



# The US Federal Debt

Walnut Creek Rotary  
November 28, 2023

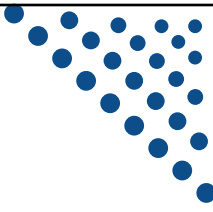
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# What Does the US Govt. Budget Look Like?

## 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>

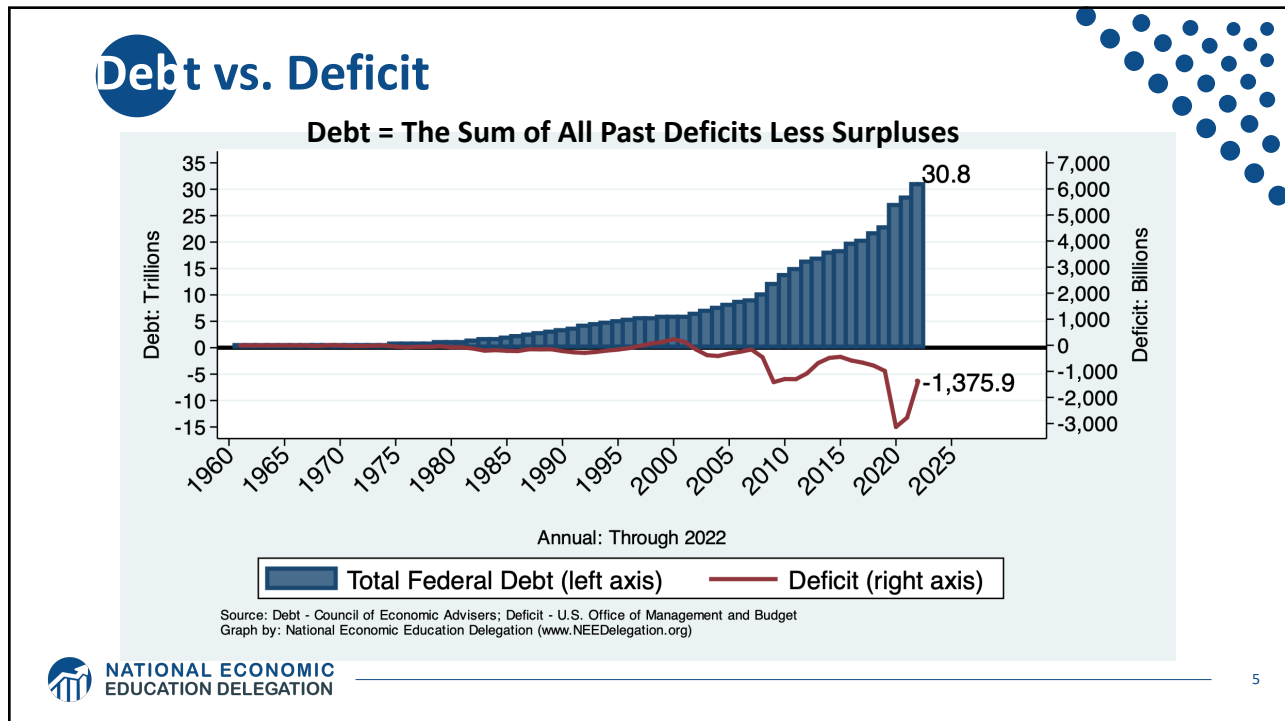
Budget Deficit **\$1,373 Billion**

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# WHAT IS THE NATIONAL DEBT TODAY?

**\$33,826,360,348,688**

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## How Does the US Government Borrow?

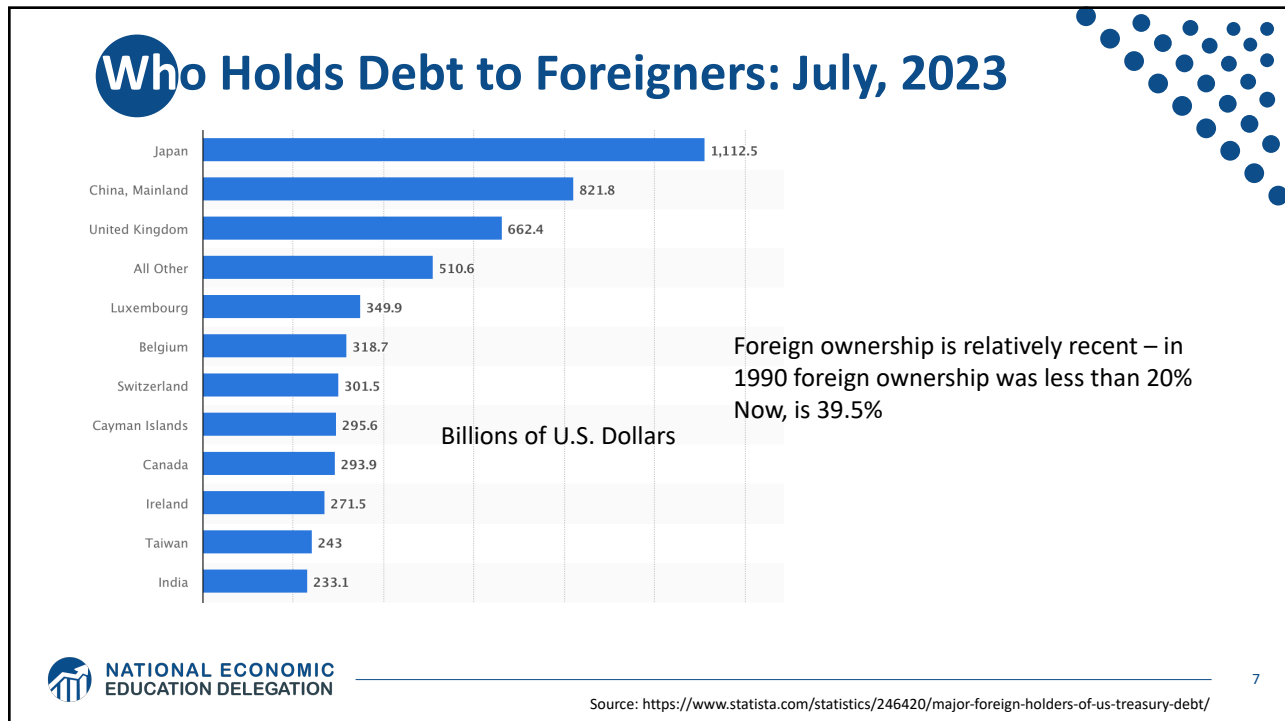
- **It issues debt.**
  - Treasury marketable securities:
    - Treasury bills, notes, and bonds
    - TIPS: Treasury inflation-protected securities
    - Savings bonds
- **Who buys the debt?**
  - Other federal agencies
  - Individuals and businesses
  - State and local governments
  - Federal Reserve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



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## Important Points:

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

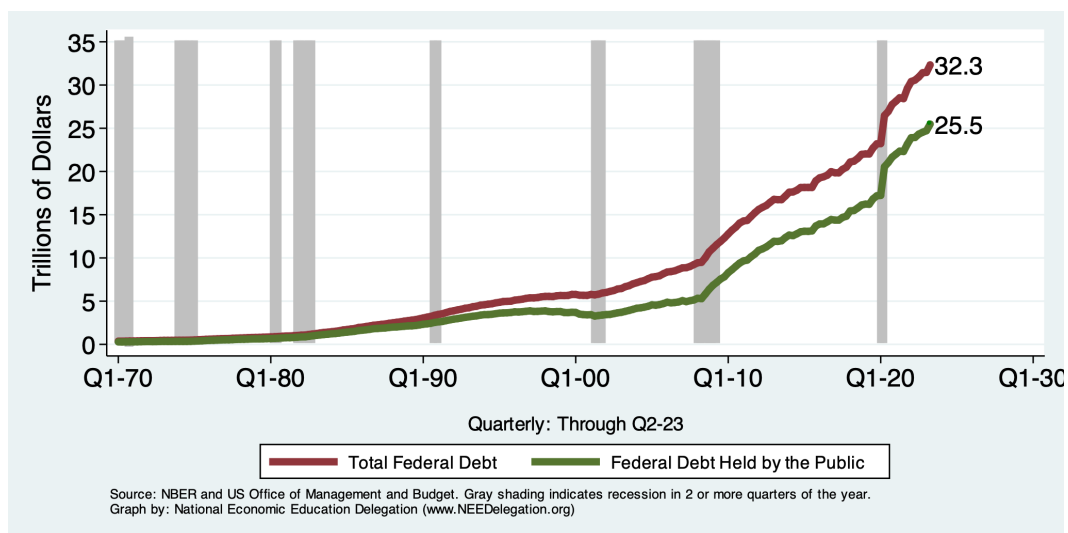
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## Not All Debt Is Created Equal

- **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.**

## Two Measures of the Debt

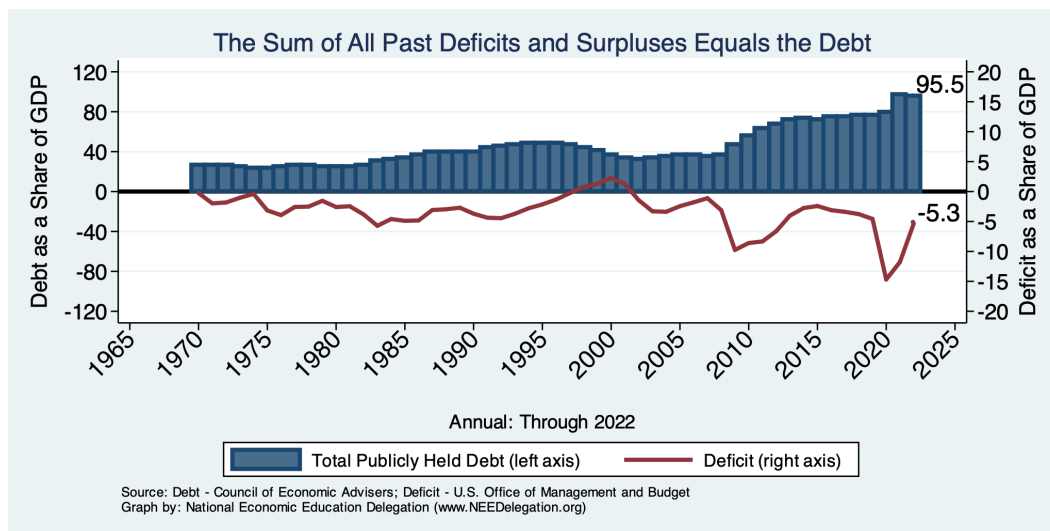


# The All-Important *Relative Debt*

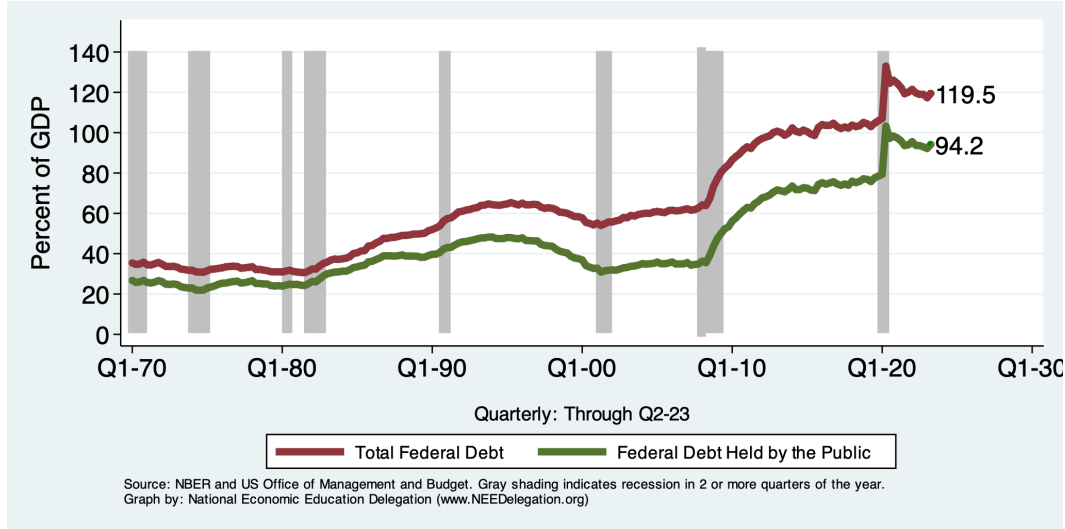
- CBO analyzes the debt *relative to GDP* because:
  - To the extent that debt and deficits have burdens, these burdens depend on the size of the debt *relative* to the size of the economy.

	Total Public Debt	Relative Debt Debt/GDP
United States	\$24.5 Trillion	93.3%
Greece	\$0.215 Trillion	170%

# Relative Debt and Deficit

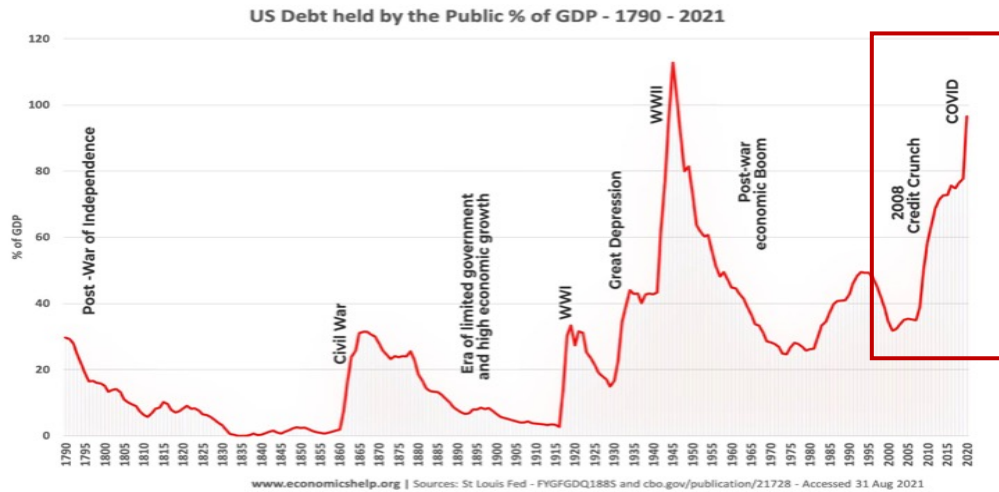


## Two Measures of RELATIVE Debt



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## But Let's Think About Today



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# Why Has the Federal Debt Risen So Much?

## • Expenditures UP:

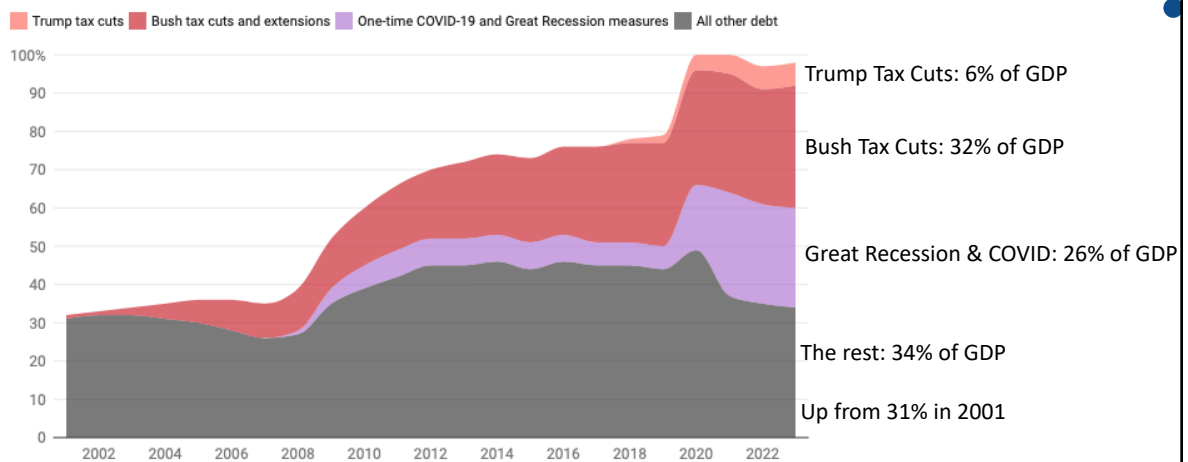
- Social Security
- Health-care costs
- Economic stimulus
  - In particular, during the Great Recession & COVID.
- Military engagements overseas

## • Revenues DOWN:

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

# Tax Cuts Have Driven The Debt Increases

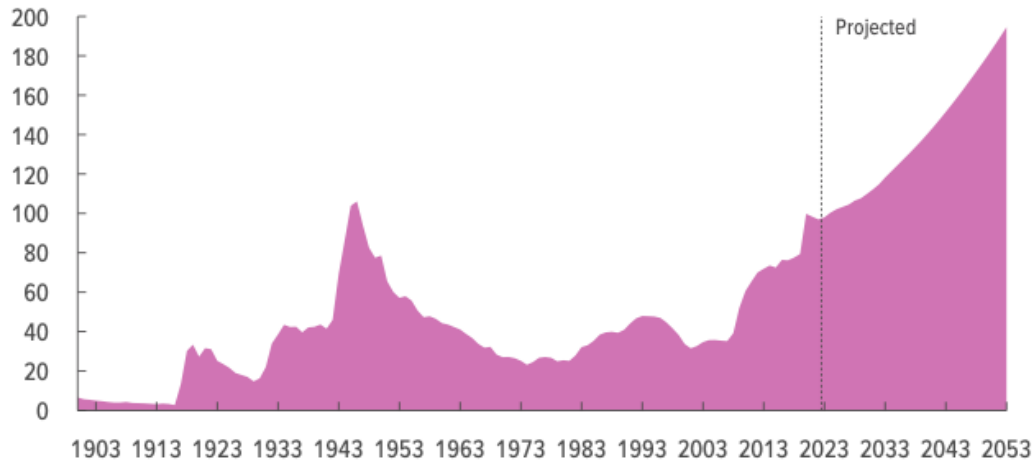
Debt held by the public as a percentage of gross domestic product, 2001–2023





## Now Let's Think About Today and the Future

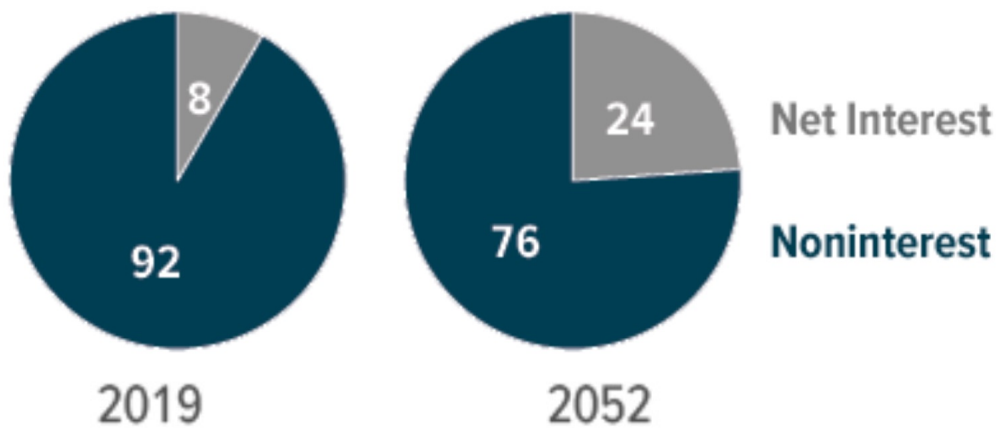
**Federal Debt Held by the Public, 1900 to 2053**  
Percentage of Gross Domestic Product



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## Interest Will Grow as a Share of the Deficit

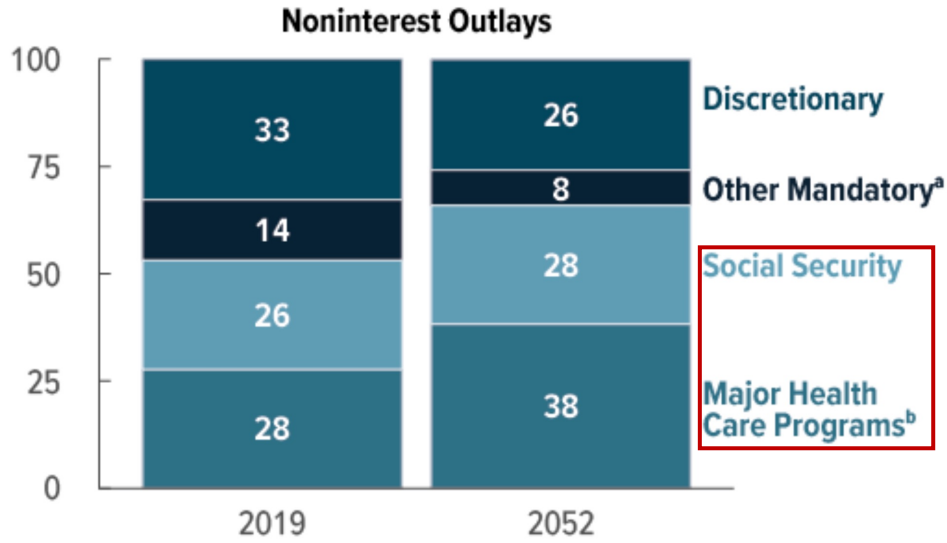
**Total Outlays**



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Source: CBO 2022 Long Term Budget Outlook

# What Are the Primary Drivers Going Forward?



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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 are rising – 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 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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