The US Federal Debt

Mike Kelemen's Econ Class, Drake High School
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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: 44 members**
  - 2 Fed Chairs: Janet Yellen, Ben Bernanke
  - 6 Chairs Council of Economic Advisers
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - Akerlof, Smith, Maskin
- **Delegates: 367 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: 42 Ph.D. Economists**
  - Aid in slide deck development

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- **This slide deck was authored by:**
  - Jon Haveman, Executive Director, NEED
- **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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US Government Debt

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

2018 Budget Summary

Revenue	Billions		Expenditures	Billions
Income Taxes	$1,684		Mandatory	$2,520
Payroll Taxes	$1,171		Discretionary	$1,263
Corporate Taxes	$205		Interest	$325
Other	$270			
Total	$3,329		Total	$4,108

Budget Deficit: $779 Billion

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Source: https://www.cbo.gov/publication/53624

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Of Debt, Deficits, and Surpluses

- **STOCK**
  - *__Debt__*: The accumulation of debt over time.
    - The sum of all past deficits 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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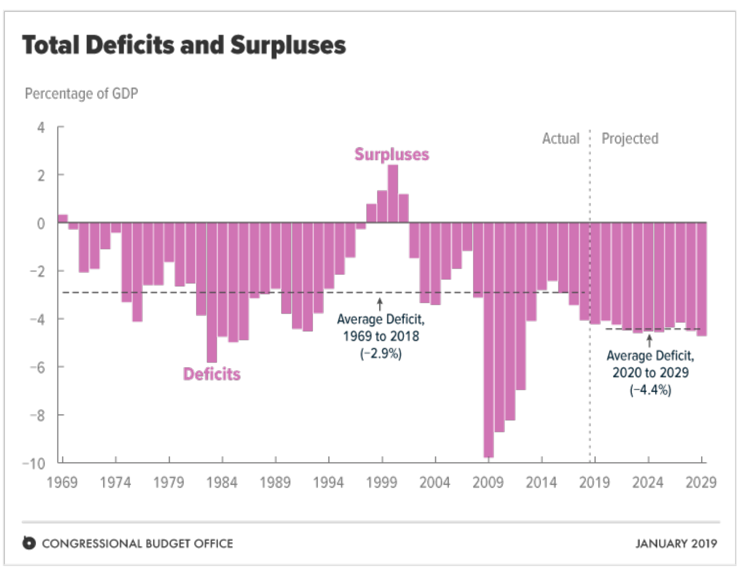
A Future of Deficits



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Source: Congressional Budget Office, The Budget and Economic Outlook: 2019 to 2029

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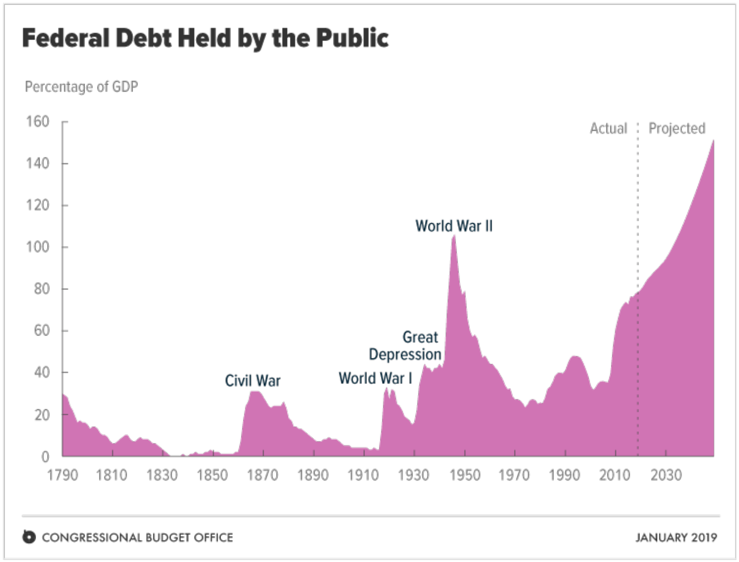
And Record Levels of Debt



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Source: Congressional Budget Office, The Budget and Economic Outlook: 2019 to 2029

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How Does the U.S. Government Borrow?

- **It issues debt**
  - Treasury marketable securities:
    - Treasury bills, notes, and bonds
    - TIPS: Treasury inflation-protected securities
- **Who buys the debt?**
  - Other federal government agencies
    - E.g., Social Security and Medicare
  - Individuals and businesses
  - State and local governments
  - People, businesses, and governments from other countries.

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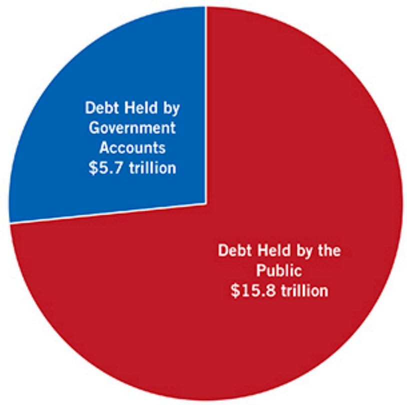
What makes up gross federal debt?

Gross Federal Debt at the End of Fiscal Year 2018: $21.5 Trillion



SOURCE: Department of Treasury, *Monthly Treasury Statement*, issue for September 2018. Compiled by PGPF.

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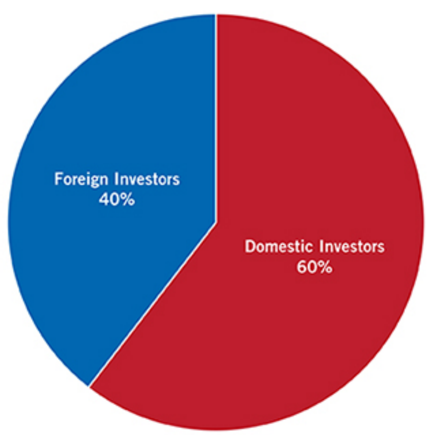
Foreign investors own over one-third of all U.S. public debt



SOURCE: Department of the Treasury, *Monthly Treasury Statement*, issue for September 2018; and Department of Treasury, *Treasury Bulletin*, December 2018. Compiled by PGPF.

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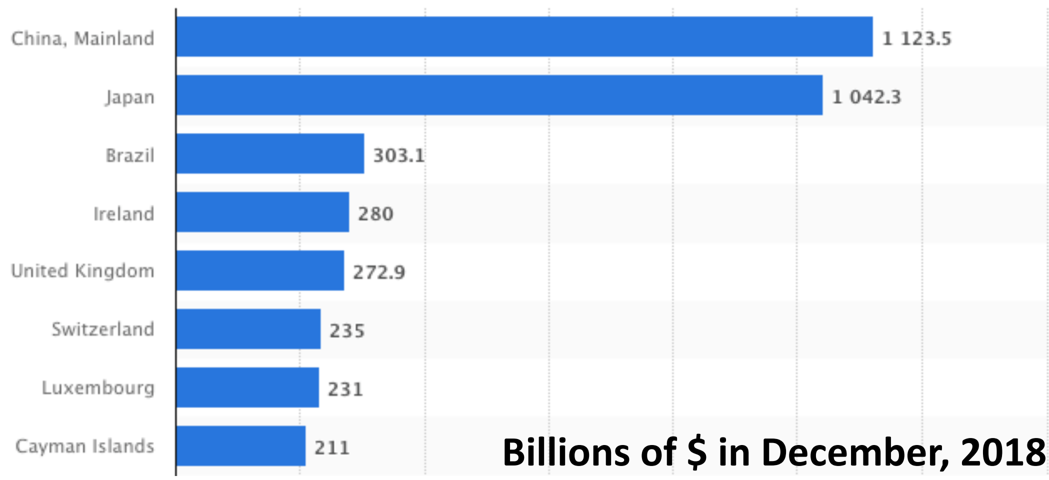
Who Holds Debt to Foreigners



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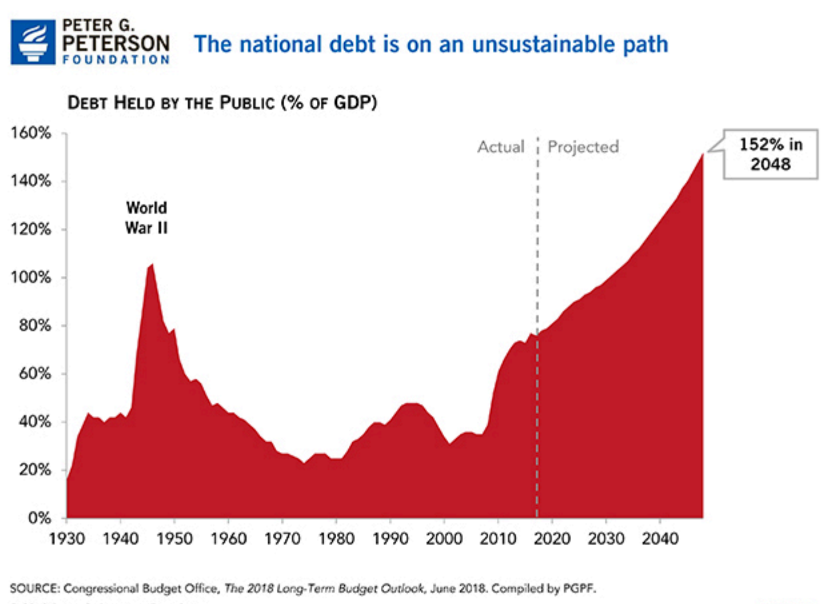

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Why has the Federal Debt Risen so Much?

- **Expenditures:**
  - Social Security
  - Health care costs
  - Economic stimulus
    - In particular, during the Great Recession.
  - Foreign entanglements
- **Revenues**
  - Declining income tax revenues
    - Stagnant wages
    - Tax cuts
  - Social security
    - Declining revenues
  - Corporate income tax cuts

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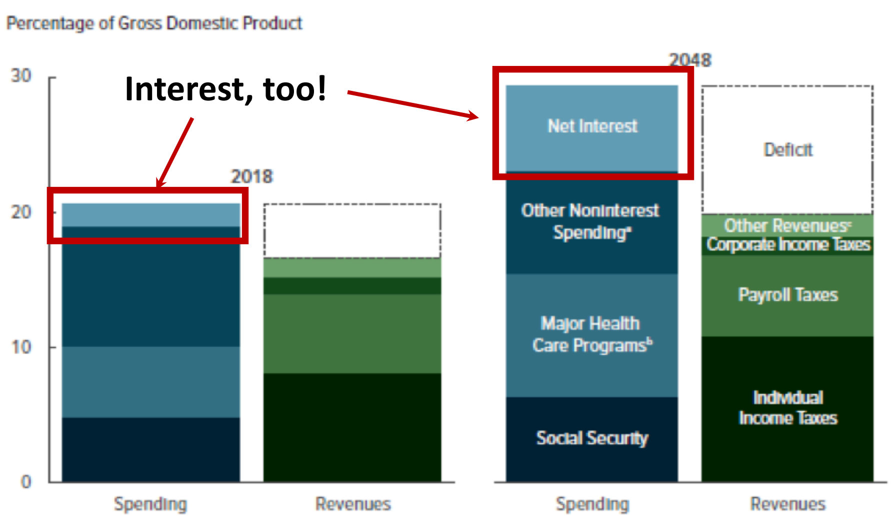
Deficit to Grow Much Faster than Revenues



Source: Congressional Budget Office.

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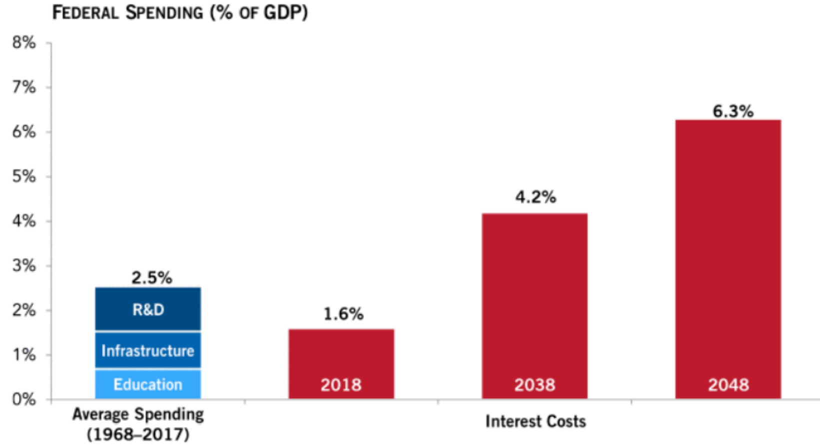
Interest Payments to Grow Significantly



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019*, February 2018; Congressional Budget Office, *The 2018 Long-Term Budget Outlook*, June 2018. Compiled by PGPF.
NOTE: Infrastructure excludes defense.

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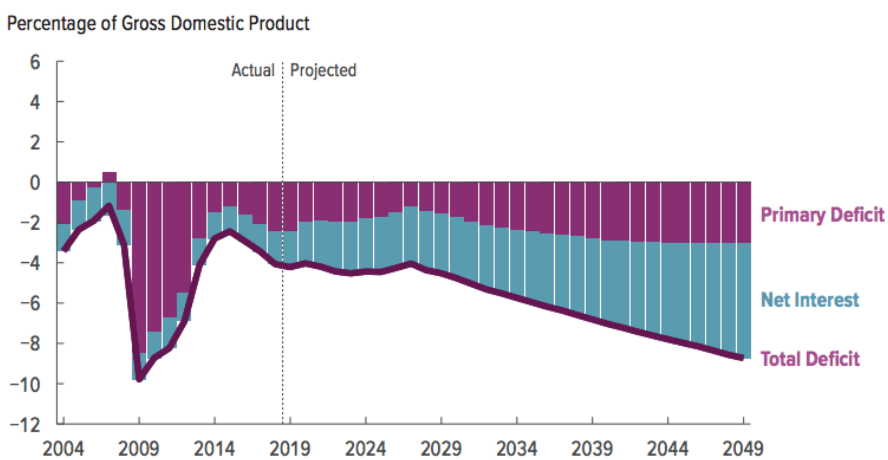
Interest Will Start to Drive Growth in Deficit



Deficits grow from 4.2 percent of GDP in 2019 to 8.7 percent in 2049, driving up debt. Net spending for interest on debt accounts for most of the growth in total deficits.

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Perspectives on Increased Debt

- **Government borrowing crowds out private capital and investments.**
  - This worry is weakened by the ability to borrow from abroad.
- **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.
- **Is it reasonable to borrow at low interest rates for investments?**
  - For example, infrastructure.

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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

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Is the Debt a Problem Today?

- Currently borrow about $2 Billion each day with little difficulty.
- Very little evidence of "crowding out".
- Interest rates are very low, 1.54% on 10-year notes.

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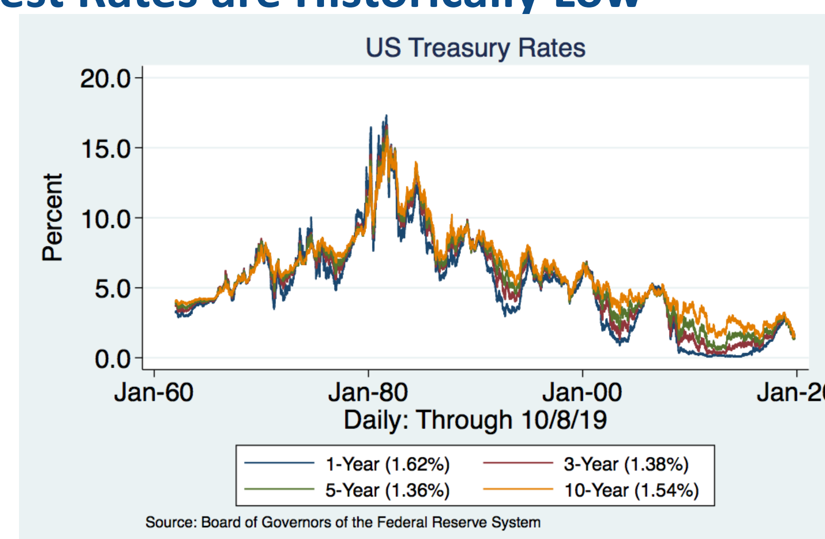
Interest Rates are Historically Low



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So, Why Worry About it?

- **If debt gets too high:**
  - Creditworthiness of the U.S. Government.
    - Problem: Nobody knows how high might be too high?
  - It becomes more difficult to borrow in times of crisis.
    - War, severe recession
    - “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.
    - 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
  - Rising interest rates
- **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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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**

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Summary

- **Debt: $22.9 Trillion**
- **Deficits drive growth in the debt.**
  - Likely greater than $1 Trillion per year.
- **Publicly held debt matters most.**
  - Will grow from 78% of GDP today to 144% in 2049.
- **Multiple ways to offset this growth.**
- **Growing interest payments can be a real problem.**

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Summary: Address The Debt?

- **Risks:**
  - Inflation
  - Slower economic growth
    - Higher interest rates
    - Crowding out
  - Default
- **Reasons to wait:**
  - Interest rates are very low
  - Lot's of important governmental investments to make
  - Economic growth may take care of it

And then there is: Modern Monetary Theory

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Thank you!

Any Questions?

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