



# The US Federal Debt

San Rafael Harbor Rotary  
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- **This slide deck was created by:**

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- Geoffrey Woglom, Amherst College, Emeritus

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## What Does the US Govt. Budget Look Like?

### 2022 Budget Summary (in billions)

Revenue		Outlays	
Income Taxes	\$2,632	Mandatory	\$4,134
Payroll Taxes	\$1,484	Discretionary	\$1,661
Corporate Taxes	\$425	Interest	\$475
Other	\$356		
<b>Total</b>	<b>\$4,897</b>	<b>Total</b>	<b>\$6,270</b>

Budget Deficit **\$1,373 Billion**



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# WHAT IS THE NATIONAL DEBT TODAY?

# \$34,155,216,862,974

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## Debt vs. Deficit

**Debt = The Sum of All Past Deficits Less Surpluses**

Annual: Through 2022

Total Federal Debt (left axis)
  Deficit (right axis)

Source: Debt - Council of Economic Advisers; Deficit - U.S. Office of Management and Budget  
 Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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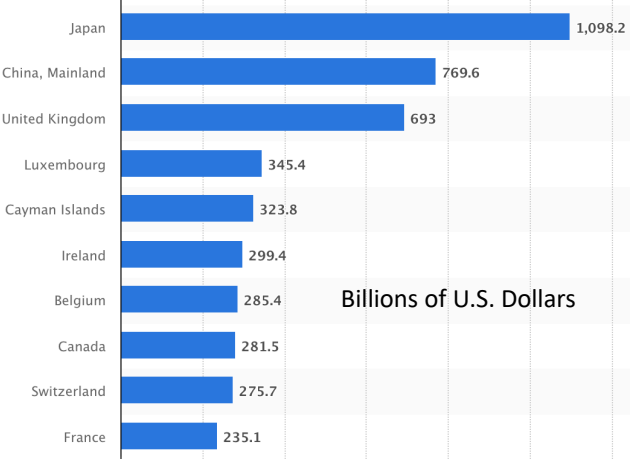
# How Does the US Government Borrow?

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

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# Who Holds Debt to Foreigners, 10/23



Country	Billions of U.S. Dollars
Japan	1,098.2
China, Mainland	769.6
United Kingdom	693
Luxembourg	345.4
Cayman Islands	323.8
Ireland	299.4
Belgium	285.4
Canada	281.5
Switzerland	275.7
France	235.1

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?

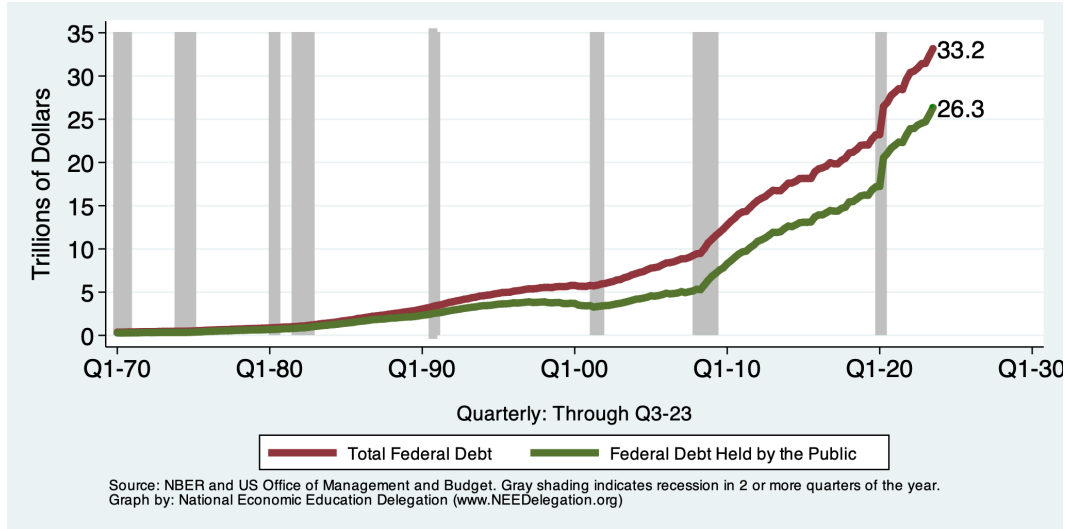


## Not All Debt Is Created Equal

- **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.**



## Two Measures of the Debt



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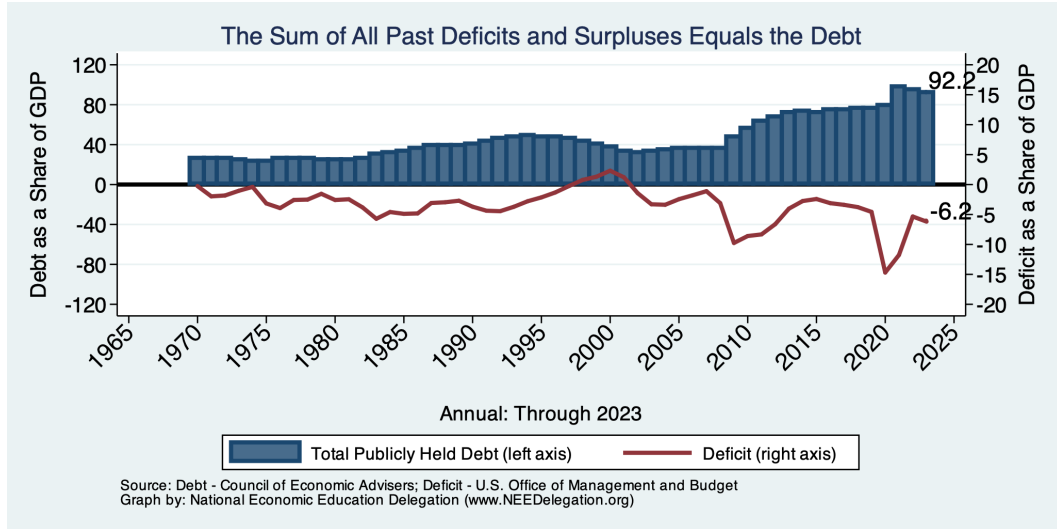
## The All-Important *Relative* Debt

- 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	\$26.3 Trillion	95.4%
Greece	\$0.215 Trillion	170%

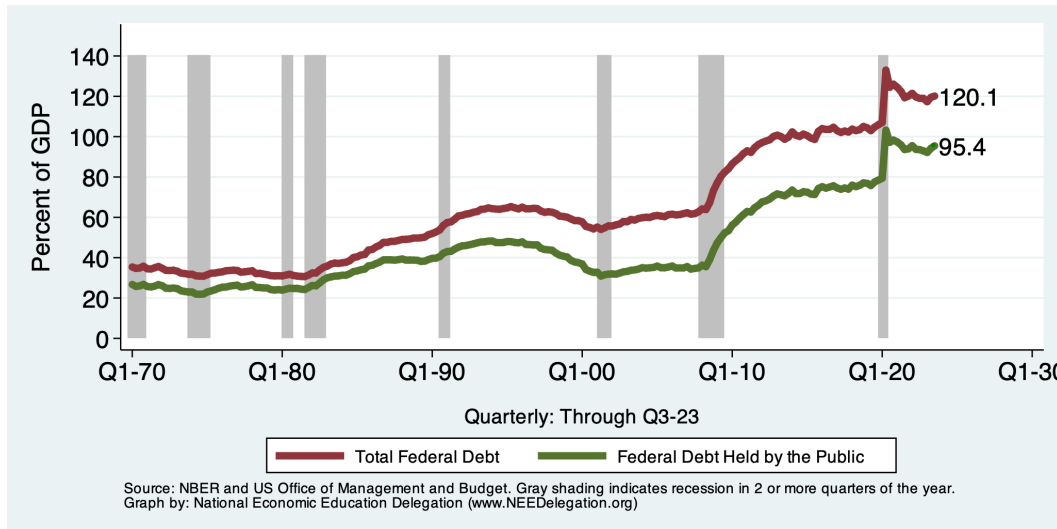
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## Relative Debt and Deficit



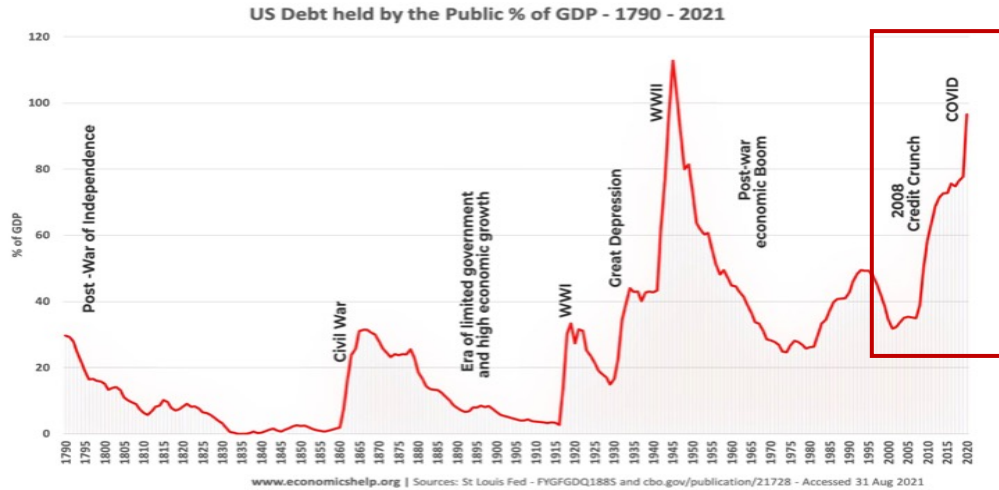
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## Two Measures of RELATIVE Debt



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## But Let's Think About Today



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## Why Has the Federal Debt Risen So Much?

### • Expenditures UP:

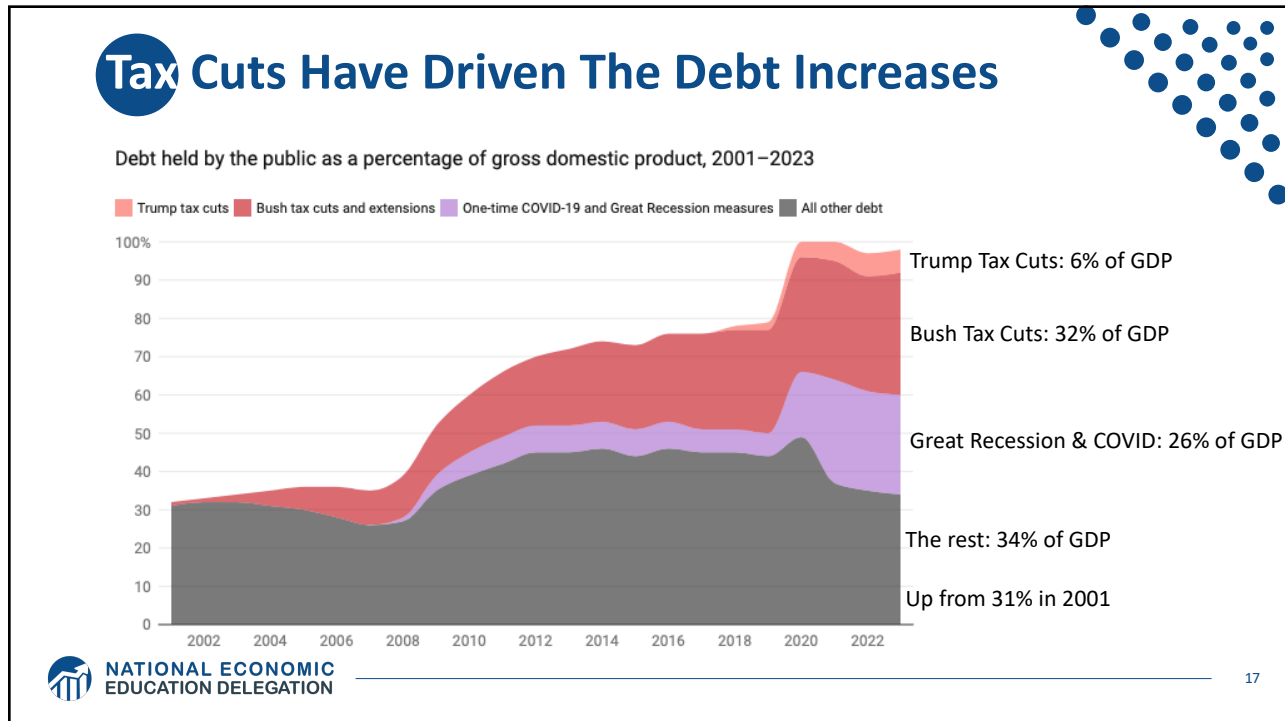
- Social Security
- Health-care costs
- Economic stimulus
  - o In particular, during the Great Recession & COVID.
- Military engagements overseas

### • Revenues DOWN:

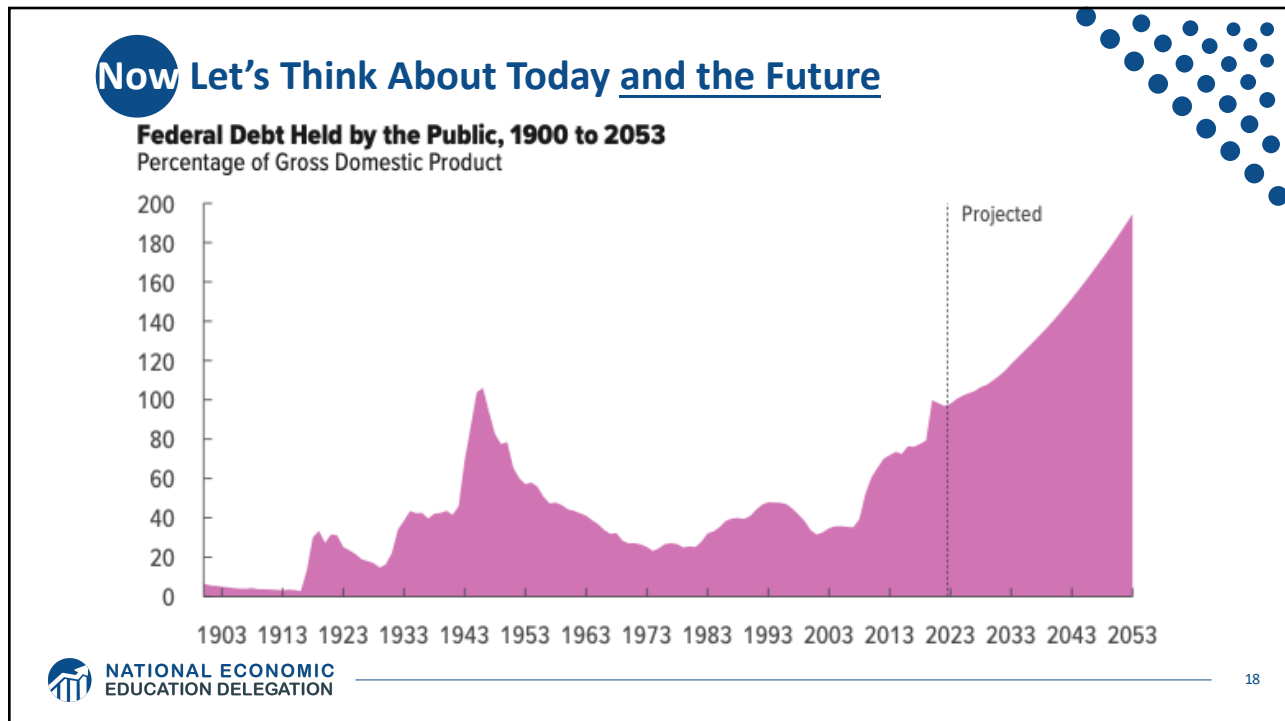
- Declining income tax revenues
  - o Stagnant wages
  - o Tax cuts
- Social security
  - o Declining revenues

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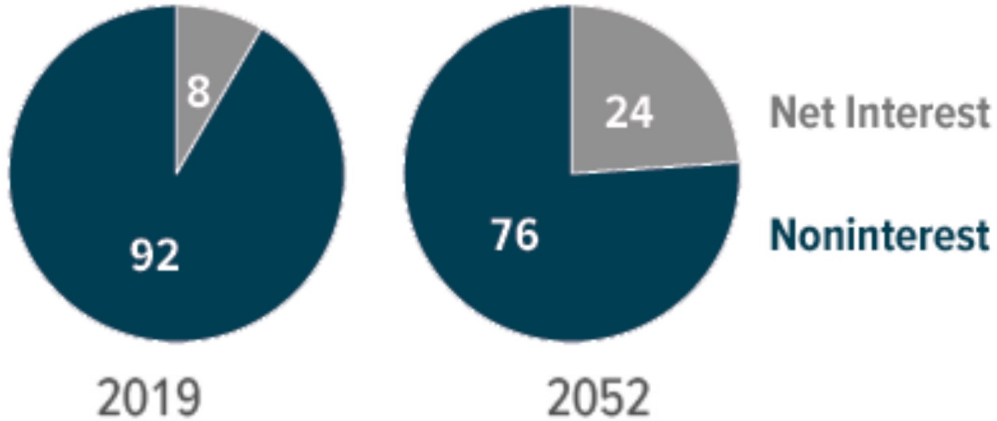
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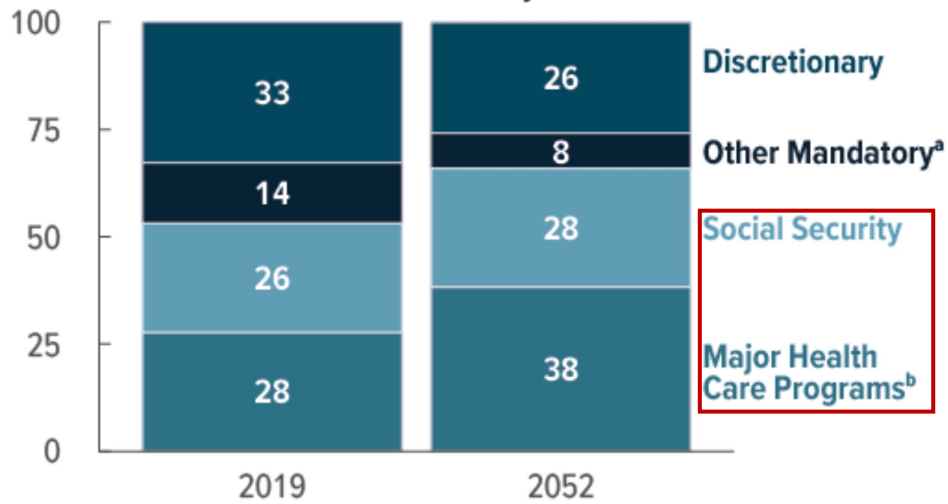
## Interest Will Grow as a Share of the Deficit

### Total Outlays



## What Are the Primary Drivers Going Forward?

### Noninterest Outlays



# 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



## 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:
  - o Investment (interest rates)
  - o Consumption (interest rates)
  - o Government spending
- Higher interest bill on existing debt



# Summary



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## Bottom Line: We Need to Worry about the Debt

1. Interest rates are rising.
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.**



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## 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!



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## Thank you!

## Any Questions?

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