0 Billion
- **People served in 2017: 72 million (22% of Americans)**

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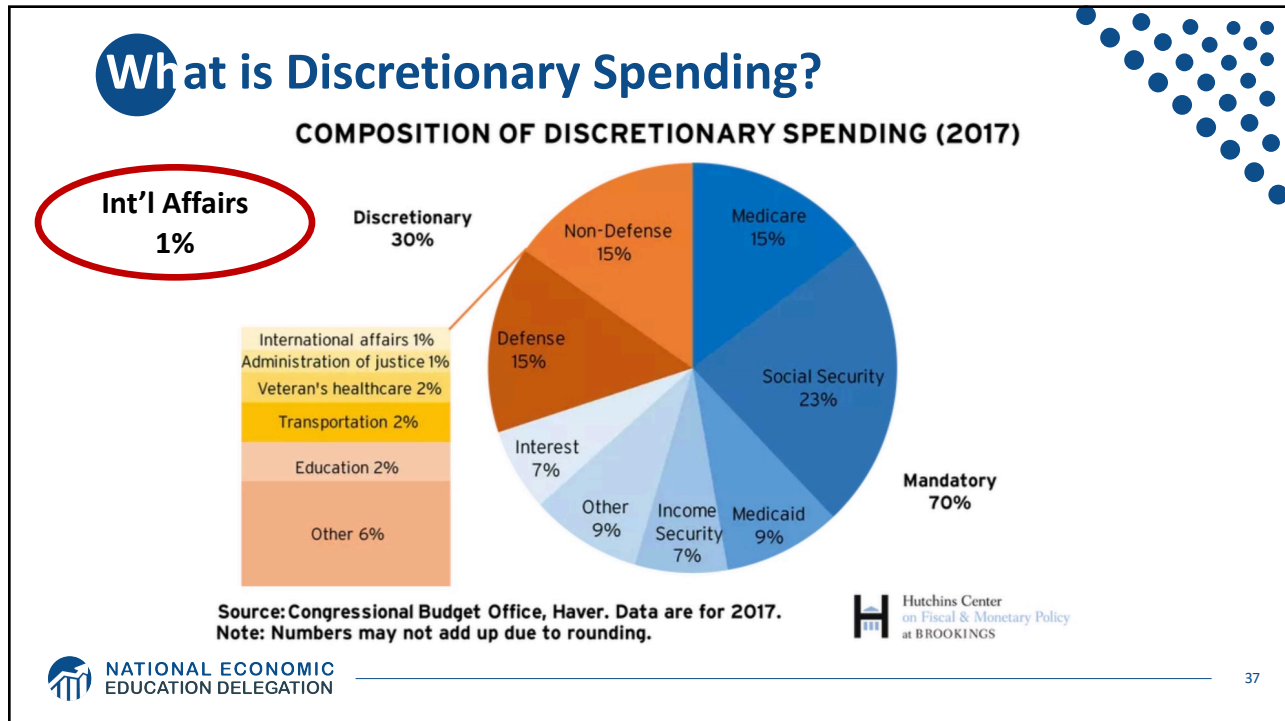
Mandatory Spending: Interest (8%)

- **Interest costs in 2018: \$325 Billion**
 - 1.6% of GDP, or 8% of the Federal Budget
- **Forecast to increase to \$928 Billion in 2029**
 - 3.0% of GDP, or 22% of the Federal budget

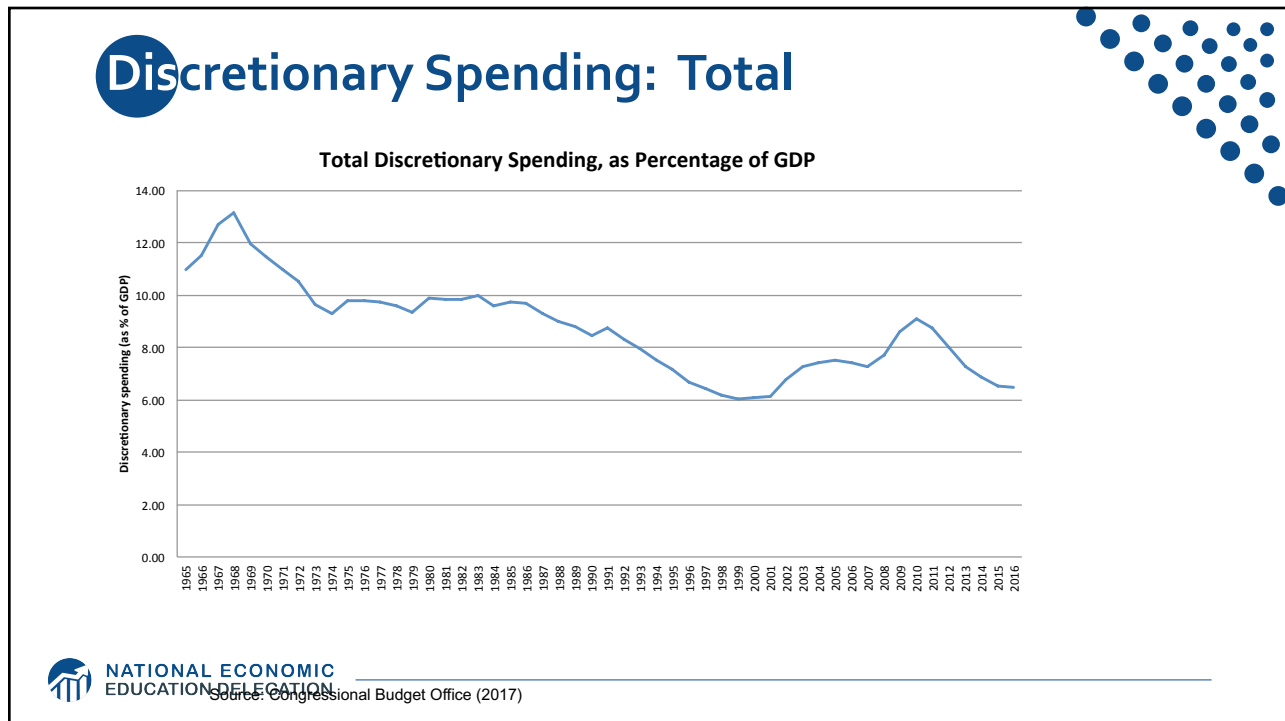
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Source: CBO, January 2019 Budget Projections

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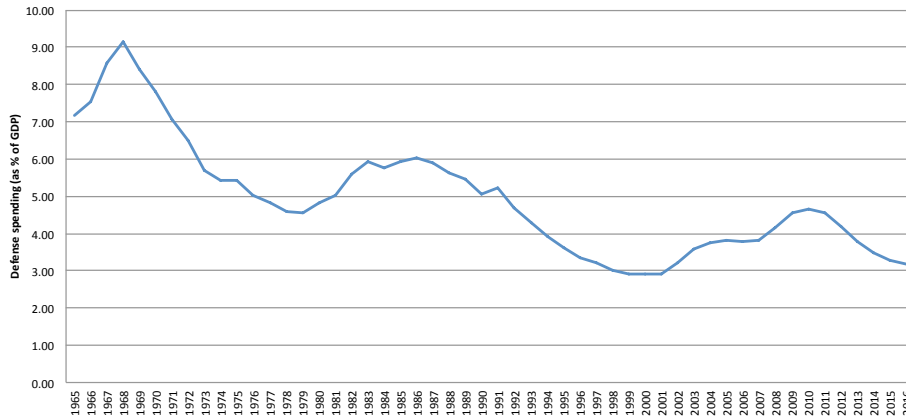
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Discretionary Spending: Defense Spending

Federal Defense Spending, as Percentage of GDP

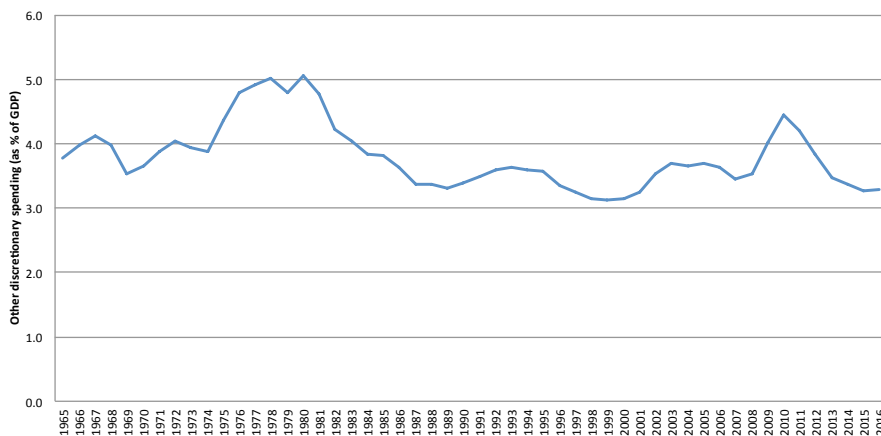


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Source: Congressional Budget Office (2017)

Discretionary Spending: Other

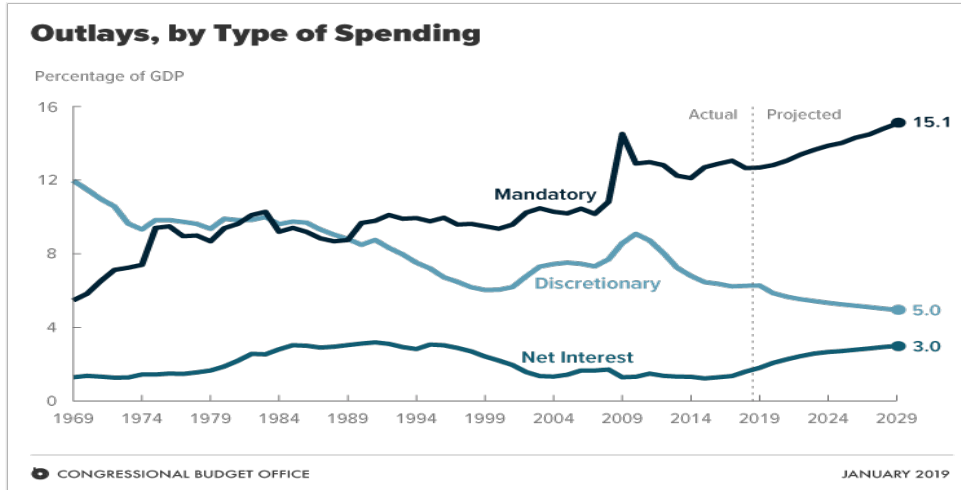
Other Discretionary Spending, as Percentage of GDP



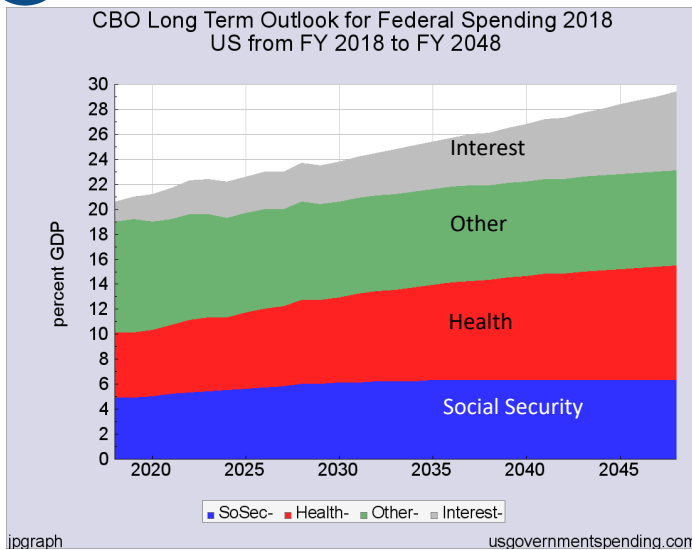
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Source: Congressional Budget Office (2017)

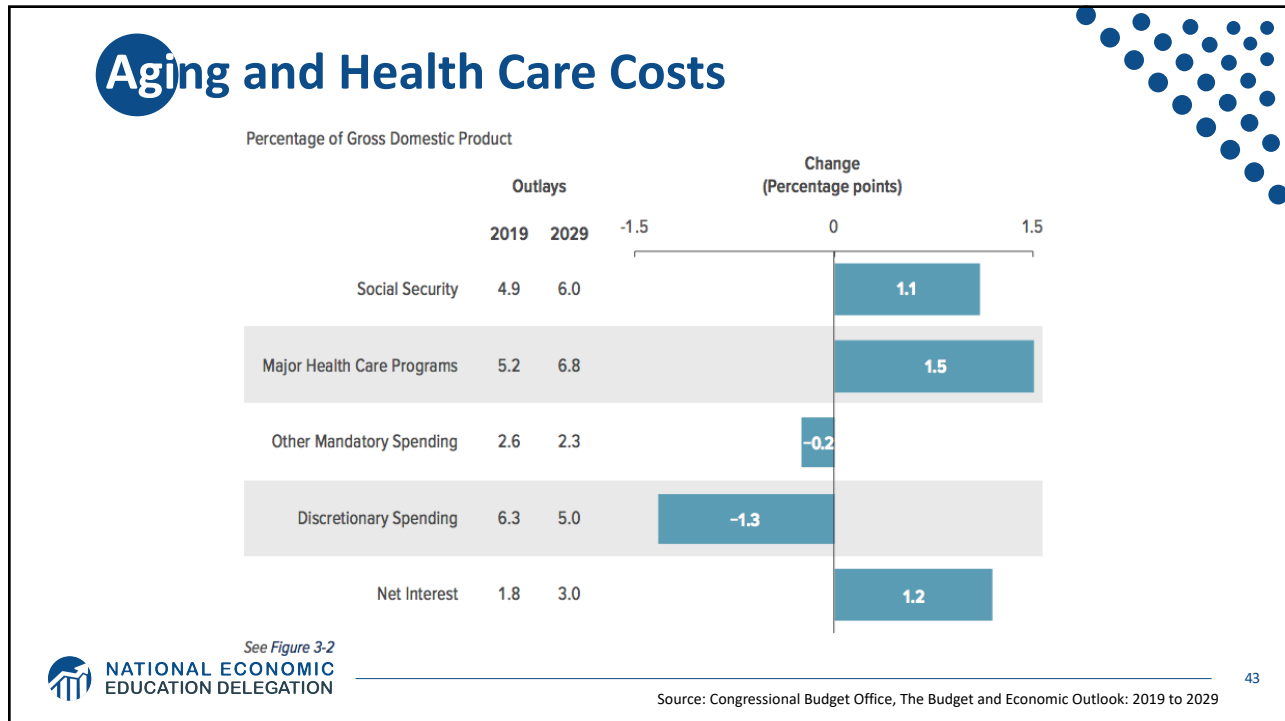
Mandatory Spending Dominates Forecasts



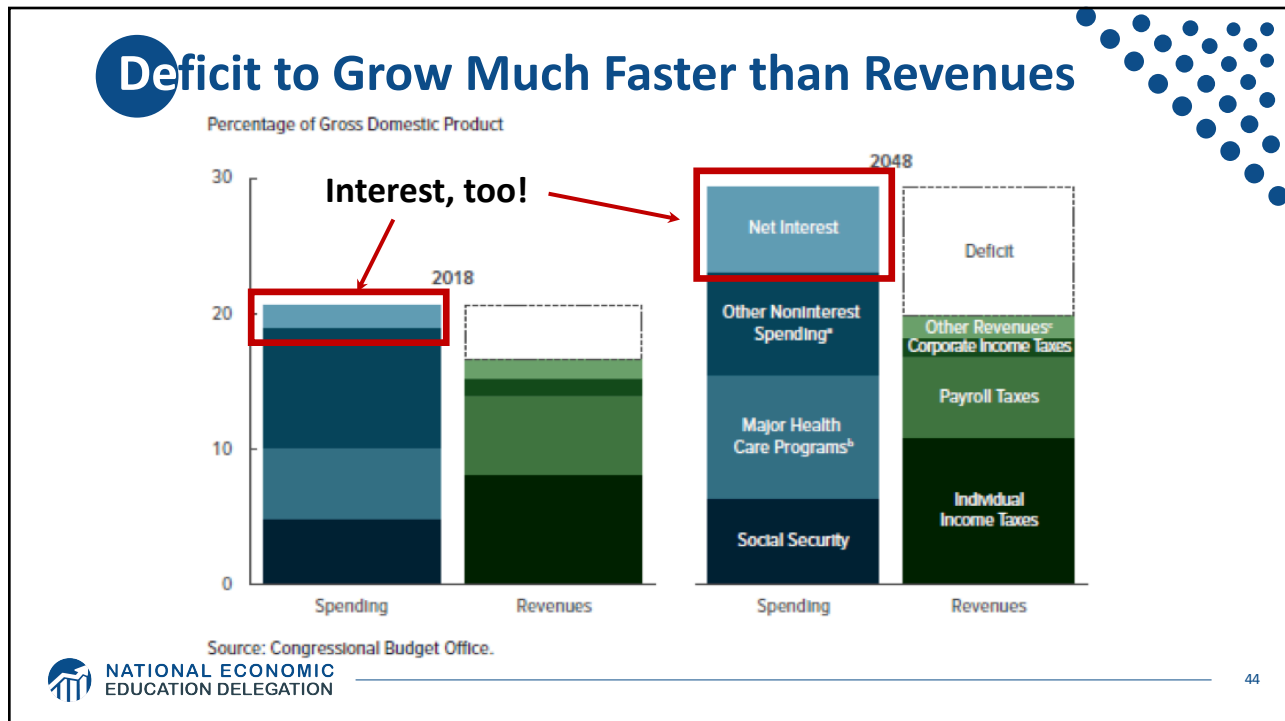
Forecast Spending



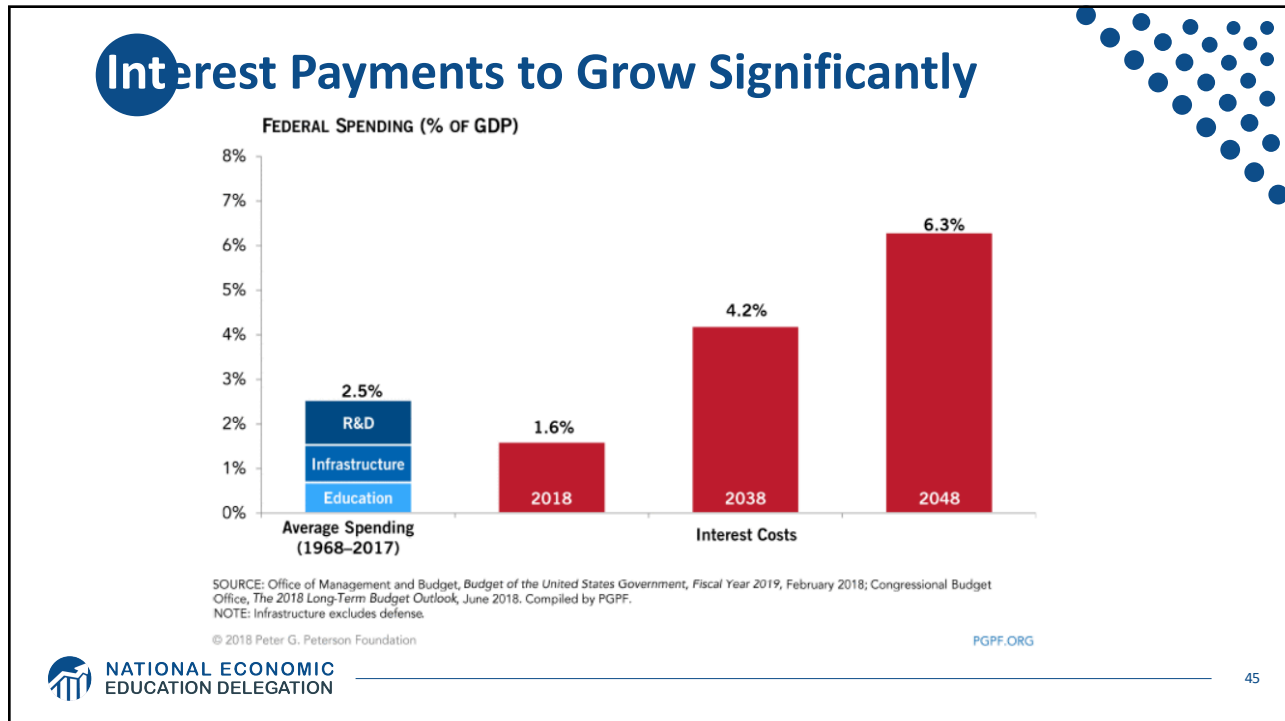
What trends do you see?



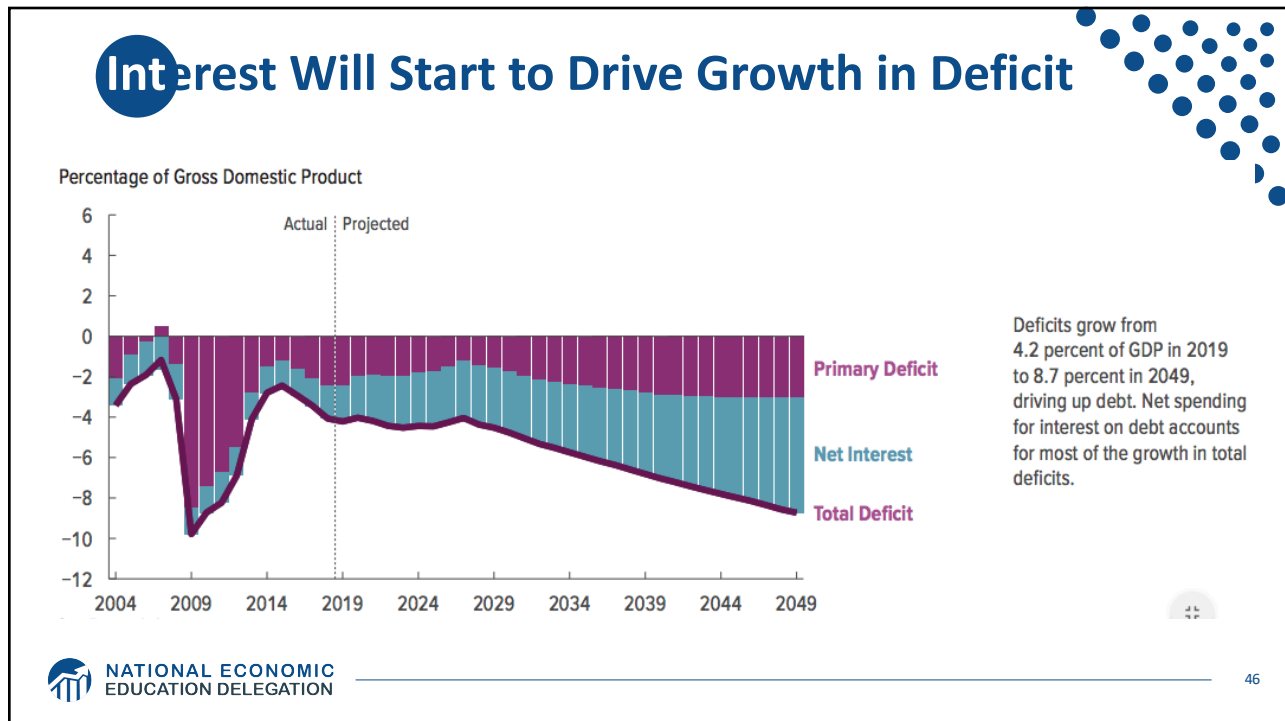
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Perspectives on Increased Debt

- **Government borrowing crowds out private capital and investments.**
 - Weakened by ability to borrow from abroad.
- **Does debt impose a burden on future generations?**
 - Does it inevitably have to be paid off?
- **In time, it may start to crowd out other government spending.**
 - Diminishing policy priorities in the budget.
- **Is it reasonable to borrow at low interest rates for investments?**
 - For example, infrastructure.



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Bottom Line

- Question is not **WHETHER** the U.S. will have to act...
...but **WHEN**.
- Some combination of the following **WILL** be necessary:
 - Raising taxes
 - Cutting spending
 - Reining in health care costs



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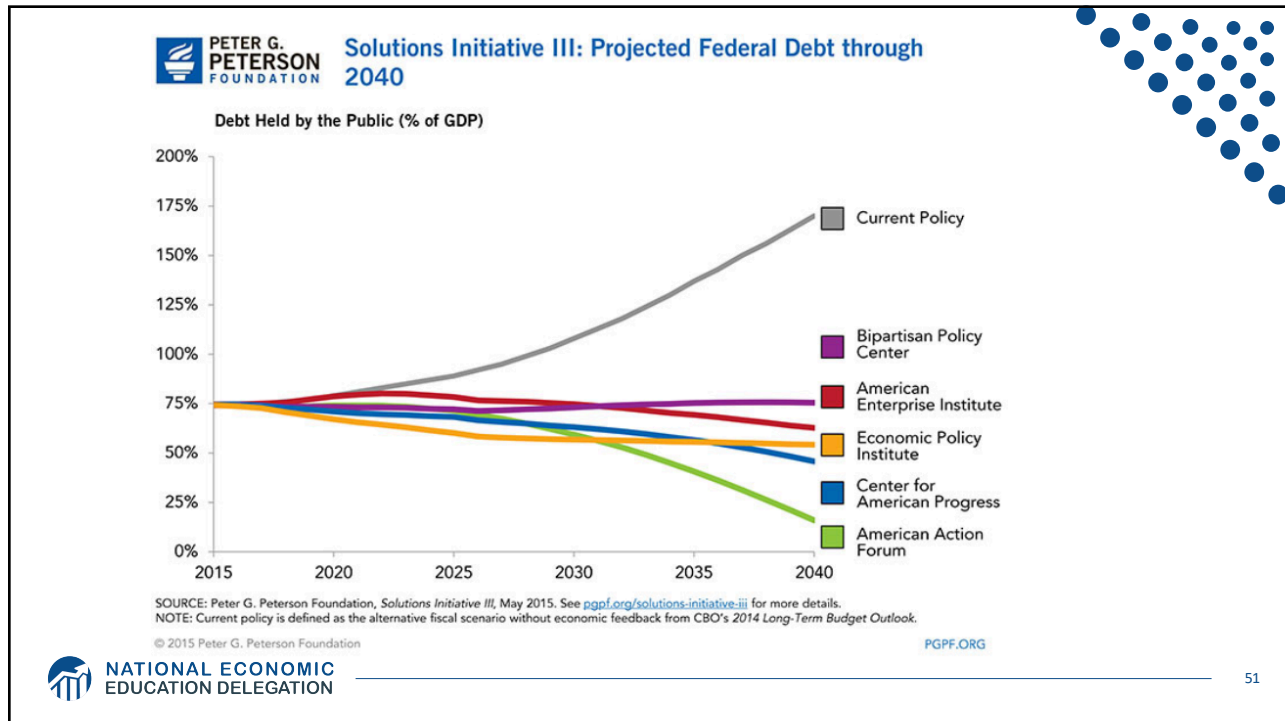
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Proposals Do Exist

- **Simpson-Bowles**
- **Domenici-Rivlin Task Force**
- **Solutions Initiative – Peter G. Peterson Foundation**
 - American Action Forum
 - American Enterprise Institute
 - Bipartisan Policy Center
 - Center for American Progress
 - Economic Policy Institute

Another Category of Spending: Tax Expenditures

- **Description**
 - Social policies that are implemented and paid for through the tax code.
- **List of the largest tax breaks:**
 - Mortgage interest deduction
 - Retirement contributions
 - State and local taxes
 - Health insurance`
 - Low tax rates for Capital Gains
 - Child related tax credits
 - Charitable gifts
 - Lifetime Learning
- **Evidence of who they benefit**
 - Regressive



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Are There Reasons to Wait?

- **Very little evidence of:**
 - Crowding out
 - Inflationary impact
- **Uncertainty about the future**
 - Economic growth may render action today unnecessary.
- **There are a great many investments to be made by the gov't.**
 - Infrastructure
 - Education
 - Much, much more...

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Summary

- **Debt: \$22.9 Trillion**
- **Deficits drive growth in the debt.**
 - Likely greater than \$1 Trillion per year.
- **Publicly held debt matters most.**
 - Will grow from 78% of GDP today to 144% in 2049.
- **Multiple ways to offset this growth.**
- **Growing interest payments can be a real problem.**

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Instruction on how to use the template

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Thank you!

Any Questions?

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<presenter name>

<presenter email>

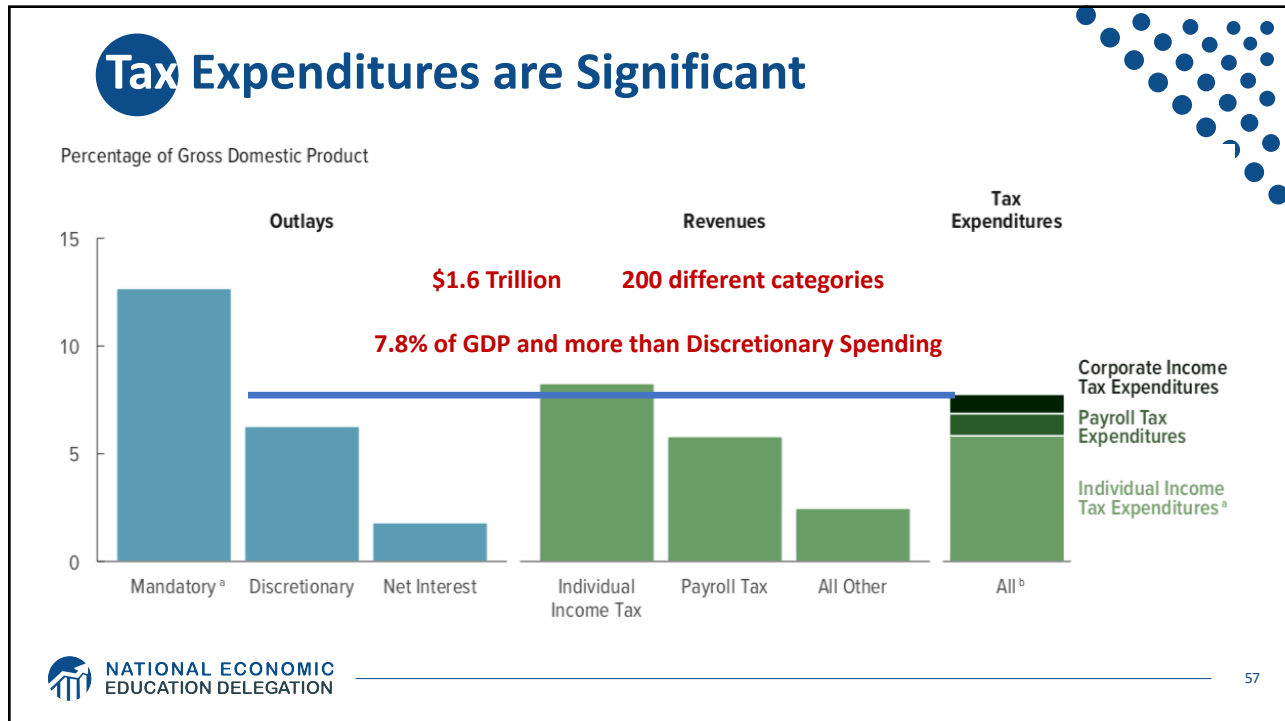
Contact NEED: NEEDelegation@gmail.com



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Tax Expenditures Tend to be Regressive

Percent Change in After-Tax Income due to Tax Expenditures, 2007
(with no AMT)*

	Tax Exclusions	Lower capital gains and dividends rates	Itemized deductions	Above-the-line deductions	Non-refundable credits	Refundable credits	All provisions
Bottom 20 percent	0.54%	0.00%	0.02%	0.01%	0.05%	5.81%	6.97%
Second 20 percent	Income Group		Benefits			5.26%	8.89%
Middle 20 percent	Bottom 20%		7.0%			7.25%	7.25%
Fourth 20 percent						1.00%	7.28%
Top 20 percent	Top 20%		12.8%			0.25%	12.82%
Total Cost (no AMT)	\$326 billion	\$99 billion	\$153 billion	\$6.6 billion	\$11.3 billion	\$89 billion	\$746.7 billion
Total Cost (with AMT)	\$344 billion	\$96 billion	\$154 billion	\$6.4 billion	\$8.2 billion	\$89 billion	\$760.5 billion

Source: Center on Budget and Policy Priorities calculations based on TPC calculations of effect of eliminating tax expenditures.
*Note: These figures take into account the interaction among individual tax expenditure provisions.

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