

# The US Federal Budget and Debt

Marvelous Marin Breakfast Club

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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: 46 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: 486 members**

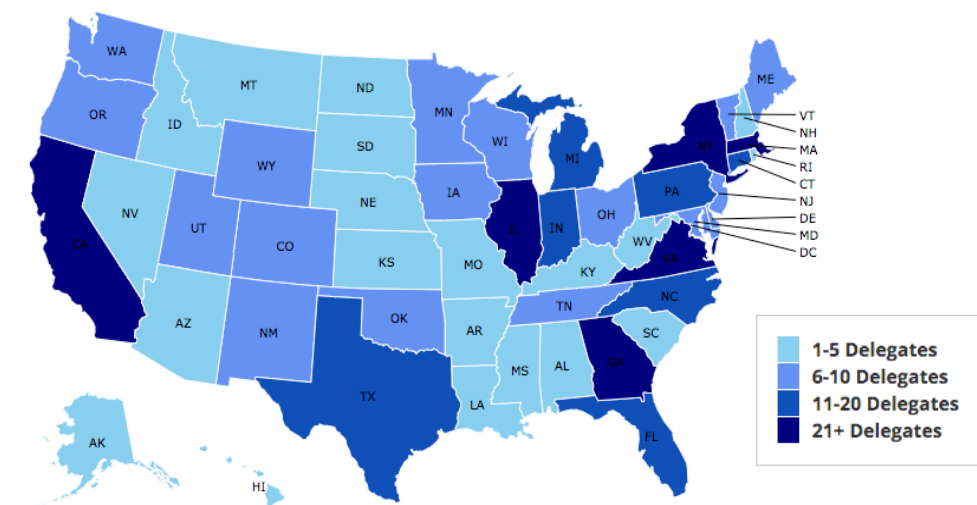
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

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## Where Are We?



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# Outline

- Government Spending
- Government Revenues
- Government Debt

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# What Does the U.S. Gov't Budget Look Like?

## 2019 Budget Summary

Revenue	Billions	Expenditures	Billions
Income Taxes	\$1,698	Mandatory	\$2,707
Payroll Taxes	\$1,247	Discretionary	\$1,323
Corporate Taxes	\$228	Interest	\$372
Other	\$278		
<b>Total</b>	<b>\$3,451</b>	<b>Total</b>	<b>\$4,411</b>

**Budget Deficit \$960 Billion**

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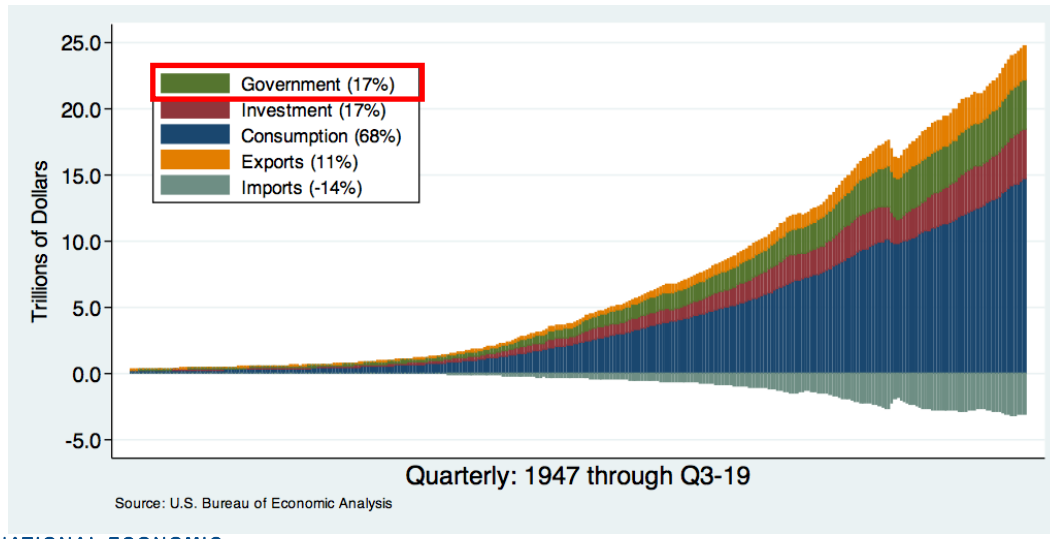
Source: [https://www.cbo.gov/system/files/2019-08/55551-CBO-outlook-update\\_0.pdf](https://www.cbo.gov/system/files/2019-08/55551-CBO-outlook-update_0.pdf)

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# U.S. Government Spending

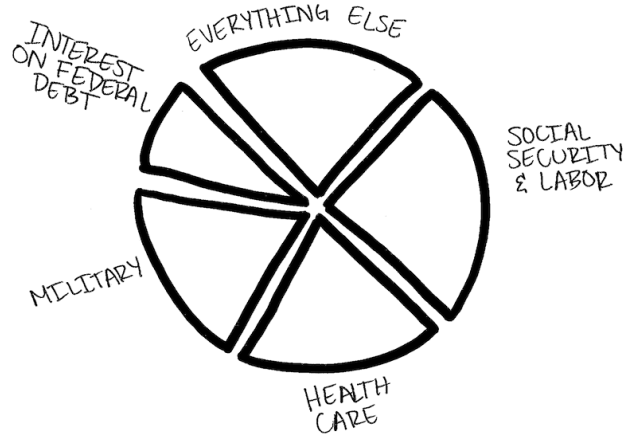
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## Government Spending and the US Economy



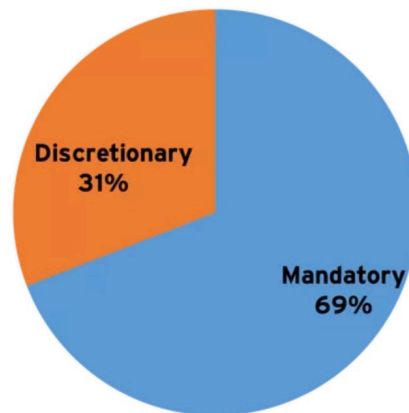
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# Where Does the Money Go?



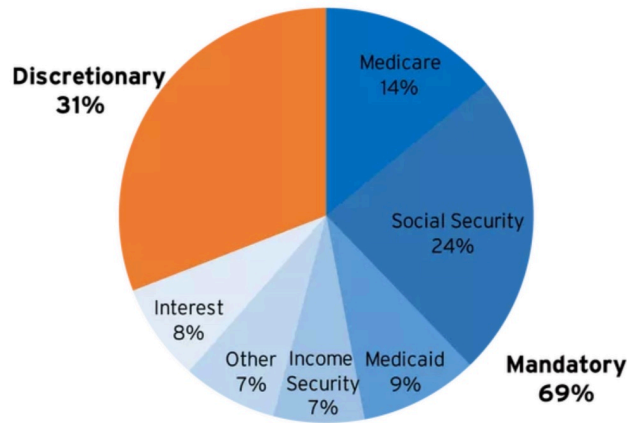
# On What is the Money Spent? Complicated

## COMPOSITION OF FEDERAL SPENDING (2018)



# What is Mandatory Spending?

COMPOSITION OF MANDATORY SPENDING (2018)



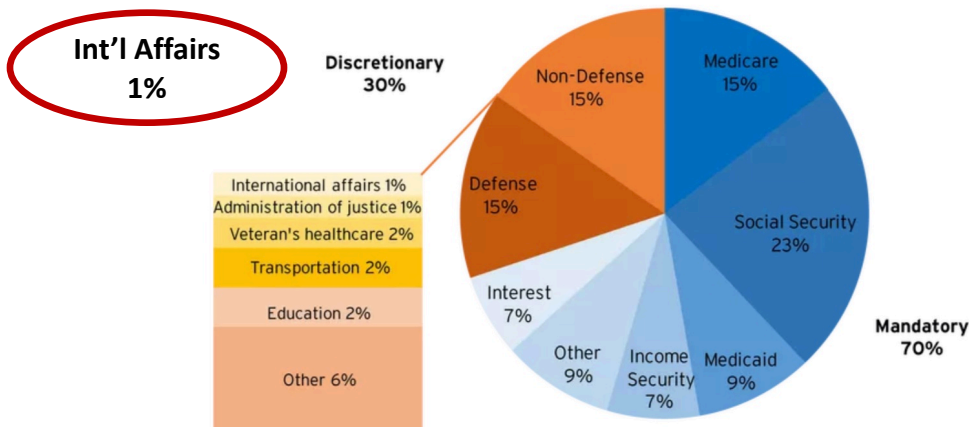
Source: Congressional Budget Office, Haver

Hutchins Center on Fiscal & Monetary Policy at BROOKINGS

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# What is Discretionary Spending?

COMPOSITION OF DISCRETIONARY SPENDING (2017)

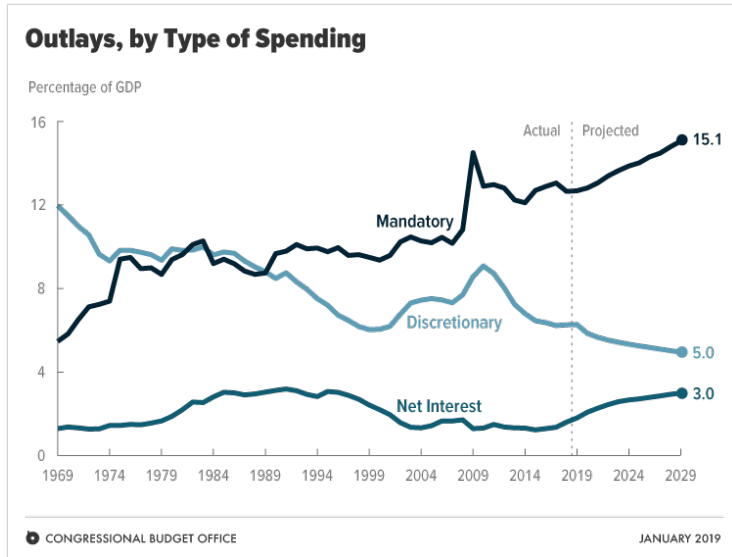


Source: Congressional Budget Office, Haver. Data are for 2017. Note: Numbers may not add up due to rounding.

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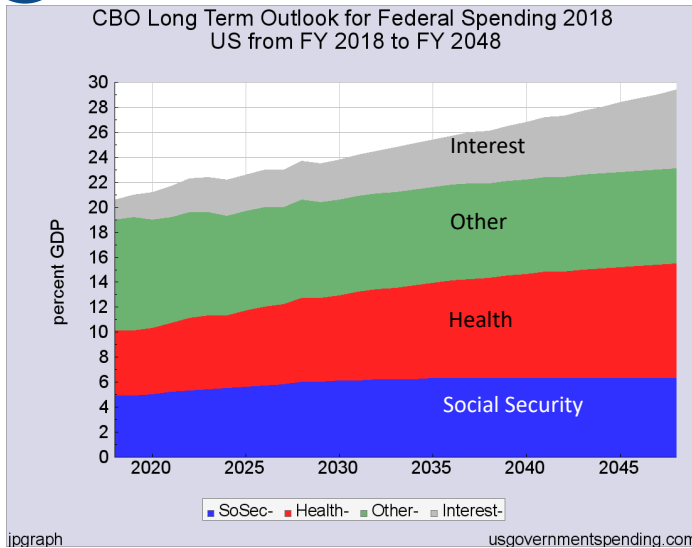
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# Mandatory Spending Dominates Forecasts



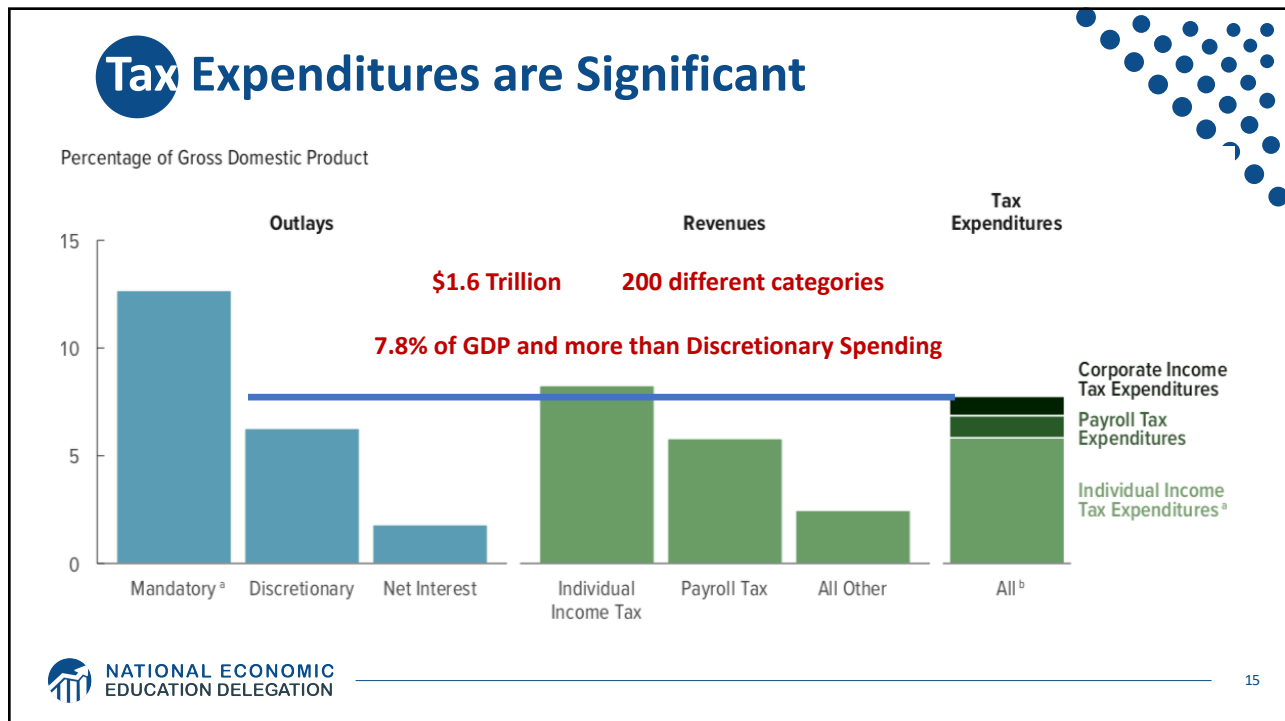
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# Forecast Spending



What trends do you see?

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- ## Important things that people get from govt
- Roads and highways
  - Public education
  - Defense
  - Research and development
  - Space exploration
  - Income Security
  - Improved public health
    - Sanitation
  - Investments in communications
  - Energy
  - Many, many, inventions:
    - Microchips
    - GPS
    - Wind turbines
    - Tang
    - Touch screens
    - Internet
    - Bar Codes
    - Wii
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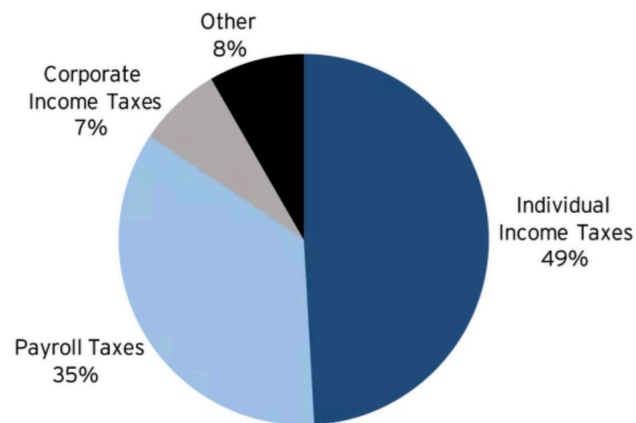


# US Government Revenues

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## Where Do Government Revenues Come From?

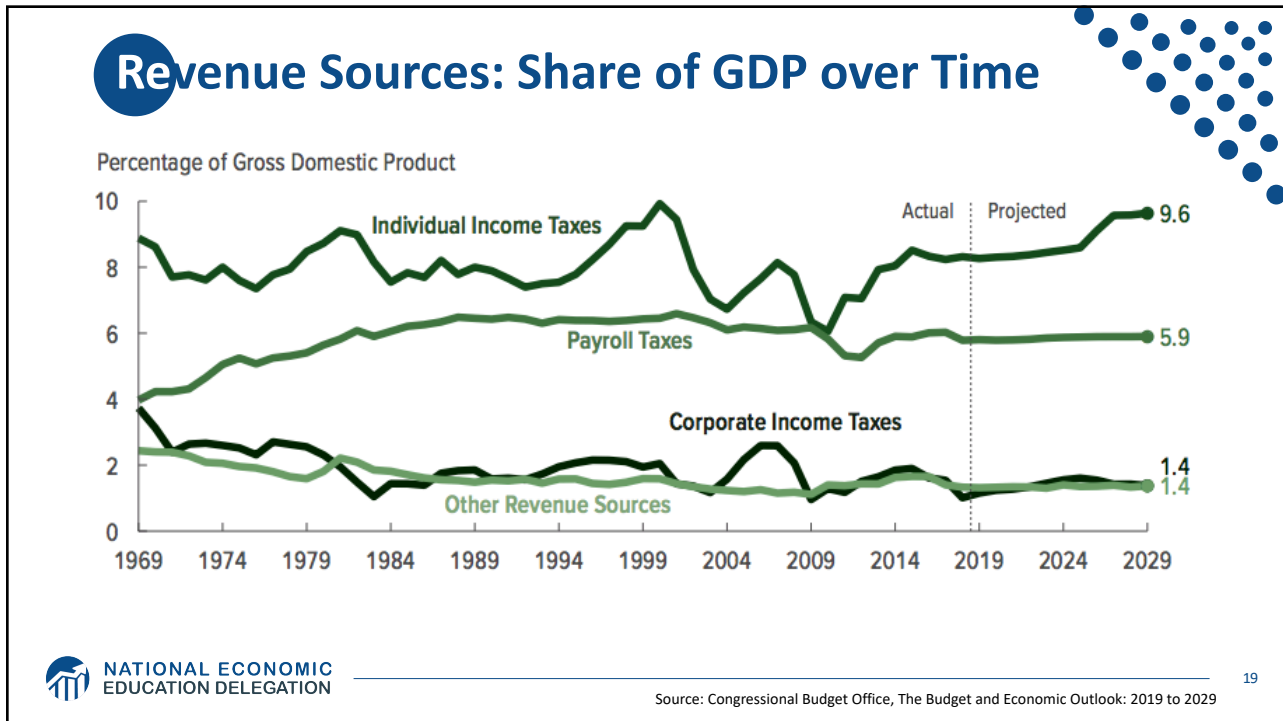
COMPOSITION OF REVENUES (2018)



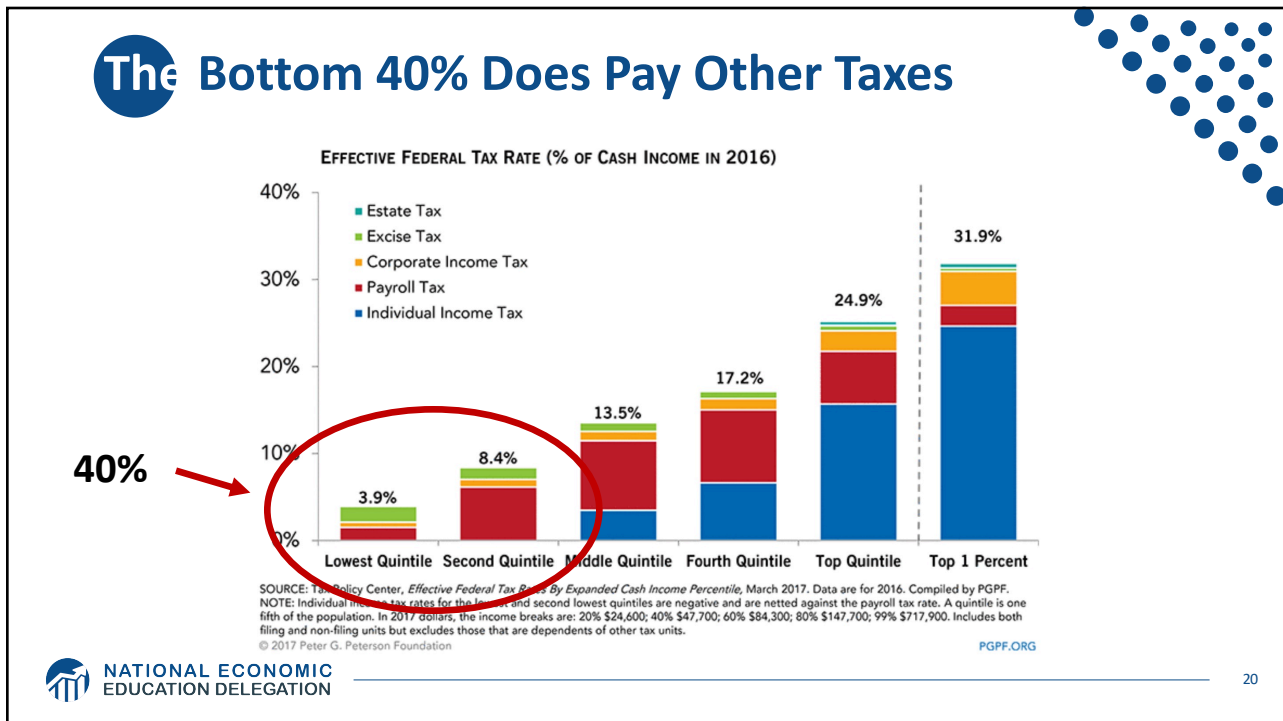
Source: Congressional Budget Office, Haver

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## Summary: Slide 1

- **Total Spending: \$4.4 Trillion in 2019**
- **There is remarkably little discretion in each budget:**
  - Mandatory: 69%
  - Discretionary 31%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2048:**
  - Debt is forecast to grow to 150% of GDP, from 80% today
  - Interest payments are forecast to grow from 8% to 22% of budget



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## Summary: Slide 2

- **Categories that get a lot of attention are relatively small**
  - Foreign Aid: 1% of the budget
  - Income support/welfare: 8.7%
- **Or are not forecast to grow significantly**
  - Social security
  - Most other categories of spending
- **Tax Expenditures are Really Important**
  - Larger than all of discretionary spending.
  - Add 25% to spending.



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# US Government Debt



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## Of Debt, Deficits, and Surpluses

- **STOCK**

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

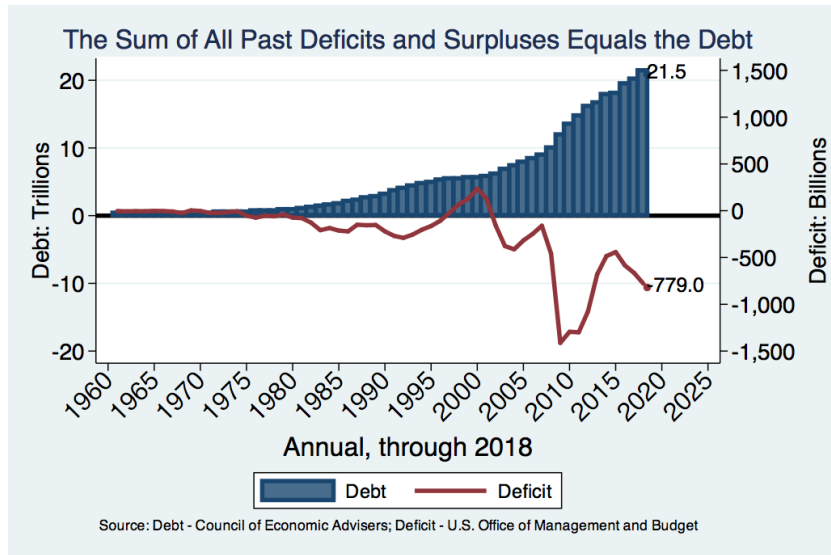
- **FLOW**

- **Deficit:** The amount of debt accrued in a single year.
- **Surplus:** The excess of revenues over expenses in a single year.



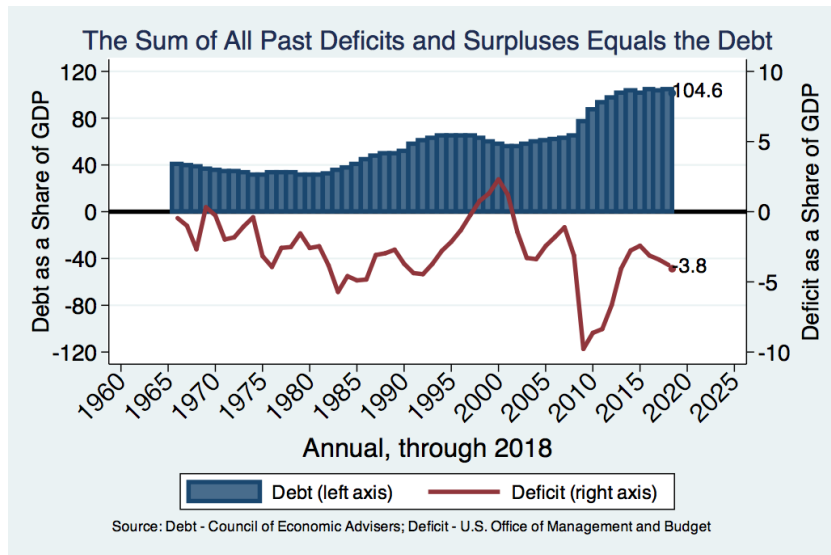
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## Debt vs. Deficit

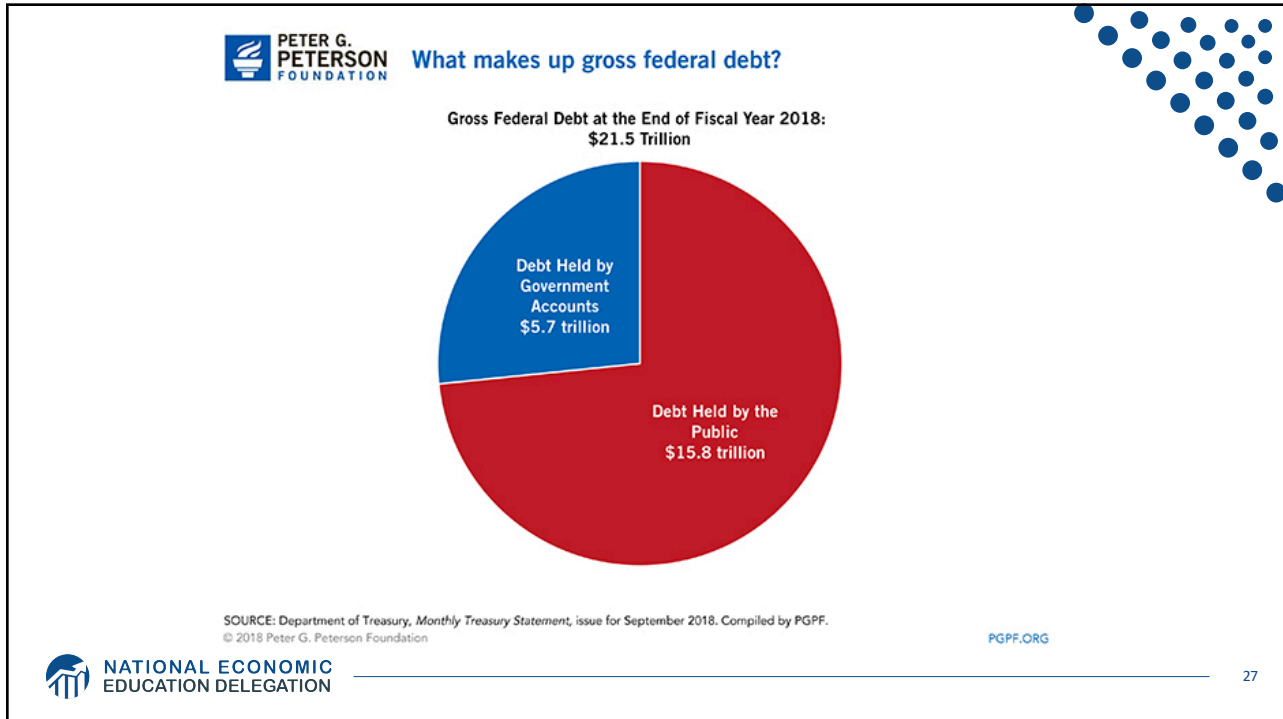


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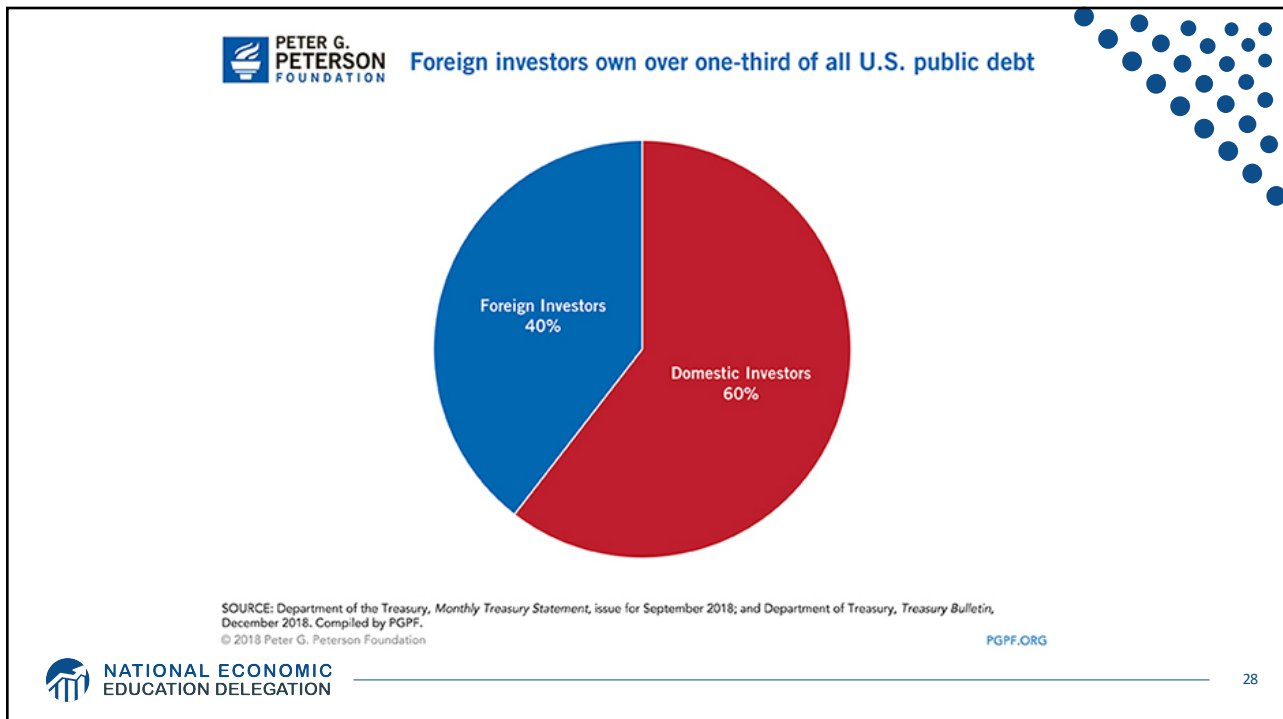
## Debt vs. Deficit: Share of GDP



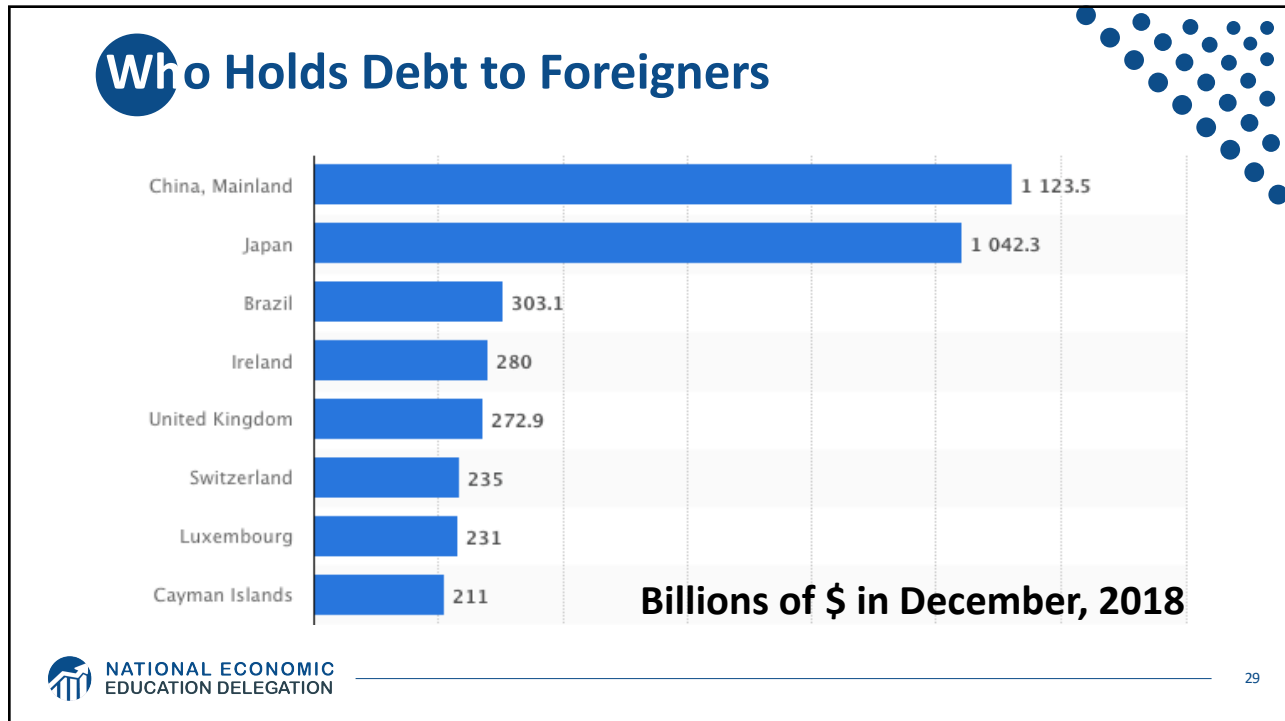
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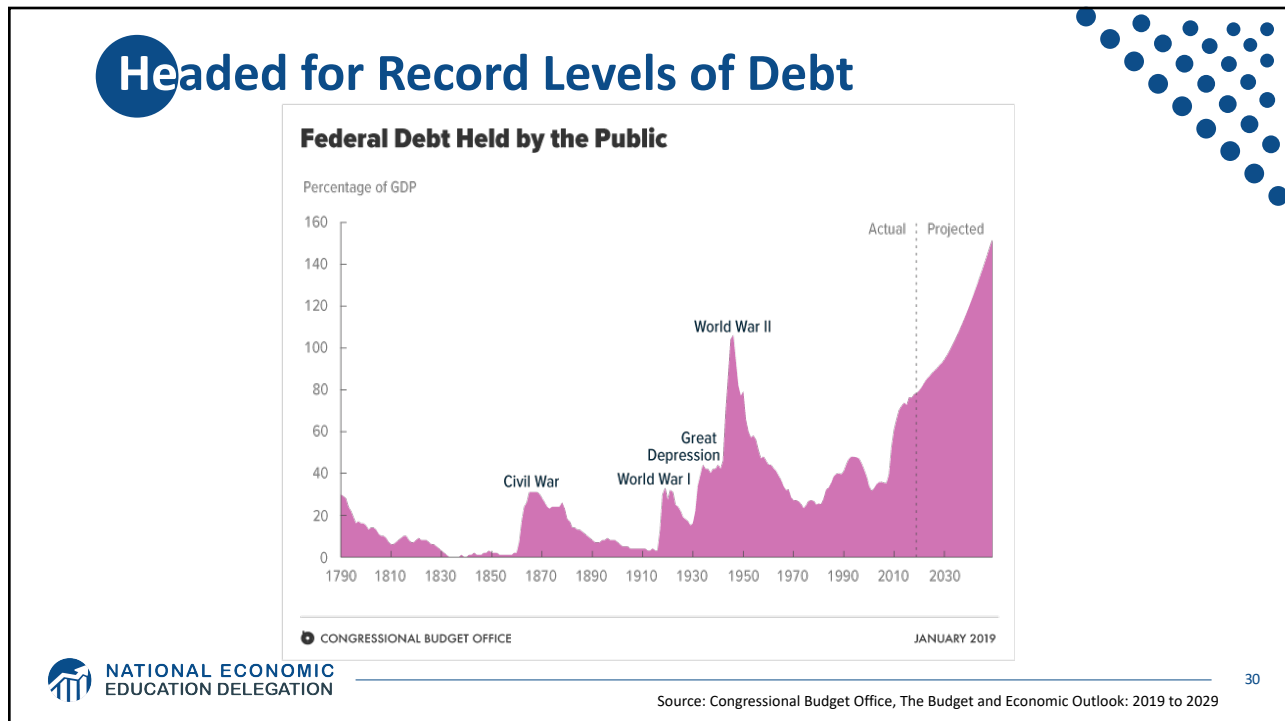
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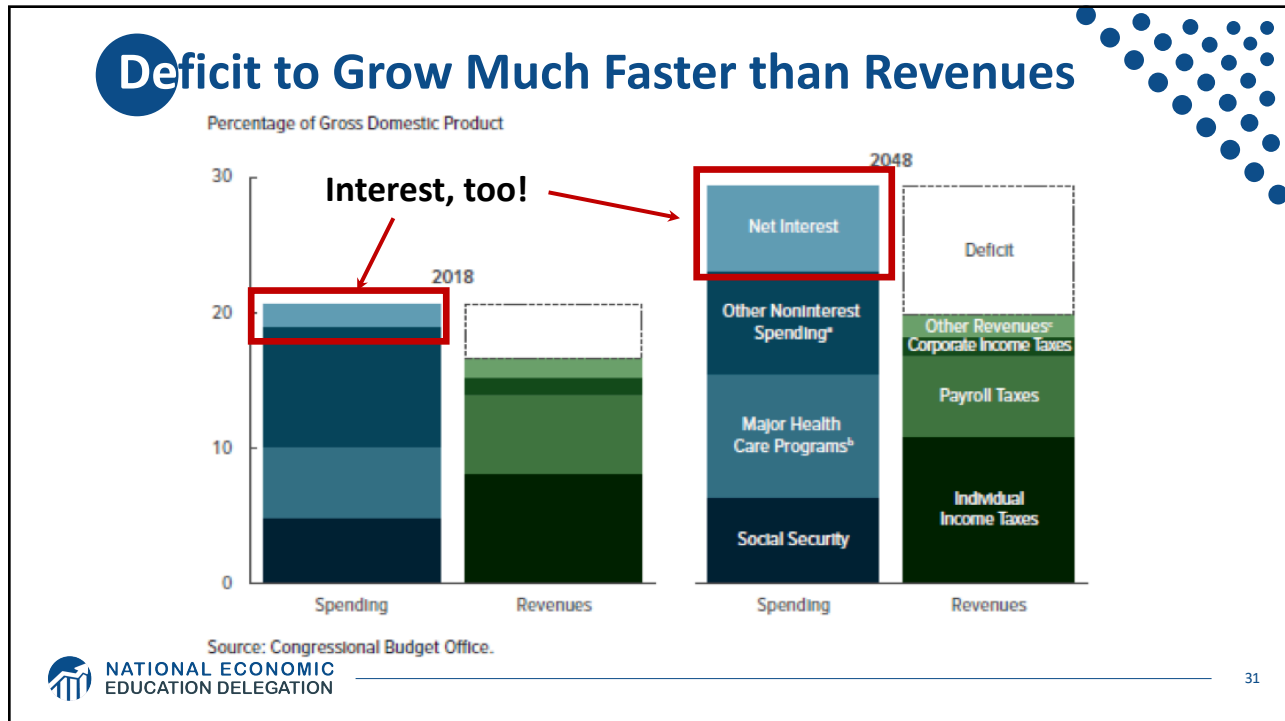
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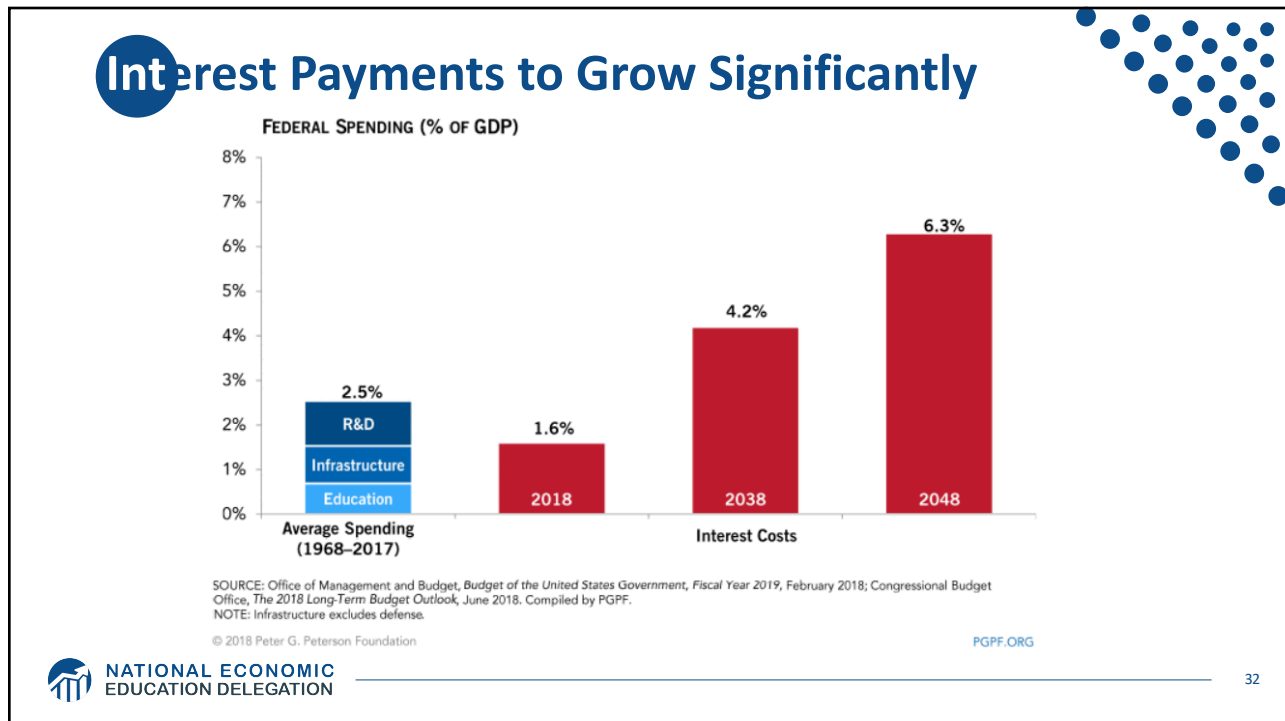
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## Perspectives on Increased Debt

- **Government borrowing CROWDS OUT private capital and investments.**
  - Weakened by ability to borrow from abroad.
- **Is it reasonable to borrow at low interest rates for investments?**
  - For example, infrastructure.
- **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.



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## The Reason for Borrowing Matters

- **Two good reasons to borrow heavily:**
  - To support the economy during a recession – fiscal expansion.
  - Investments that will increase economic activity in the future.
- **Should not borrow for:**
  - Items consumed today
    - Government salaries
    - Retirement benefits
  - Tax breaks of uncertain benefit to the broader economy.



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## Is the Debt a Problem Today?

- Currently borrow about \$100 Billion each month with little difficulty.
- Very little evidence of "crowding out".
- Interest rates are very low, less than 3% on 10-year notes.



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## So, Why Worry About it?

- If debt gets too high:
  - There is the potential for investors to start questioning the *creditworthiness of the U.S. Government*.
    - o Problem: Nobody knows how high might be too high?
  - It becomes more difficult to *borrow in times of crisis*.
    - o War, severe recession
    - o "Fiscal space" – impossible to measure how much we have, but clear that we have less now than back in 2007.
  - Could start to *crowd out* investments by consumers and businesses.
    - o Not currently a problem. No idea if/when it might become one.
  - Could be inflationary.



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## So, Why Worry About it?

- **If debt continues to grow:**

- **Interest payments** will grow with it.
  - 8% of spending in 2018.
  - 22% of spending in 2048.
  - Less room for using the budget for policy priorities.
  - 40% of payments go abroad.
- The longer we wait to address it, the **harder and more disruptive** it will be to address it.
- **Interest RATES** may increase.



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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: The Debt

- The jury is (sort of) out on the debt.
- Conventional wisdom is being challenged:
  - Previously: inflationary and crowds out private investment
  - New assertion: these things don't matter for a country that can borrow in its own currency.
- Upshot?
  - This is a policy choice.
  - The cautious approach is to rein in the debt.
  - The cautious approach may lead to slower economic growth.



## 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



**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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