The US Federal Debt

SIRs #128 – Investment Group
June 26, 2024

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  - Jon Haveman, Executive Director, NEED
  - Geoffrey Woglom, Amherst College, Emeritus
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What Does the US Govt. Budget Look Like?

2023 Budget Summary (in Billions)

Revenue			Outlays	
Income Taxes	$2,176		Mandatory	$3,753
Payroll Taxes	$1,614		Discretionary	$1,722
Corporate Taxes	$420		Interest	$659
Other	$228			
Total	$4,439		Total	$6,134

Budget Deficit: $1,695 Billion

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Source: https://www.cbo.gov/publication/60053

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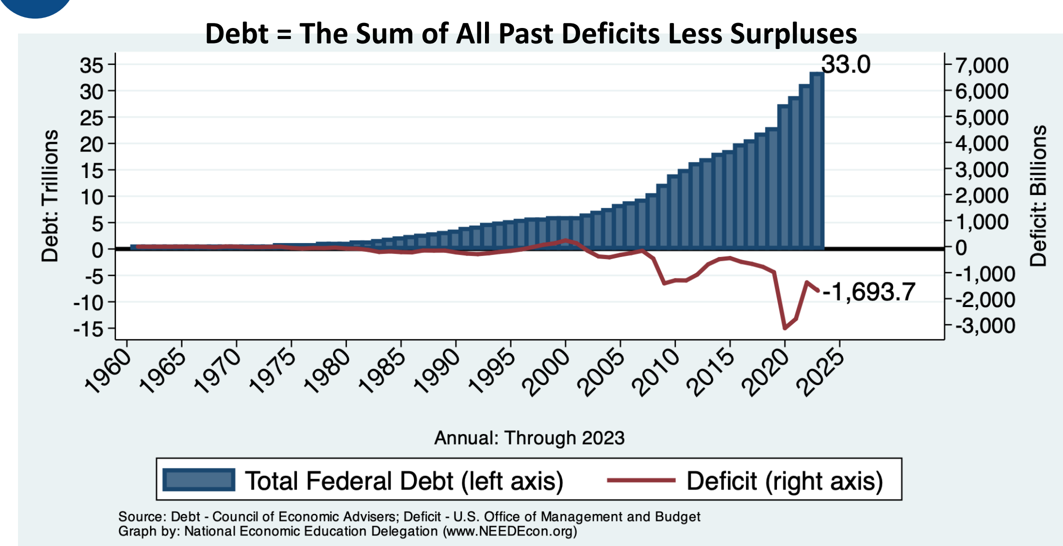
Debt vs. Deficit



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How Does the US Government Borrow?

- **It issues debt.**
  - Treasury marketable securities:
    - Treasury bills, notes, and bonds
    - TIPS: Treasury inflation-protected securities
    - Savings bonds
- **Who buys the debt?**
  - Other federal agencies
  - Individuals and businesses
  - State and local governments
  - Federal Reserve
  - Foreign governments and individuals

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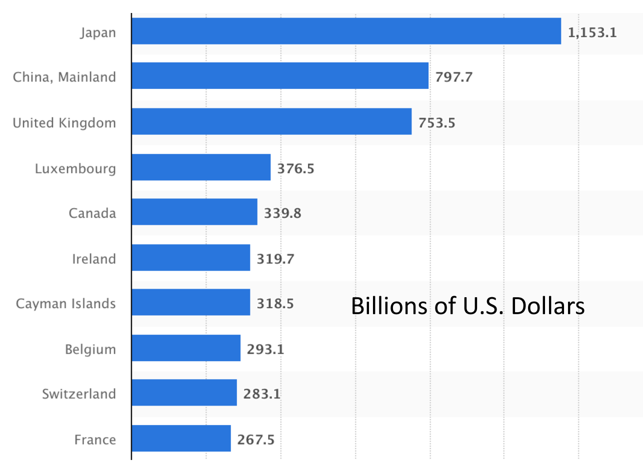
Who Holds Debt to Foreigners, Jan. 2024



Foreign ownership is relatively recent
– in 1990 foreign ownership was less than 20%
– peaked at 40+%
– now is 28.9%

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Source: https://www.statista.com/statistics/246420/major-foreign-holders-of-us-treasury-debt/

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Important Points:

- Not all debt is created equal.
- What is the right measure of the debt?

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Not All Debt Is Created Equal

- **Some debt can reduce the availability of investment funds to other borrowers.**
  - Often referred to as "crowding out" private investment.
- **Intragovernmental debt is (important) bookkeeping.**
  - This debt **DOES NOT** crowd out private investment.
- **Debt held by the public.**
  - This debt **MIGHT** crowd out private investment.
- **Most analyses of debt focus on federal debt held by the public.**

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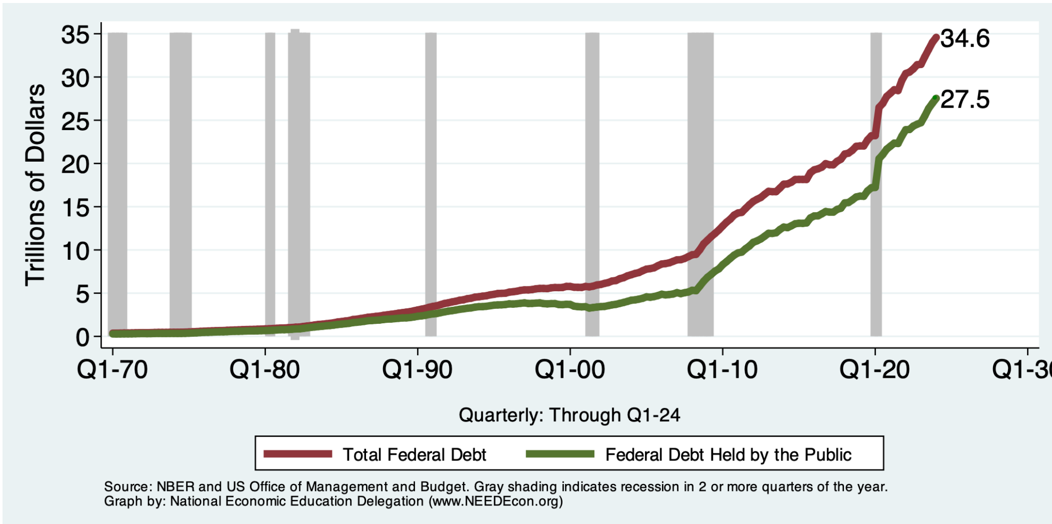
Two Measures of the Debt



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The All-Important *Relative* Debt

- **CBO analyzes the debt *relative* to GDP because:**
  - To the extent that debt and deficits have burdens, these burdens depend on the size of the debt ***relative*** to the size of the economy.

	Total Public Debt	Relative Debt Debt/GDP
United States	$27.5 Trillion	97.4%
Greece	$0.215 Trillion	170%

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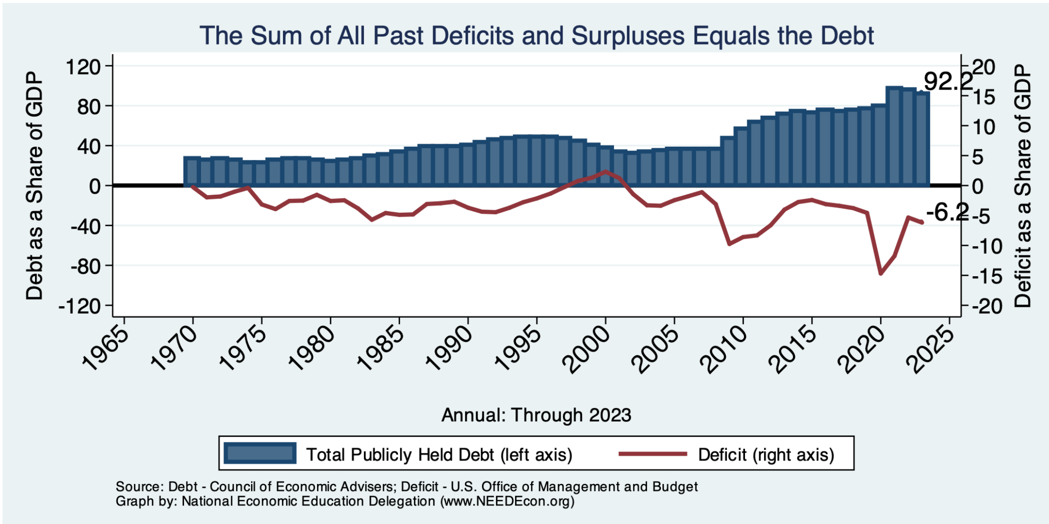
Relative Debt and Deficit



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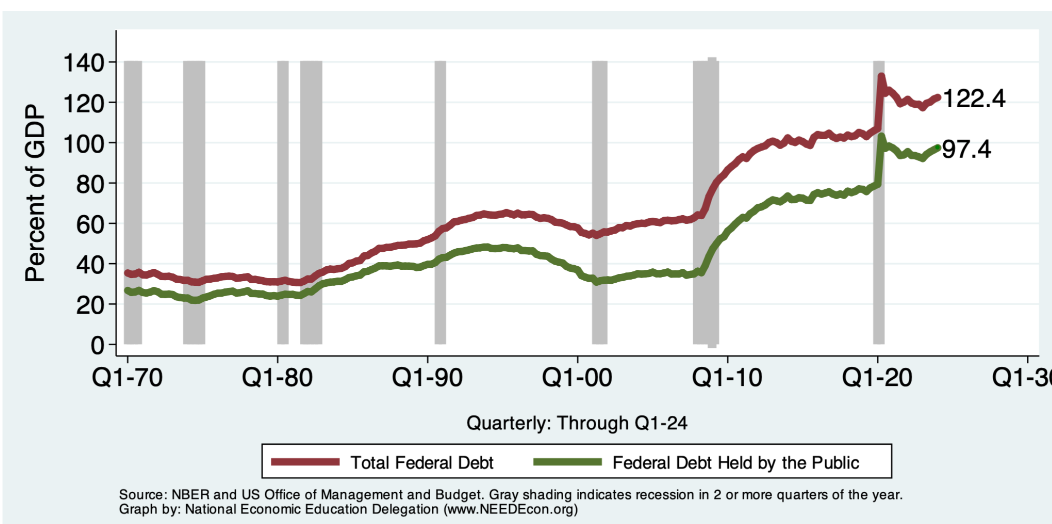
Two Measures of RELATIVE Debt



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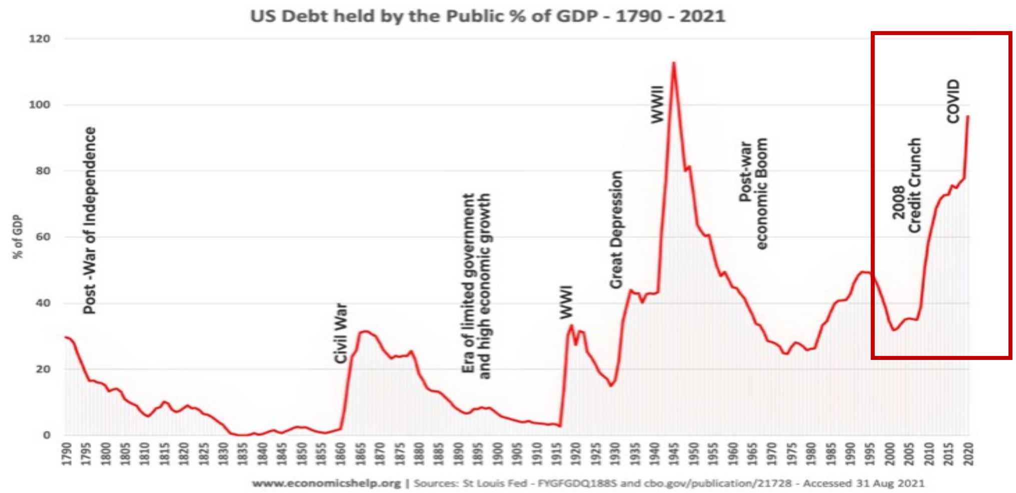
But Let's Think About Today



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Why Has the Federal Debt Risen So Much?

- **Expenditures UP:**
  - Social Security
  - Health-care costs
  - Economic stimulus
    - **In particular, during the Great Recession & COVID.**
  - Military engagements overseas

- **Revenues DOWN:**
  - Declining income tax revenues
    - Stagnant wages
    - **Tax cuts**
  - Social security
    - Declining revenues

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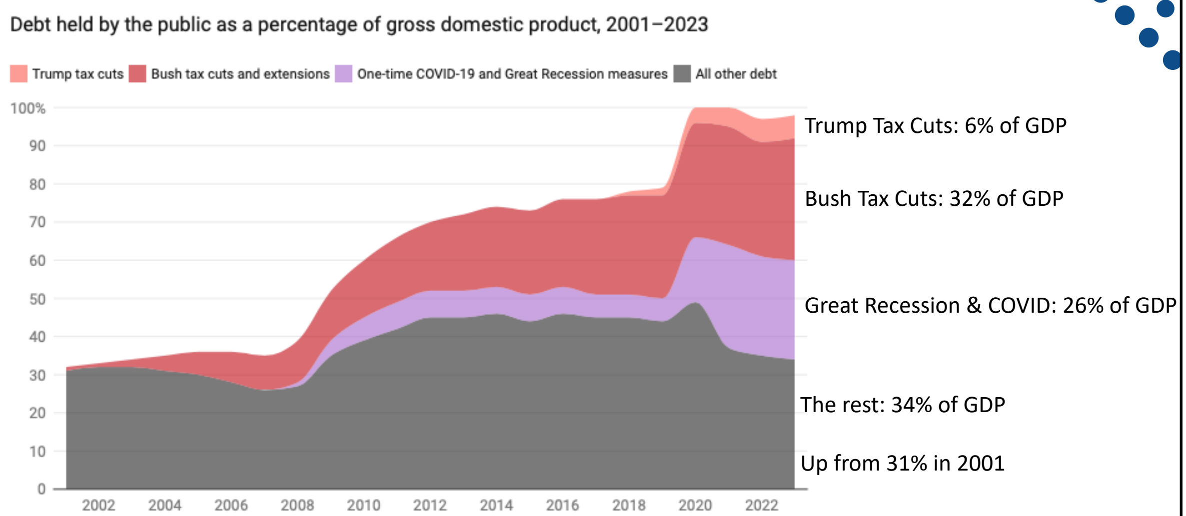
Tax Cuts Have Driven The Debt Increases



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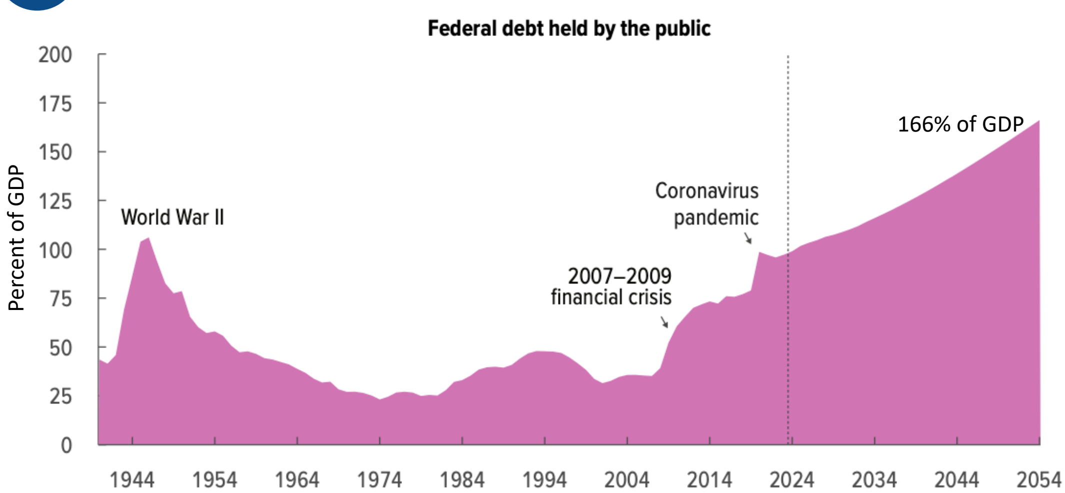
Now Let's Think About Today and the Future



Data source: Congressional Budget Office. See www.cbo.gov/publication/59711#data.

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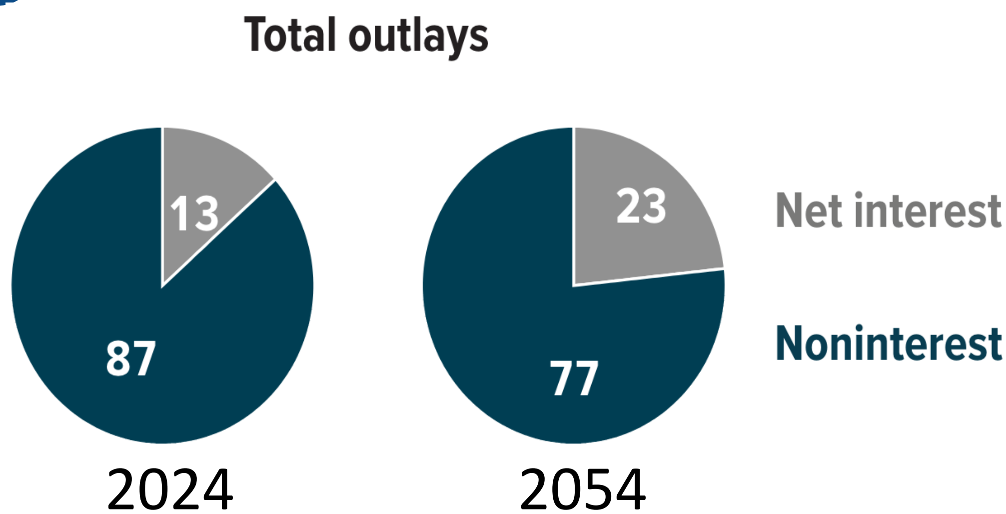
Interest Will Grow as a Share of the Deficit



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Source: CBO 2023 Long Term Budget Outlook

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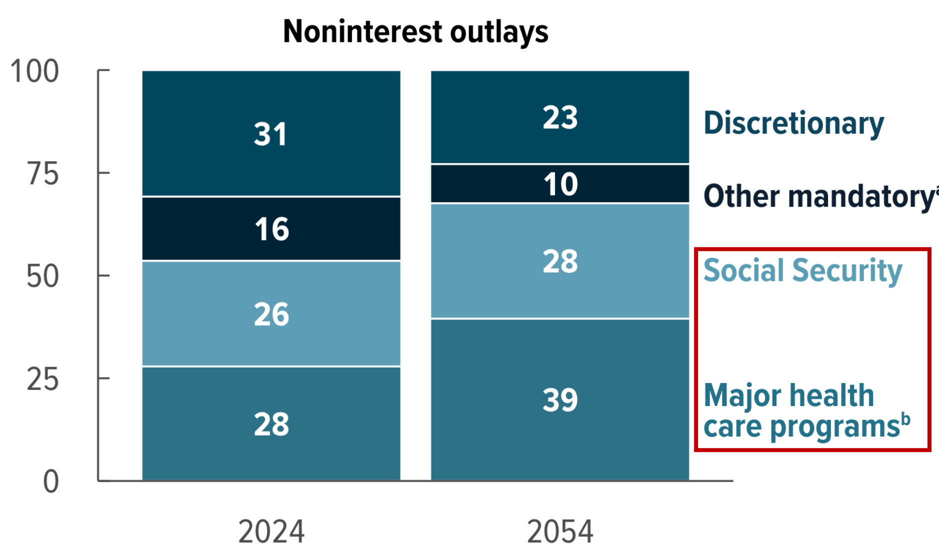
What Are the Primary Drivers Going Forward?



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Source: CBO 2024 Long Term Budget Outlook

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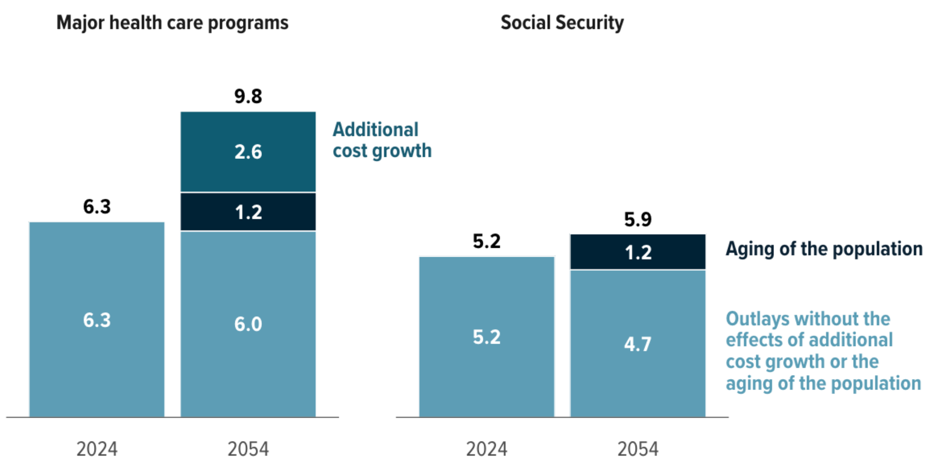
Mostly Healthcare

Percentage of GDP



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How to Think About the Debt

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Is The Debt a Problem Today?

- **Federal government borrows each month with little difficulty.**
- **Very little evidence of ”crowding out.”**
- **Interest rates were low, but have risen – this is becoming a concern.**
- **So, no, other than the debt ceiling, it’s not a problem today.**

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Not All Borrowing Is Bad!

- **Two good reasons to borrow:**
  1. During a temporary crisis
     1. Recession
     2. War
     3. Pandemic
  2. Productive public investment
     1. Infrastructure
     2. Education

- **These deficits did not and do not permanently increase relative debt.**
  - Great Depression, WWII, Great Recession, COVID
  - Public investment expands GDP and tax revenue

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What About a Fiscal Crisis?

- **Increased perception of risk in government debt.**
- **Potential manifestations:**
  - Sudden significant increase in interest rates
  - Plunging exchange rates
- **Why?**
  - Increased expectation of default
- **Potential results:**
  - Dramatic budget reforms may be quickly necessary to stave off actual default.
  - Recession from declines in:
    - Investment (interest rates)
    - Consumption (interest rates)
    - Government spending
  - Higher interest bill on existing debt

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Summary

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Bottom Line: We Need to Worry about the Debt

1. **Interest rates are high.**
2. **A fiscal crisis should be avoided at all costs.**
3. **Stabilizing relative debt would substantially reduce the possibility of a crisis.**
4. **The good news is we might be able to stabilize relative debt without a primary surplus.**

But we must substantially reduce primary deficits.

We MUST MUST MUST continue raising the debt ceiling.

Bottom Bottom Line

- Question is not ***WHETHER*** the US will have to act…
  but ***WHEN***.

- Some combination of the following ***WILL*** be necessary:
  - **Raising taxes**
  - **Cutting spending**
  - **Reining in health-care costs**

- **The longer we wait, the harder it will be!**

Thank you!

Any Questions?

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