



The US Federal Debt

Sausalito Rotary
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- **This slide deck was created by:**
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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		
Total	\$4,897	Total	\$6,270

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

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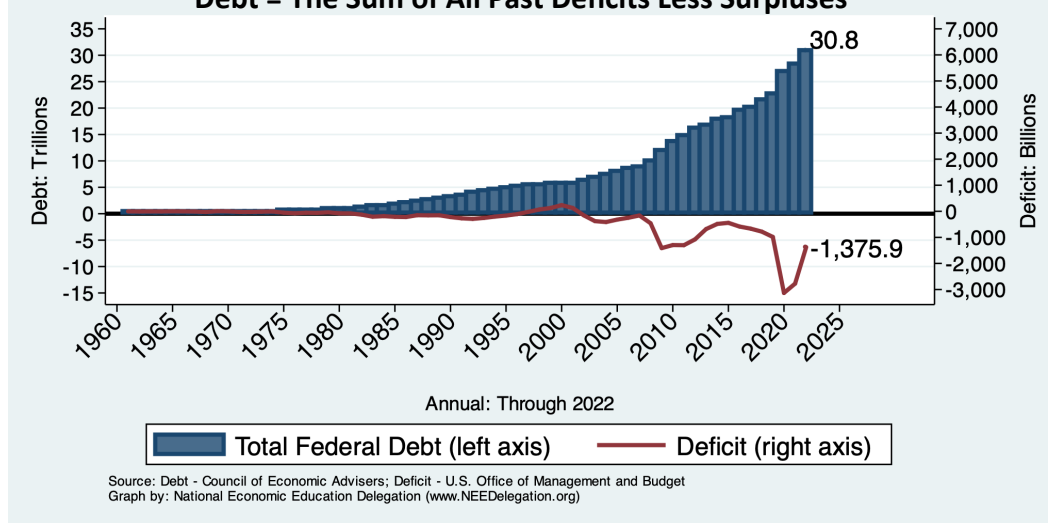
WHAT IS THE NATIONAL DEBT TODAY?

\$32,759,319,313,028

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Debt vs. Deficit

Debt = The Sum of All Past Deficits Less Surpluses



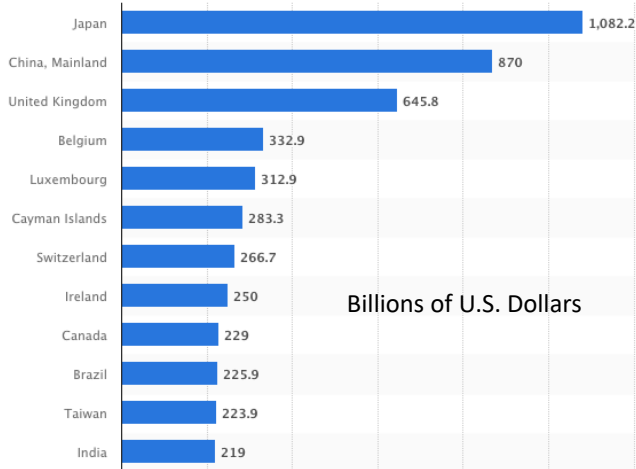
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How Does the US Government Borrow?

- **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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Who Holds Debt to Foreigners, 11/22



Foreign ownership is relatively recent – in 1990 foreign ownership was less than 20%

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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.**

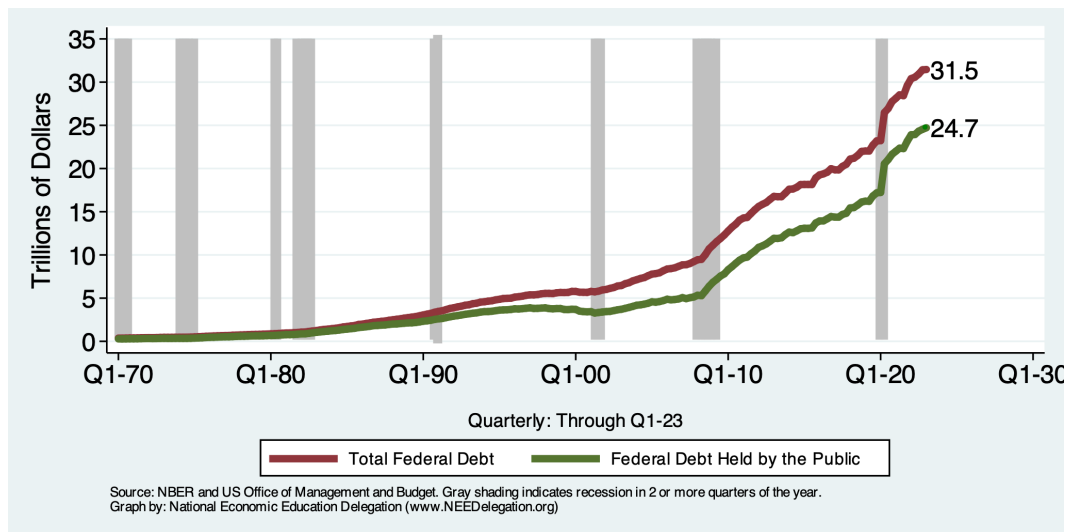


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Two Measures of the Debt



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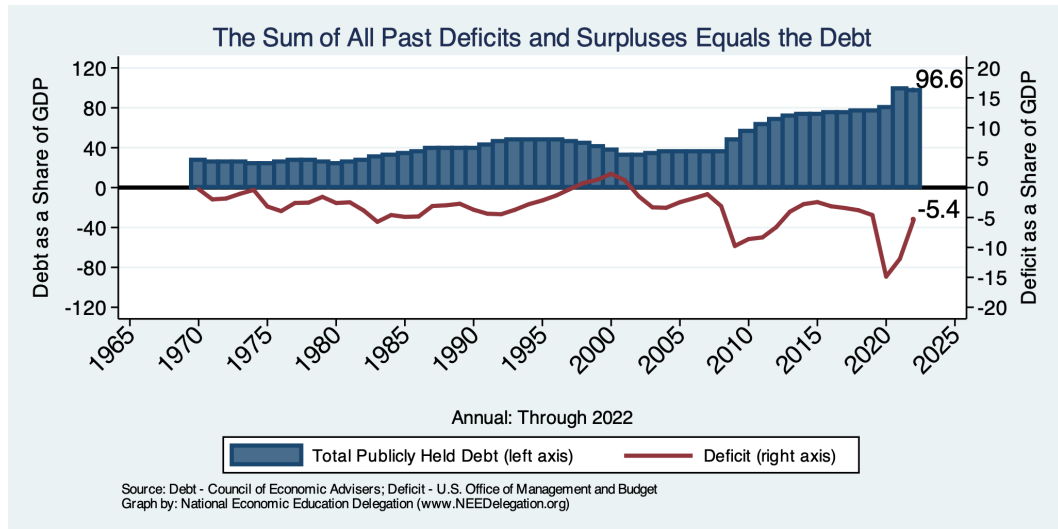
The All-Important *Relative* Debt

- 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	\$24.5 Trillion	93.3%
Greece	\$0.215 Trillion	170%

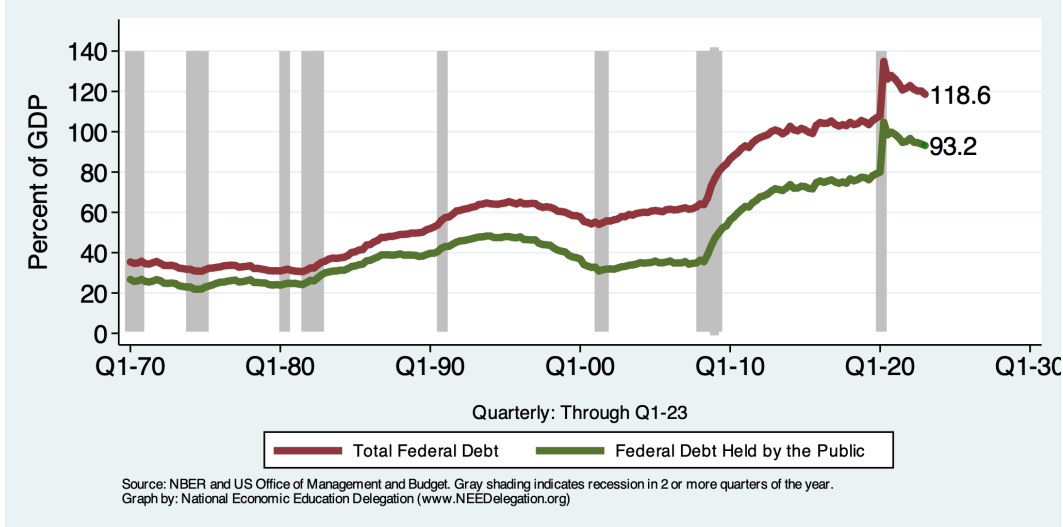
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Relative Debt and Deficit



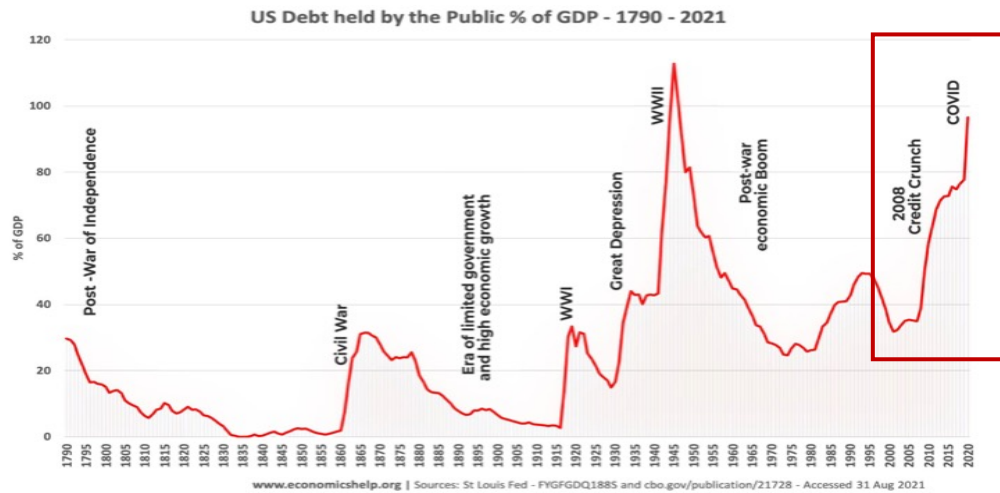
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Two Measures of RELATIVE Debt



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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
 - In particular, during the Great Recession & COVID.
- Military engagements overseas

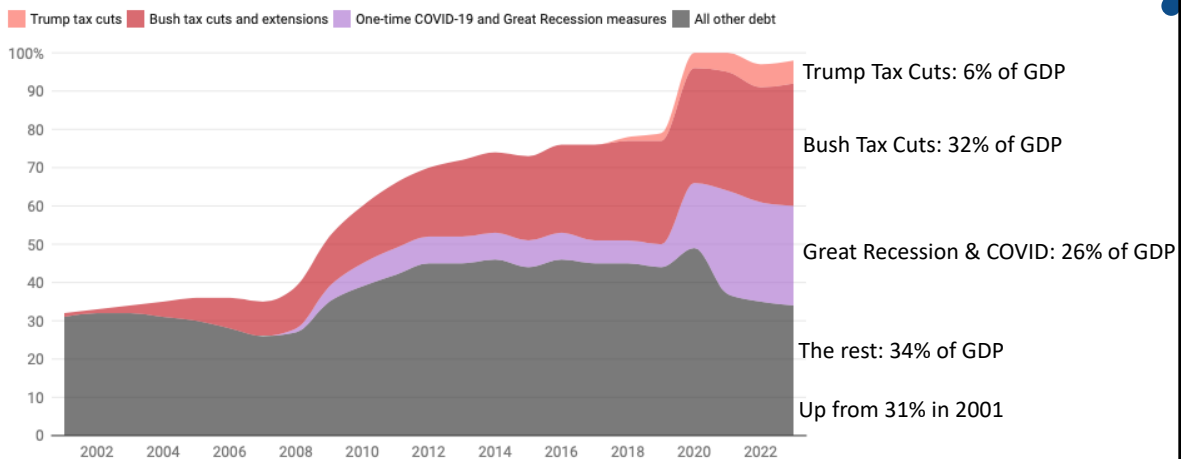
• Revenues DOWN:

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

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Tax Cuts Have Driven The Debt Increases

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

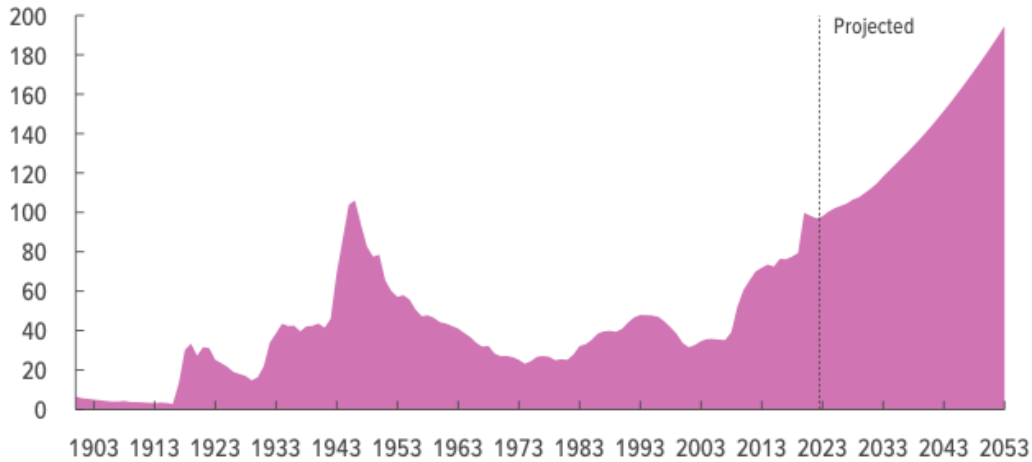


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Now Let's Think About Today and the Future

Federal Debt Held by the Public, 1900 to 2053

Percentage of Gross Domestic Product



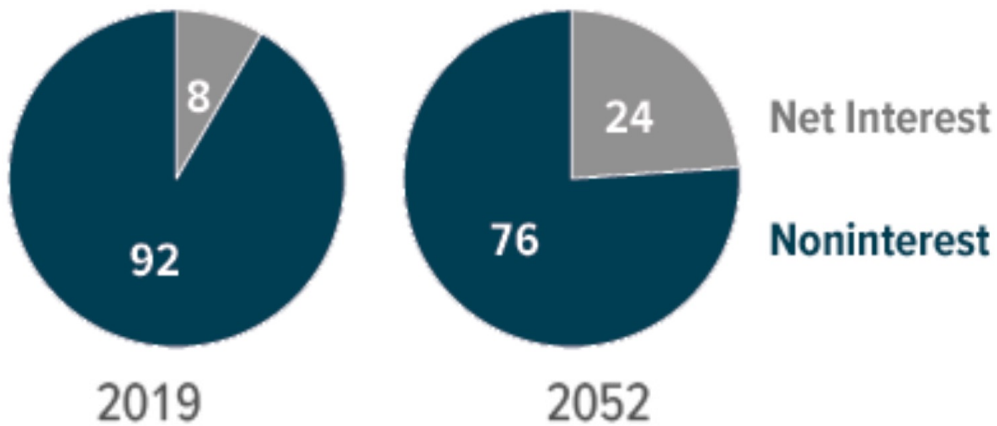
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Interest Will Grow as a Share of the Deficit

Total Outlays



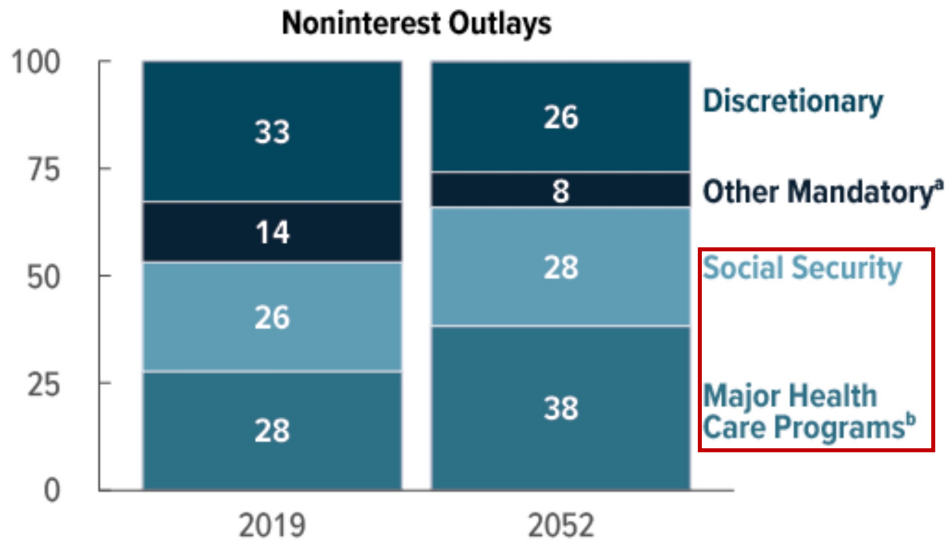
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Source: CBO 2022 Long Term Budget Outlook

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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 are low, but 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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