


The Federal Debt, The Economy, and Social Programs

Financial Forum, Rossmoor

July 23, 2023
Jon Haveman, Ph.D.
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: 54 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: 652+ members

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

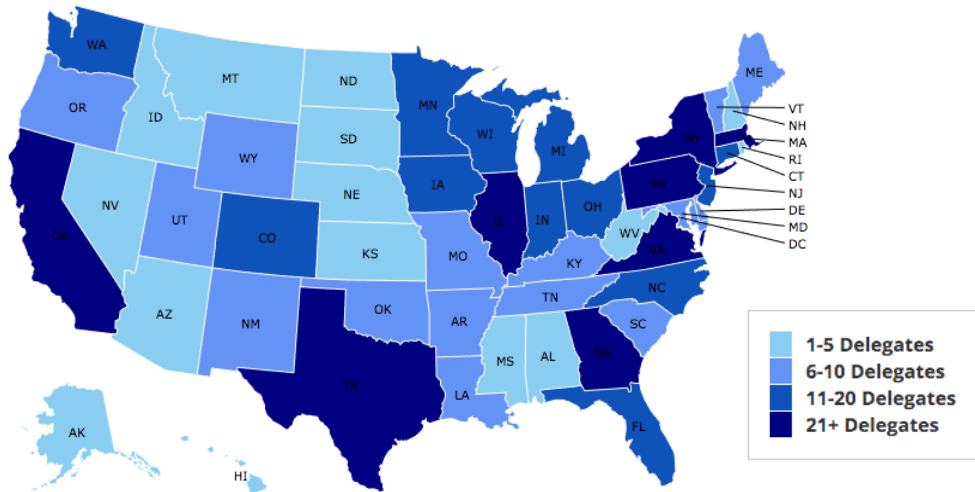
• Global Partners: 48 Ph.D. Economists

- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics



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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Brian Dombeck, Lewis & Clark College
 - Doris Geide-Stevenson, Weber State
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Outline

- Federal Debt, Briefly
- The State of the Economy
- Inflation
- Federal Debt & Social Programs

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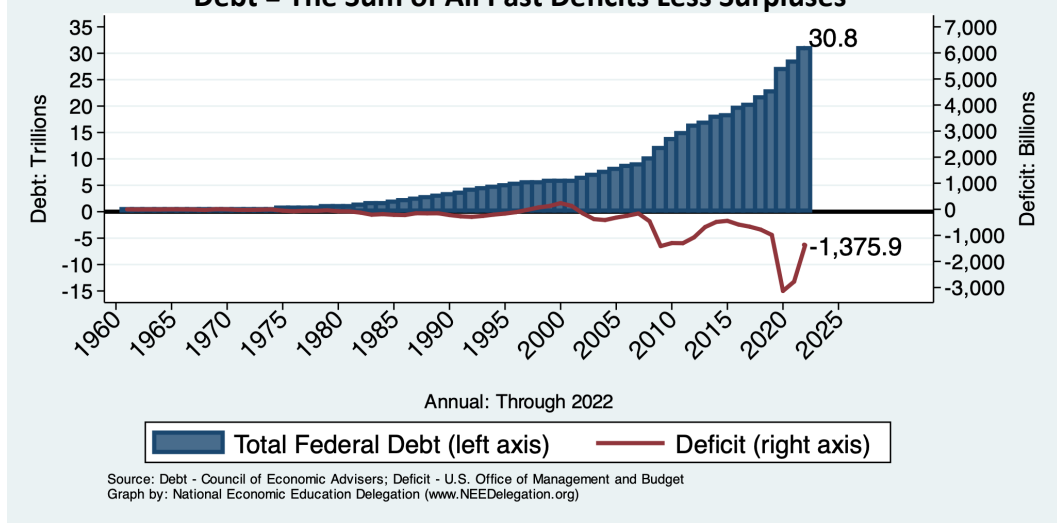
Federal Debt: Big and Getting Bigger



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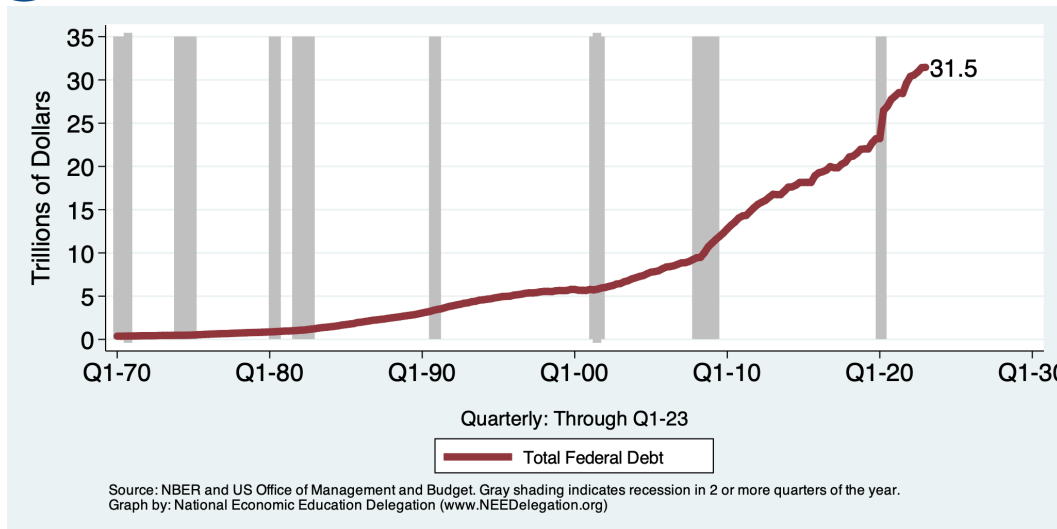
Debt vs. Deficit

Debt = The Sum of All Past Deficits Less Surpluses



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The Debt Over Time



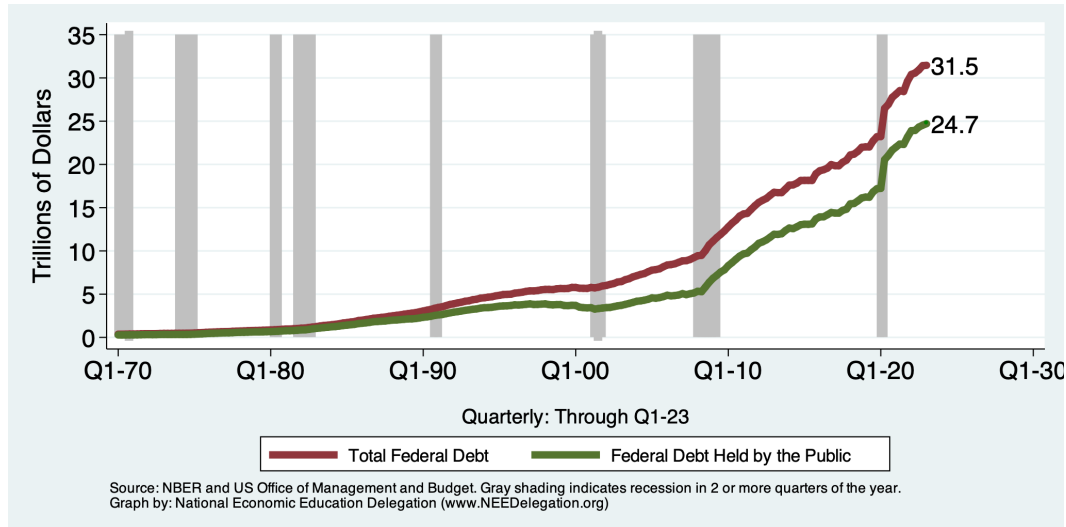
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Federal Debt: One Important Caveat



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The Debt Over Time: 2 Types



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Federal Debt: A Second Important Caveat

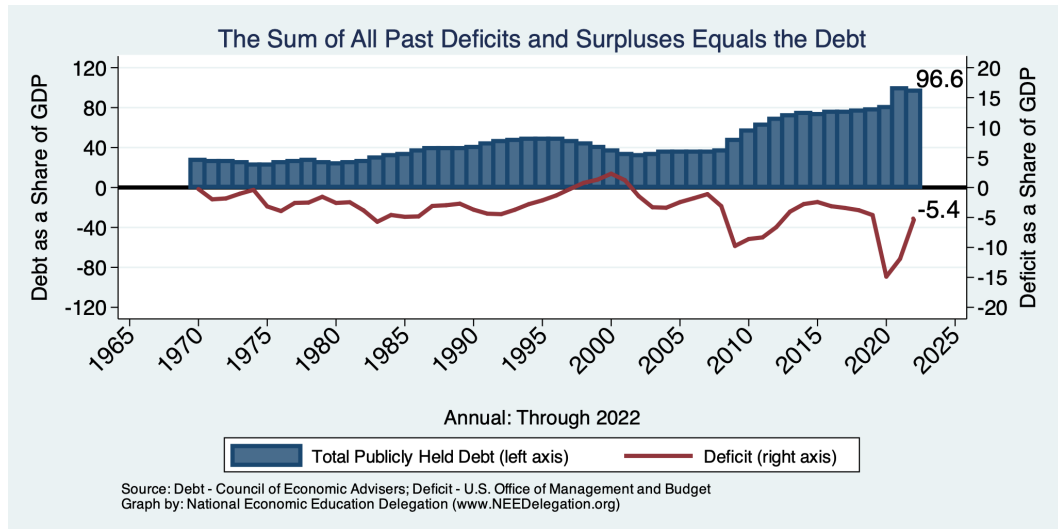
- CBO analyzes the debt *relative* to GDP because:
 - To the extent that debt and deficits have burdens, these burdens depend on the size of the debt *relative* to the size of the economy.

	Total Public Debt	Relative Debt Debt/GDP
United States	\$24.7 Trillion	96.6%
Greece	\$0.215 Trillion	170%

We care about public debt RELATIVE to GDP, not it's ABSOLUTE level.

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Relative Debt and Deficit



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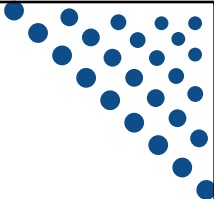


The U.S. Economy

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Headline: July 28, 2022

G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

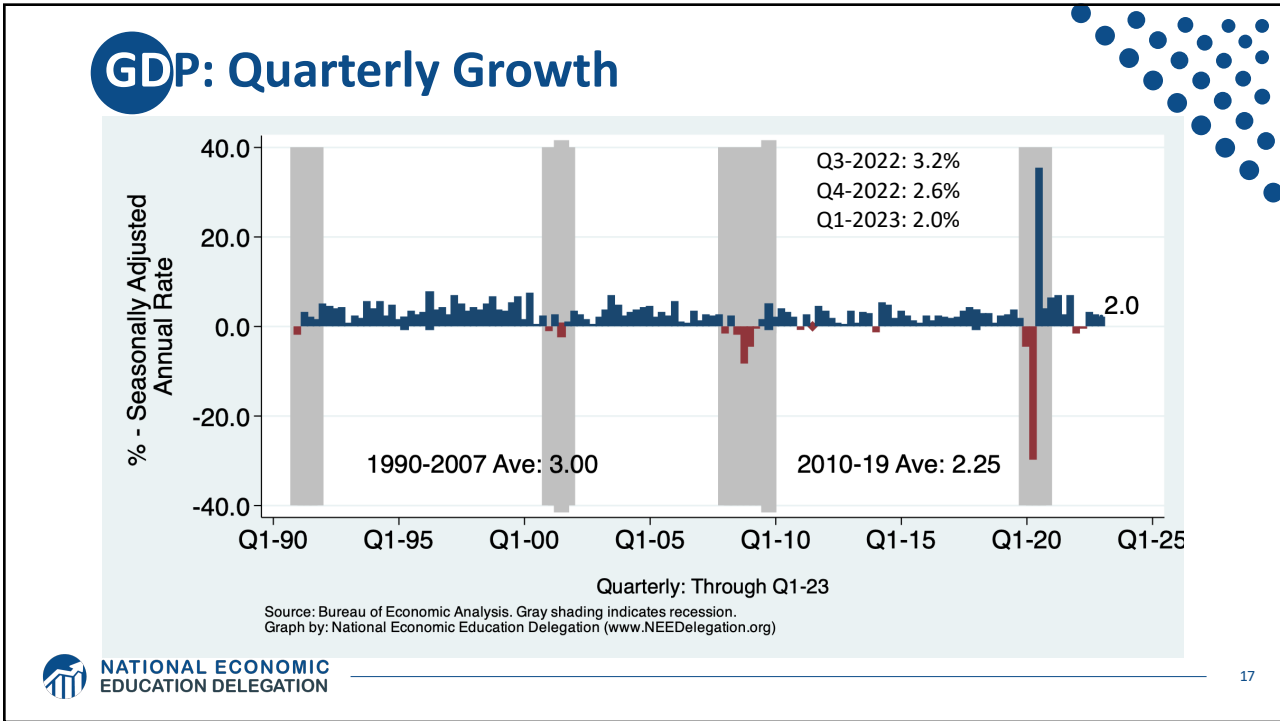
- A key measure of economic output fell for the second straight quarter, fanning fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

Old news...

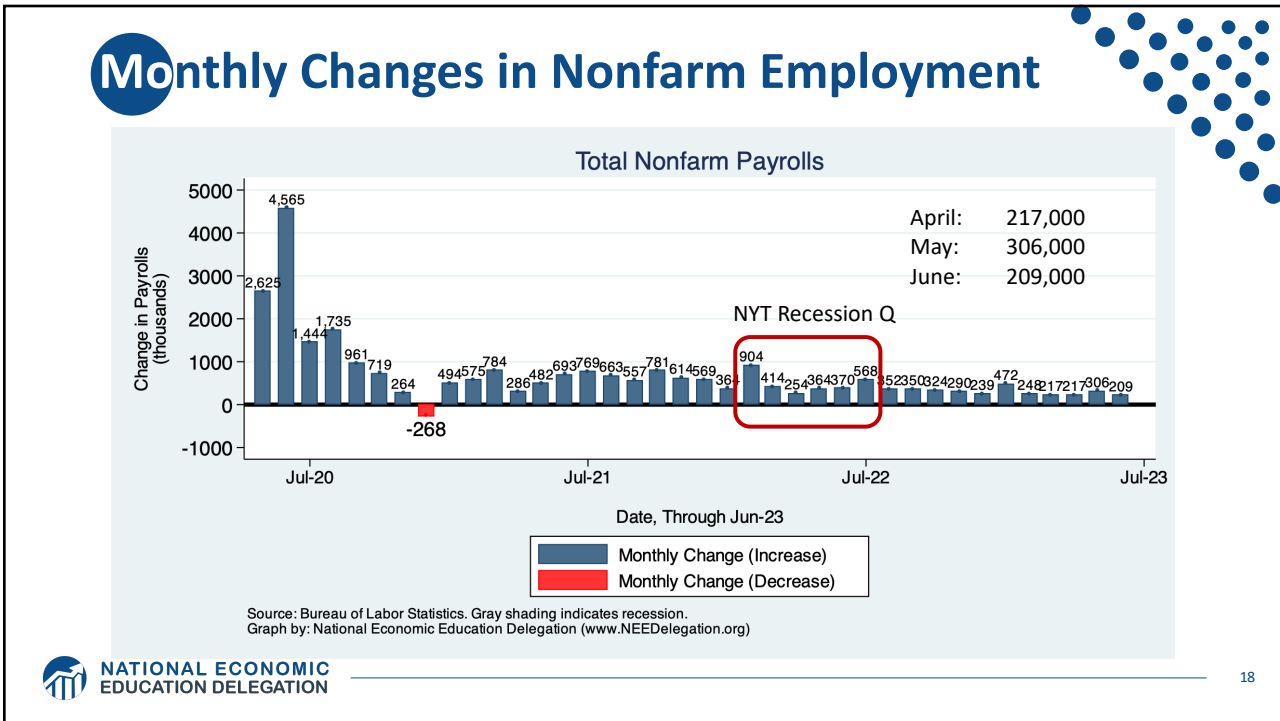
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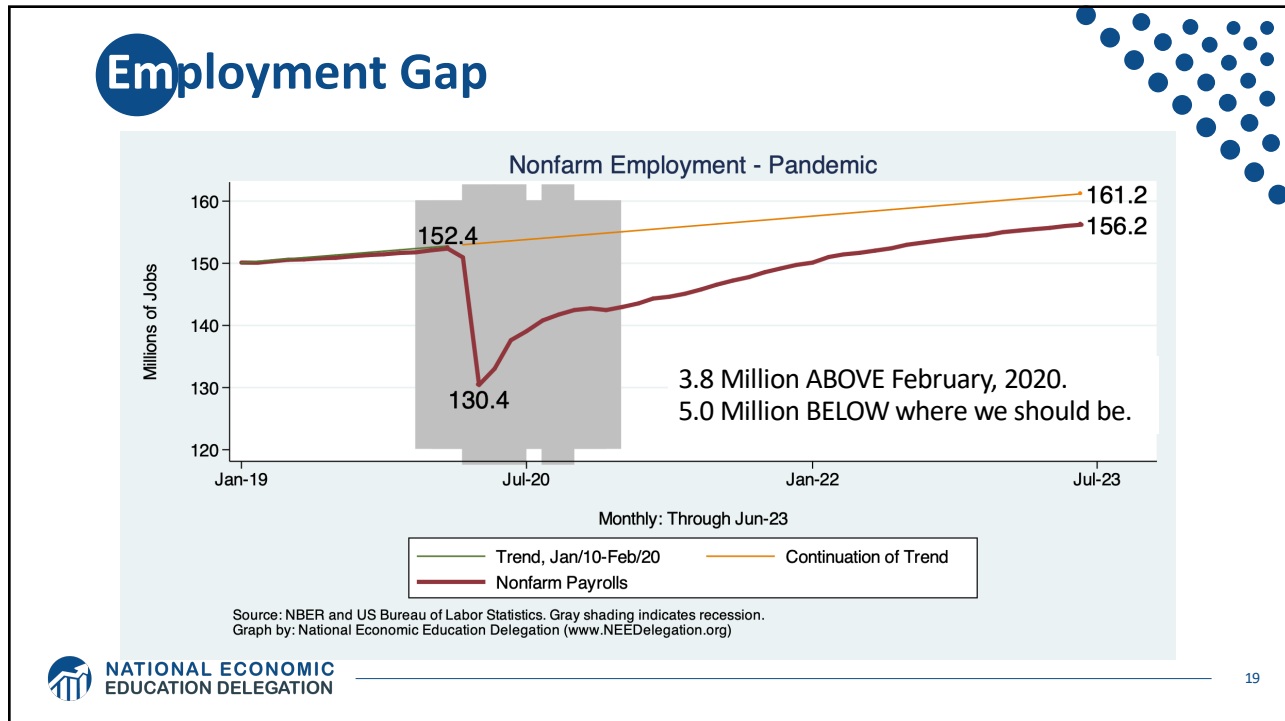
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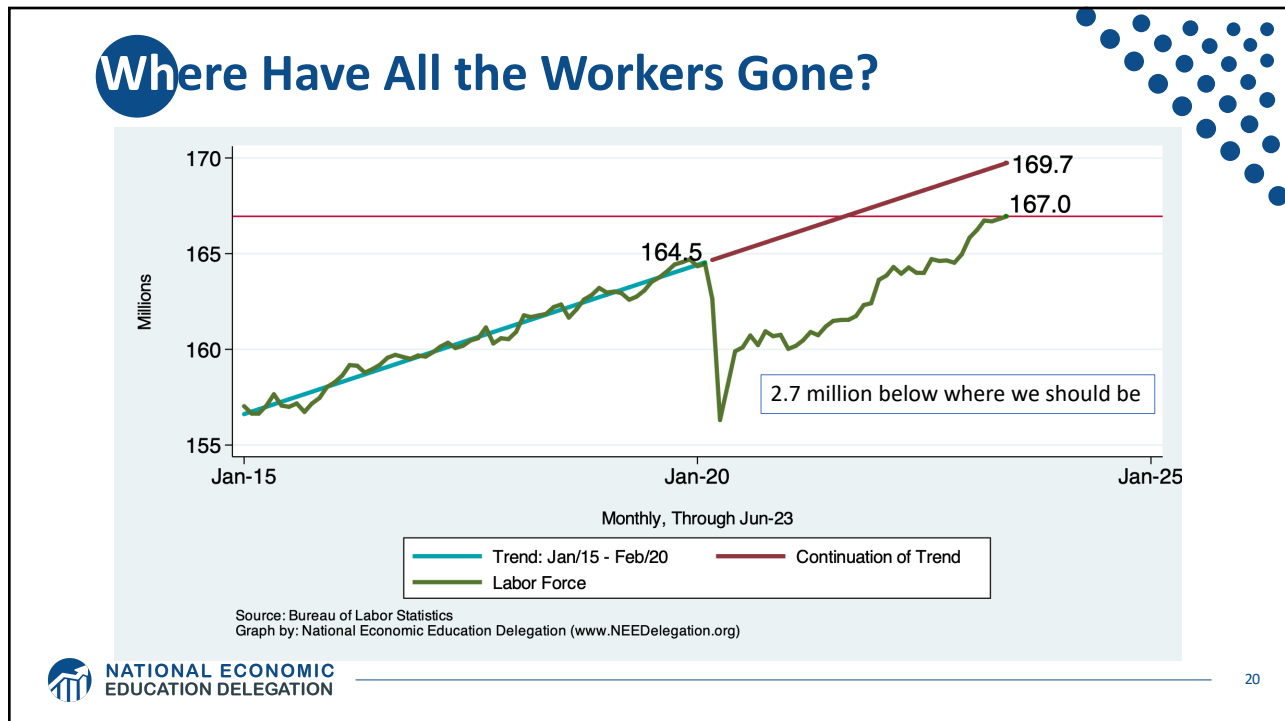
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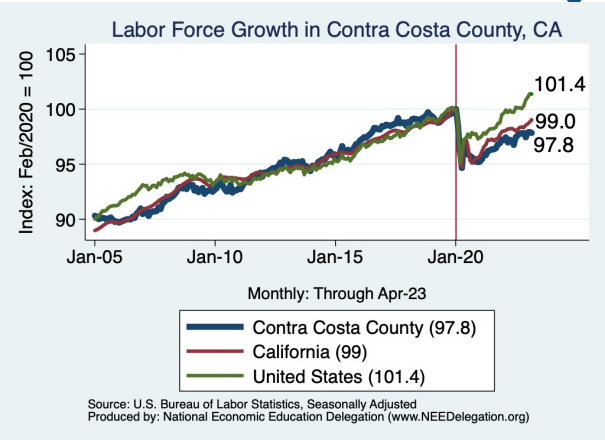
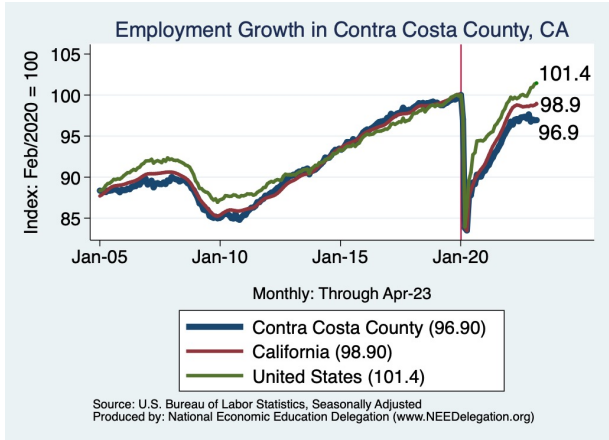


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How Are Things Where You Are?



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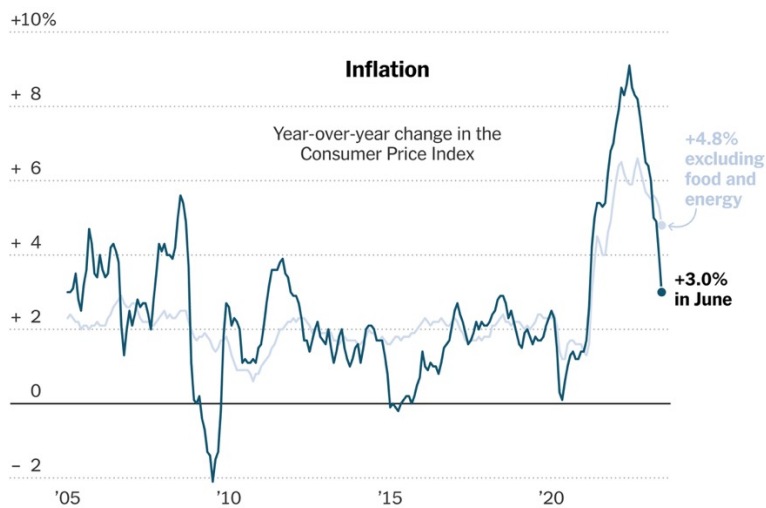
www.NEEDEcon.org/LocalGraphs

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Inflation

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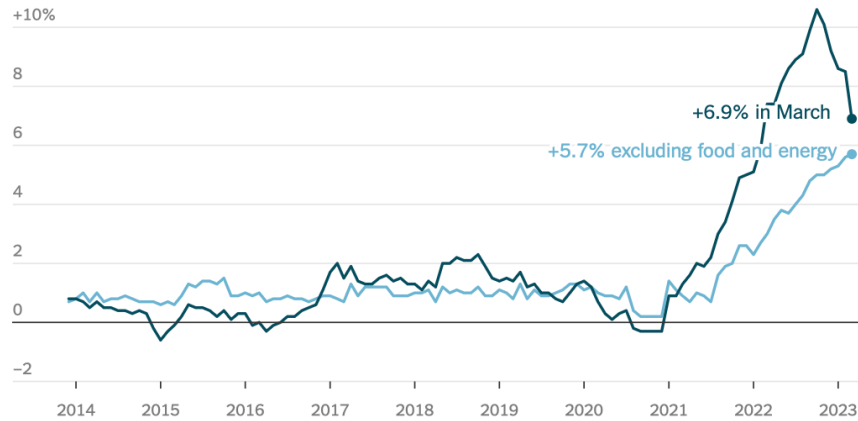
Inflation: Latest Figures – 3%



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Inflation is Not just a U.S. Problem

Year-over-year change in consumer prices in the eurozone

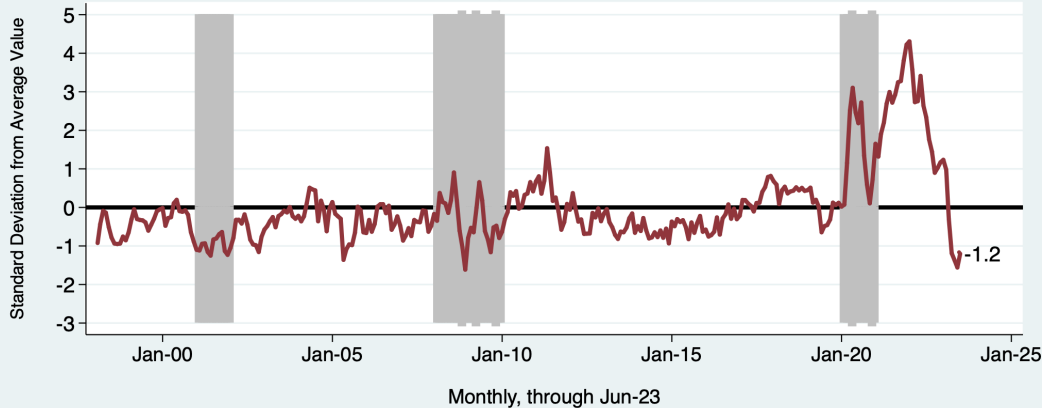


Source: Eurostat • By The New York Times

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Supply Chains

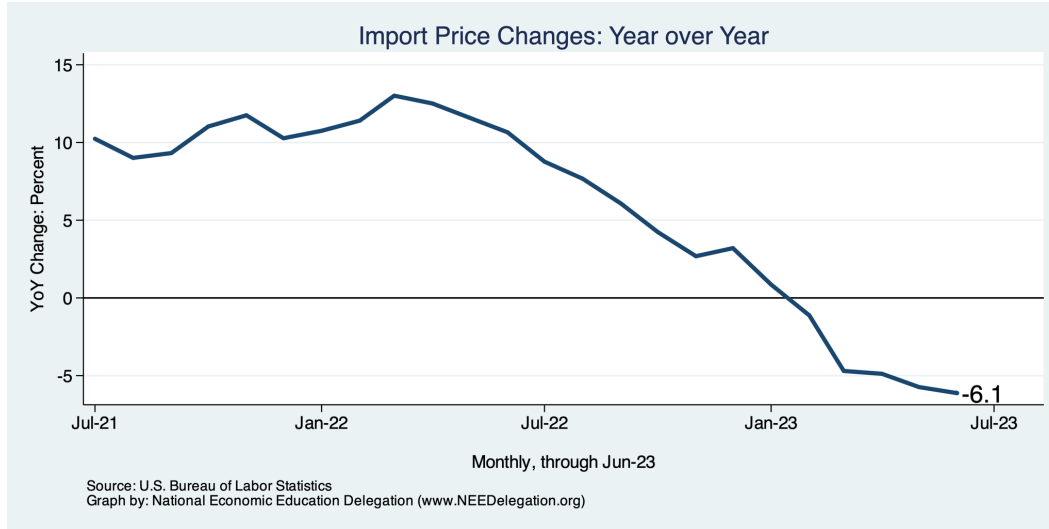
Global Supply Chain Pressure Index



Source: Federal Reserve Bank of NY. Gray shading indicates recession. Higher values correspond to more pressure on the supply chain. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

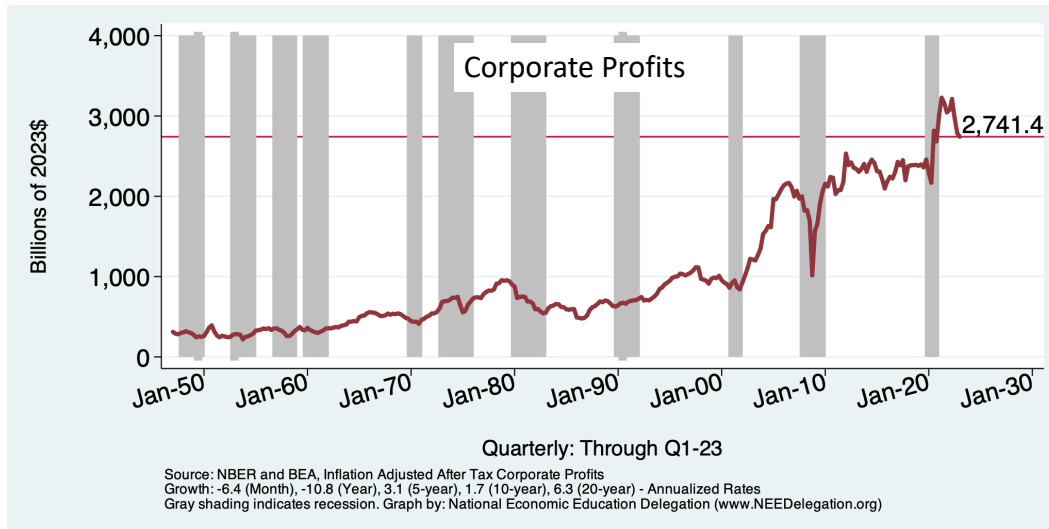
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Import Price Inflation WAS High



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Corporations Had Pricing Power!



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My Thoughts on the Sources of Inflation

- **Supply Chain issues were significant – not at all now.**
- **Import price inflation was high – negative now.**
- **Corporations have used the cover of inflation to raise prices more.**
- **Composition of spending changed significantly.**
 - Is now bouncing back, as are prices.
- **But there was too much total spending.**
 - Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion.
 - Strong retail sales numbers suggest they are prepared to spend it.
- **Whose to Blame: ARP possibly too big, but the Fed could have acted sooner.**
- **Bottom line: Recovery from a dramatic economic disruption is seldom painless.**



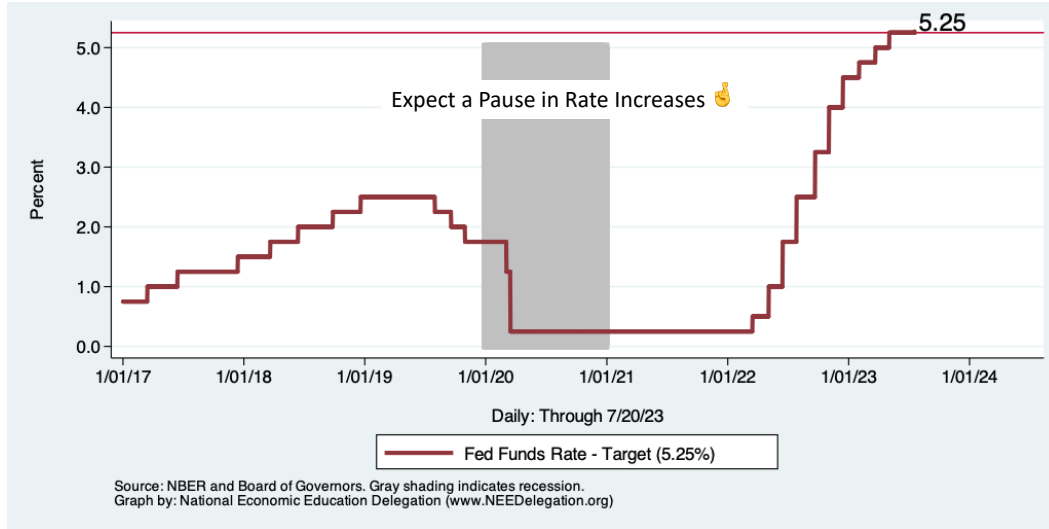
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What's the Fed Doing About It?



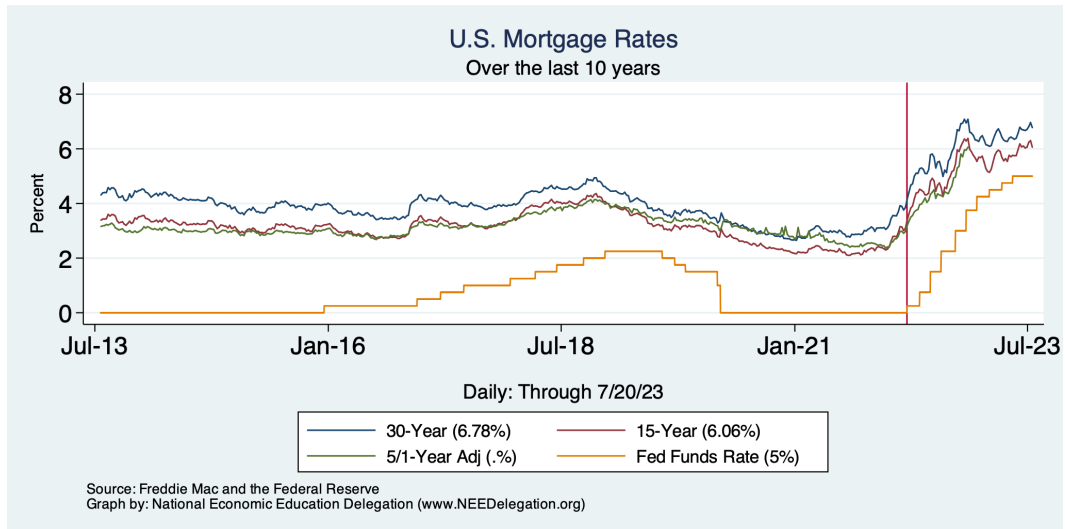
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Federal Funds Rate – Recent Activity



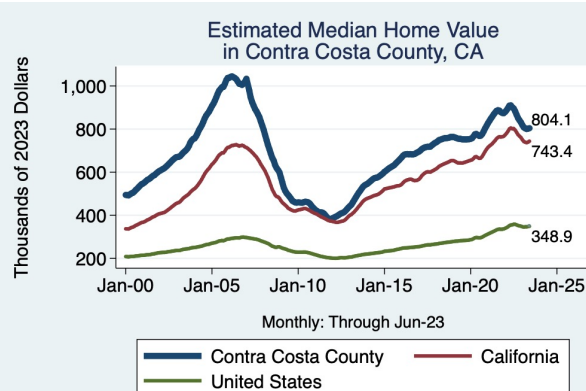
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Mortgage Rates

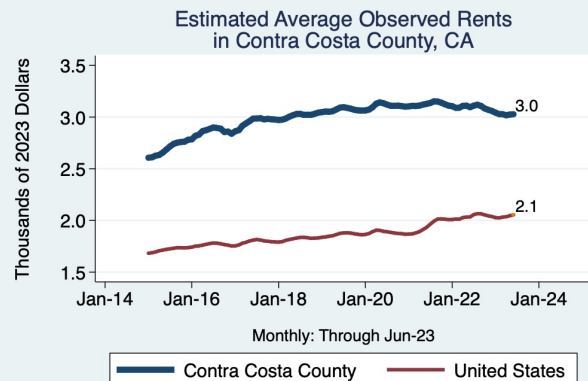


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Home Prices ... Falling as Interest Rates Rise



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
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Takeaways

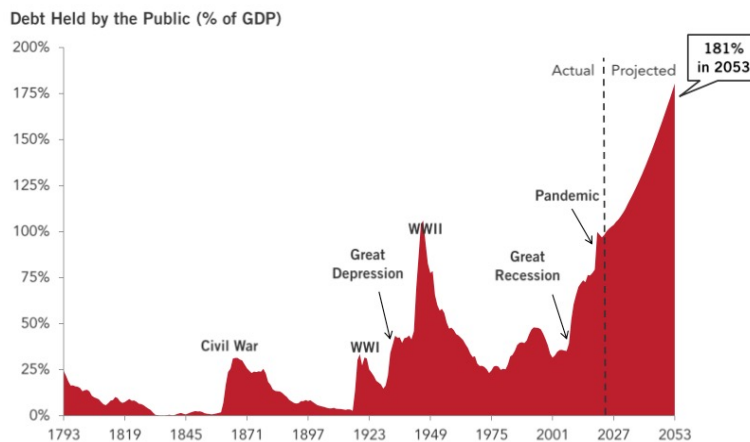
- **Is a recession on the horizon?**
 - Perhaps, but shallow?
 - Many indicators are still in the black.
 - 2023-Q1 GDP growth was solid.
 - Employment growth is solid.
- **Threats to continued growth:**
 - If inflation starts to rise again, which seems unlikely.
 - Higher interest rates.
- **Bullets dodged:**
 - Debt negotiations.
 - Banking crisis.
 - Inflation (shhh....)
- **Other than the debt ceiling, the debt is not currently a threat to the economy.**

What About the Debt?

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The Federal Debt is Becoming A Problem

PETER G. PETERSON FOUNDATION Federal debt is on an unsustainable path



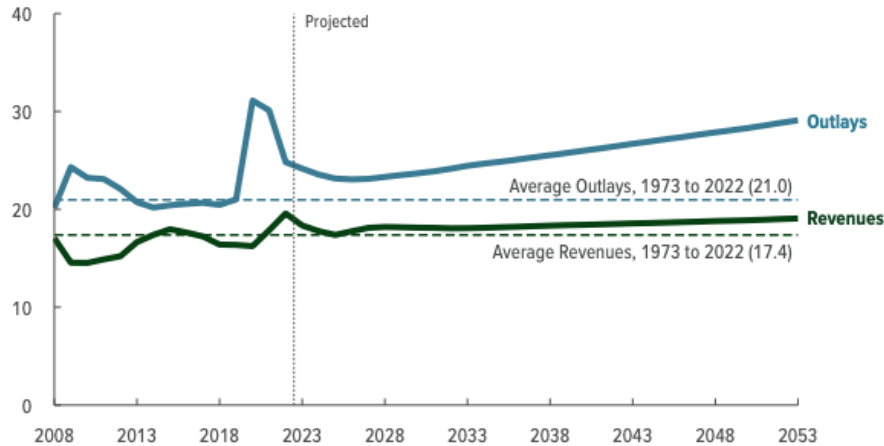
SOURCES: Congressional Budget Office, The 2023 Long-Term Budget Outlook, June 2023, The Budget and Economic Outlook: 2023 to 2033, February 2023, and The Budget and Economic Outlook: 2020 to 2030, January 2020. © 2023 Peter G. Peterson Foundation

PGPF.ORG

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Why? Expenditures Exceed Revenues

Percentage of Gross Domestic Product



In most years, growth in outlays is projected to outpace growth in revenues, resulting in widening budget deficits.

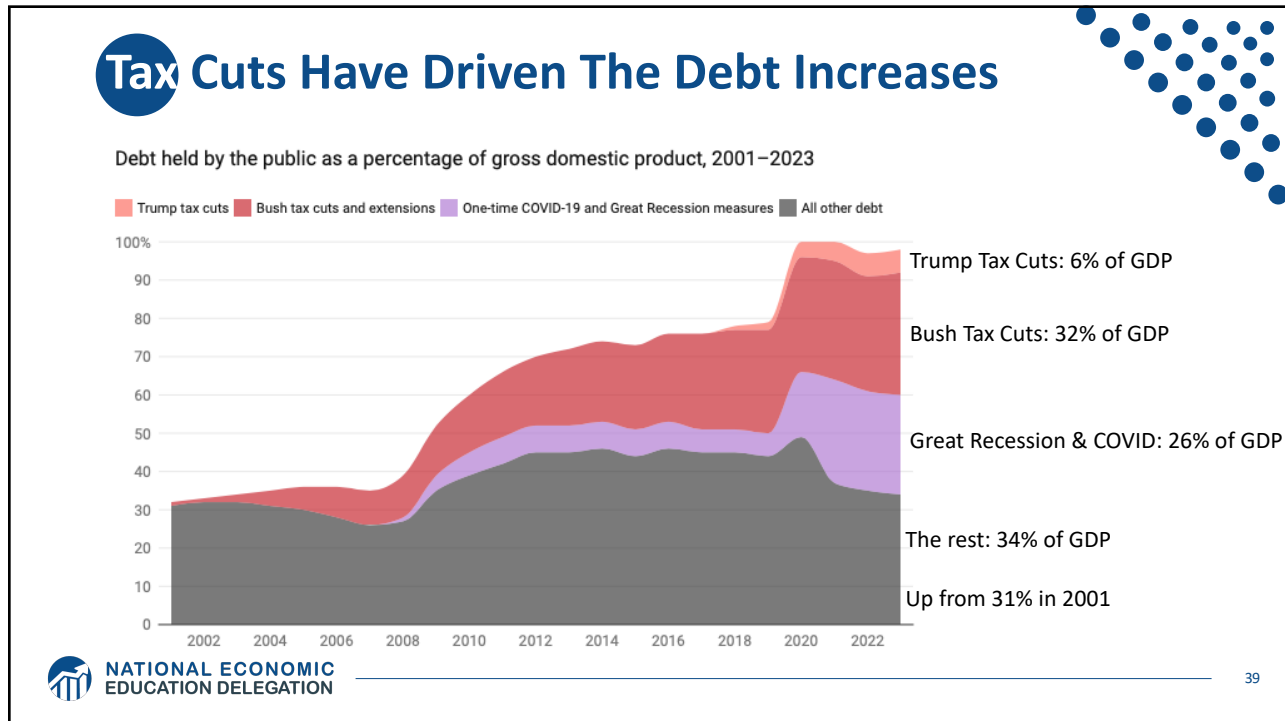
Data source: Congressional Budget Office. See www.cbo.gov/publication/59014#data.

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So, The Answer is:

- **CUT EXPENDITURES!!!!**
- **Not so fast. Revenues have been slashed.....**

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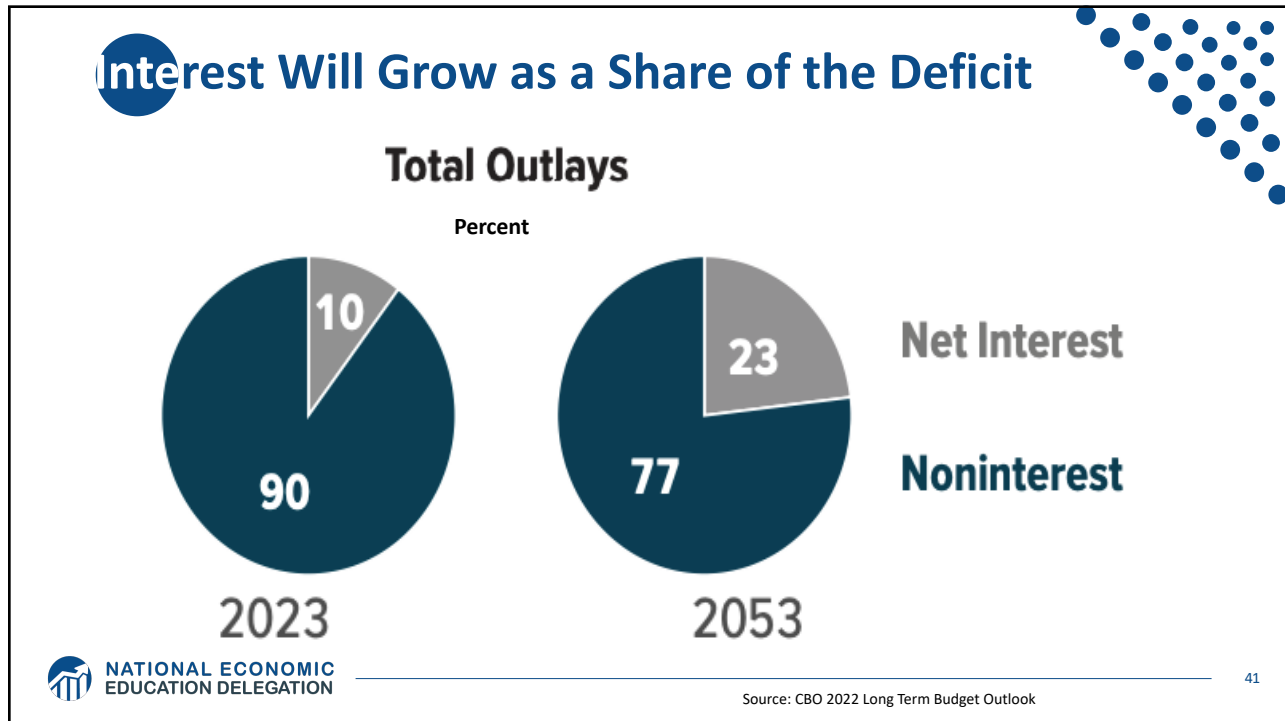
So, The Answer is:

- **RAISE REVENUES!!!!**
- **Not so fast. Worth looking at expenditures as well.....**
 - Mostly to get a broader perspective on how to solve the problem.

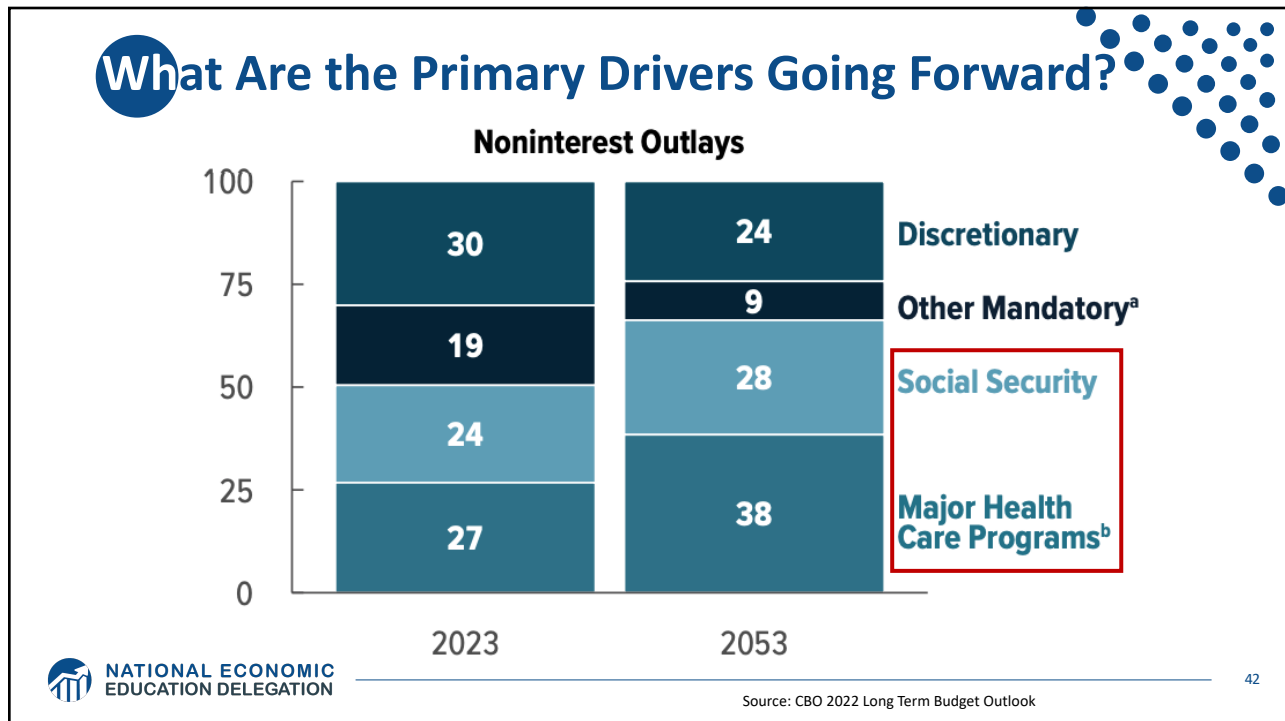
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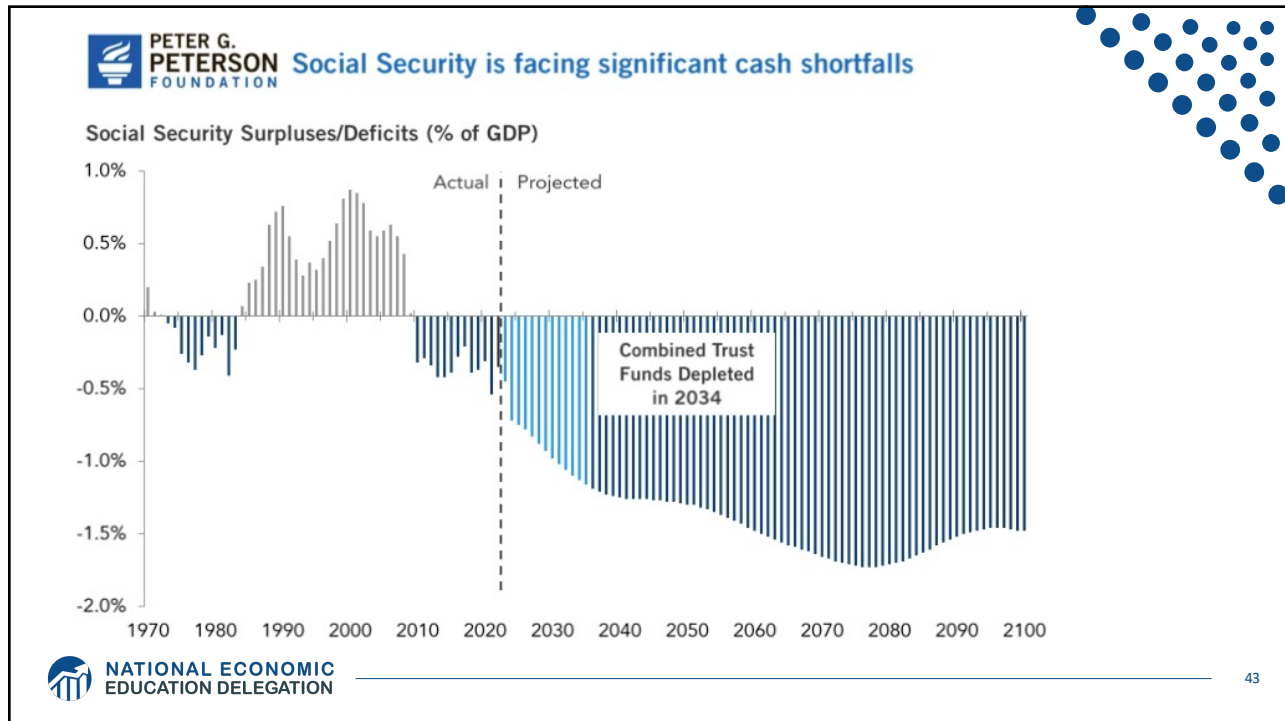
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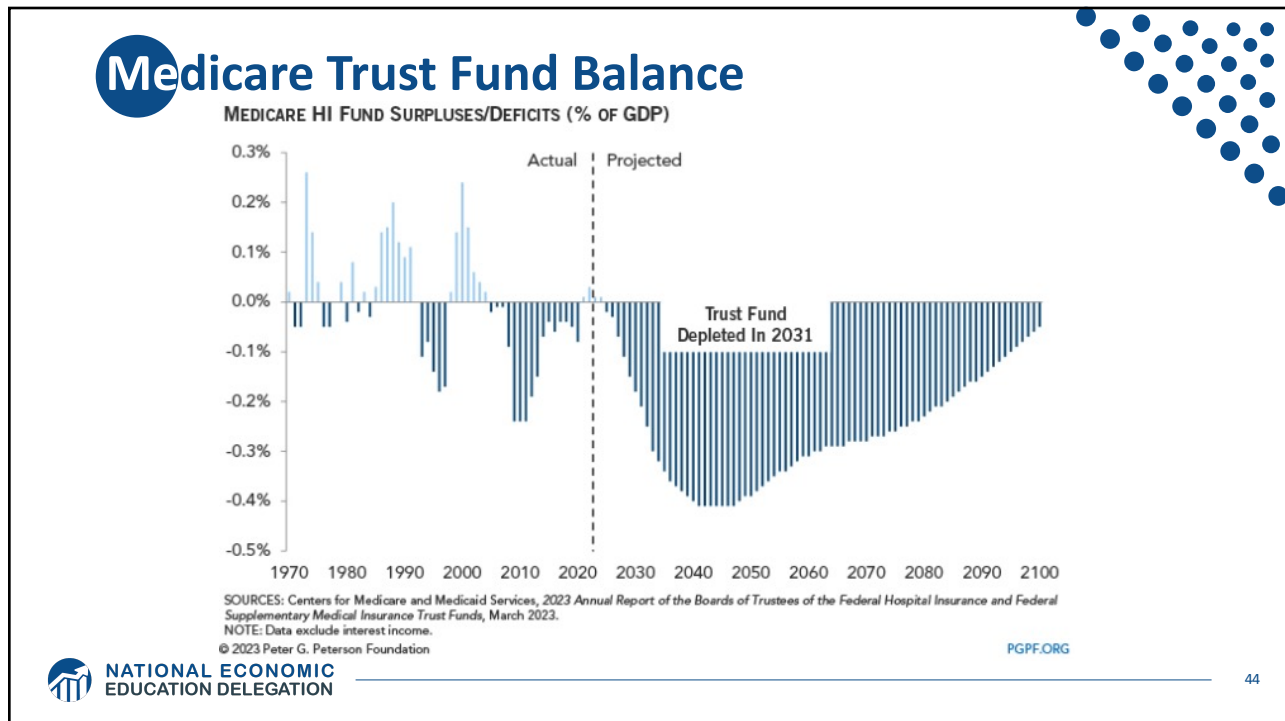
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Will These Programs Become Insolvent?

No. They just have a revenue shortfall.



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These Revenue Shortfalls ...

- **Don't need to be fixed.**
 - Can be handled by allocations from general revenues.
- **Or, we can use them to provide insights into how to solve the growing debt problem!**



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For Example: Social Security Solutions

- **Raise the retirement age.**
 - I don't like this as it has real equity implications.
- **Raise the level of taxation above 12.4%.**
 - I don't like this as it has real equity implications and we could...
- **Raise the income limit on social security contributions.**
 - Currently \$160,200.
 - Tax \$400,000+ and non-wage sources of income.
 - Surpluses for more than 75 years.



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Solutions to the Debt Problem

- **Can NOT just look at expenditures.**
- **Revenues have been slashed over the last 25 years.**
 - Which is the primary source of the debt problem.
- **However, important to look at specific categories of expenditures for the best solutions.**



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Do We Really Have A Debt Problem?

- **Probably: Growing unsustainably.**
- **Is the current level, or even the level in 2053 a “Problem”?**
 - I don’t know.
- **But the instability of the debt is surely a problem.**
 - One that needs to be addressed ASAP.
 - The problem grows over time, and solutions become more painful.



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Thank you!

Any Questions?

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