

INFORM. INSPIRE. DEVELOP CIVIC LEADERS.

# THE POLICY CIRCLE

## THE FEDERAL DEBT



# ➤ WHAT IS THE FEDERAL DEBT? ◀

THE FEDERAL DEBT IS THE TOTAL AMOUNT OF MONEY THE U.S. GOVERNMENT HAS BORROWED. GOVERNMENTS BORROW MONEY AND INCREASE THE DEBT TO FUNCTION, AND OFTEN TO DEAL WITH CRISES, SUCH AS WARS OR ECONOMIC OR HEALTH CRISES.

THE U.S. FEDERAL DEBT HAS GROWN RAPIDLY IN BOTH GOOD AND BAD TIMES OVER THE PAST FEW DECADES BECAUSE OF PERSISTENT GOVERNMENT DEFICITS, WHEN THE GOVERNMENTS SPENDS MORE THAN IT TAKES IN IN TAXES.

IN EARLY 2022, THE US NATIONAL DEBT REACHED \$30 TRILLION DOLLARS, LARGER THAN THE US GDP OF \$24 TRILLION.

AS THE NATIONAL DEBT INCREASES, THE LIKELIHOOD THAT THE GOVERNMENT CANNOT PAY A DEBT INCREASES, WHICH MEANS TREASURY SECURITIES BECOME RISKIER INVESTMENTS. WHEN FEWER PEOPLE ARE WILLING TO INVEST IN GOVERNMENT SECURITIES, THERE IS A RISK OF REDUCED ECONOMIC GROWTH.

# ➤ FACTS TO KNOW ◀

THE FEDERAL DEFICIT IS THE AMOUNT BY WHICH GOVERNMENT SPENDING EXCEEDS THE REVENUE IT TAKES IN EACH YEAR. THE FEDERAL DEBT IS THE ACCUMULATION OF BUDGET DEFICITS. THIS INCLUDES PUBLIC DEBT - WHEN THE PUBLIC, THE FEDERAL RESERVE, OR FOREIGN GOVERNMENTS BUY TREASURY SECURITIES - AND INTRAGOVERNMENTAL DEBT, WHEN ONE ARM OF GOVERNMENT BORROWS MONEY FROM ANOTHER.

U.S. FEDERAL SPENDING INCLUDES DISCRETIONARY SPENDING - WHICH IS DECIDED IN EACH YEAR'S BUDGET - AND MANDATORY SPENDING - SPENDING ON AUTOPILOT THAT IS REQUIRED BY LAW. THE MILITARY'S BUDGET IS AN EXAMPLE OF DISCRETIONARY SPENDING. MANDATORY SPENDING IS MAINLY PAYMENTS TO THE RECIPIENTS OF SOCIAL PROGRAMS LIKE SOCIAL SECURITY AND MEDICARE, BUT ALSO INCLUDES PAYING INTEREST ON THE US DEBT.

AMERICA'S AGING POPULATION ACCOUNTS FOR PRACTICALLY ALL THE PREDICTED SPENDING GROWTH IN SOCIAL SECURITY, WHICH IS THE SINGLE LARGEST PROGRAM IN THE FEDERAL BUDGET. THE CBO PREDICTS THE NUMBER OF SOCIAL SECURITY BENEFICIARIES WILL RISE FROM 64 MILLION IN 2019 TO 97 MILLION IN 2049, AND THAT SPENDING WILL RISE FROM 4.9% OF GDP TO 6.2%.

HEALTHCARE SPENDING INCLUDES MEDICARE, MEDICAID, THE CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP), AND AFFORDABLE CARE ACT SUBSIDIES. MEDICARE ALONE ACCOUNTS FOR OVER 20% OF ALL NATIONAL HEALTH SPENDING, AND AS THE POPULATION AGES, MORE AMERICANS WILL QUALIFY FOR FEDERAL HEALTHCARE PROGRAMS, WHICH ALREADY STRUGGLE WITH FISCAL CHALLENGES INCLUDING WASTE. AN ESTIMATED 30% OF TOTAL HEALTHCARE SPENDING GOES TO UNNECESSARY, OVERPRICED, AND WASTEFUL SERVICES.

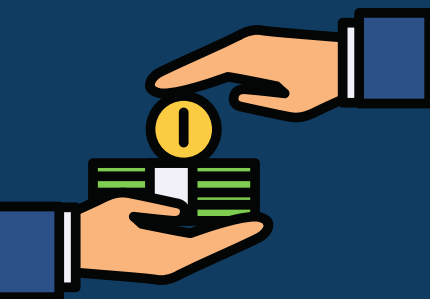
# ➤ GOVERNMENT EXPENDITURES ◀

THE U.S. GOVERNMENT'S LAST FISCAL SURPLUS WAS IN THE YEAR 2001, BEFORE THE HIGHER MILITARY SPENDING OF THE WAR ON TERROR AND WHEN THE ECONOMY WAS STILL GROWING DUE TO THE DOT-COM BOOM.

THE FEDERAL RESERVE'S POLICY OF KEEPING INTEREST RATES EXTREMELY LOW IN RECENT YEARS HAS MADE GOVERNMENT BORROWING MUCH CHEAPER THAN THE HISTORICAL NORM. THIS POLICY HAS ALSO AIDED THE ECONOMY RECOVERY FROM THE CORONAVIRUS, BUT INFLATION IS A SIGN THAT THE FED WILL EVENTUALLY HAVE TO RAISE INTEREST RATES.

TOTAL DEBT-TO-GDP RATIO HOVERED AROUND 100% FROM 2013 TO 2019, AND SPIKED TO 120% AFTER SPENDING IN RESPONSE TO THE CORONAVIRUS PANDEMIC. THE LAST TIME THE U.S. FEDERAL DEBT PASSED 100% OF GDP WAS DURING WORLD WAR II, WHEN MILITARY SPENDING REQUIRED MASSIVE BORROWING.

IN FY2020, THE FEDERAL GOVERNMENT COLLECTED \$3.42 TRILLION IN REVENUES AND HAD EXPENSES OF \$6.55 TRILLION (FROM SPENDING ON HEALTHCARE COSTS, STIMULUS CHECKS, UNEMPLOYMENT COMPENSATION, AND BUSINESS RESCUE PLANS PROMPTED BY THE CORONAVIRUS), LEAVING A DEFICIT OF \$3.13 TRILLION. THIS MORE THAN DOUBLES THE PREVIOUS RECORD OF \$1.4 TRILLION SPENT IN FY2009.



# ➤ FRAMING THE ISSUE ◀



THE FEDERAL RESERVE, WHICH MAINTAINS A STABLE ECONOMY BY CONTROLLING ACCESS TO CREDIT AND LOANS, CAN MAKE IT EASIER FOR THE U.S. GOVERNMENT TO BORROW MONEY BY KEEPING INTEREST RATES LOW. HOWEVER, LOW INTEREST RATES CAN CONTRIBUTE TO INFLATION, AND IF THE FEDERAL RESERVE HAS TO RAISE INTEREST RATES TO STABILIZE THE ECONOMY THEN THE COST OF PAYING OFF FEDERAL DEBT WILL INCREASE.

WITHIN THE U.S. GOVERNMENT, "USE IT OR LOSE IT" SPENDING INCENTIVES CAN BE A MAJOR CHALLENGE TO REDUCING WASTEFUL SPENDING. IF AN AGENCY FEARS THAT ANY MONEY IT DOESN'T USE THIS YEAR COULD MEAN A SMALLER BUDGET NEXT YEAR, VARIOUS PARTS OF THE GOVERNMENT HAVE NO INCENTIVE TO DO THEIR JOB IN A MORE COST-EFFECTIVE WAY. SOME REFORMS, LIKE A RULE TO PREVENT BUREAUS FROM OVERSPENDING TOWARDS THE END OF THE FISCAL YEAR, CAN BEGIN TO ADDRESS THIS INCENTIVE PROBLEM.

REDUCING THE U.S. DEBT AND DEFICITS WILL REQUIRE REFORMING SOCIAL PROGRAMS TO BE MORE SUSTAINABLE. CUTTING SPENDING AND RAISING TAXES ARE TWO OF THE MOST EFFECTIVE MEASURES, BUT THESE OPTIONS ARE TYPICALLY OPPOSED BY VOTERS. THIS MEANS POLITICIANS, WHOSE TENURES IN OFFICE DEPEND ON VOTES, AVOID TAKING ACTIONS THAT MAY BE NECESSARY FOR SPENDING BUT WILL LIKELY ANGER VOTERS.

GETTING THE FEDERAL DEBT UNDER CONTROL ISN'T JUST A MATTER OF CUTTING SPENDING AND RAISING TAXES. WHEN THE ECONOMY IS GROWING FASTER THAN THE FEDERAL DEBT IS, THE FEDERAL DEBT SHRINKS RELATIVE TO THE ECONOMY AND INTEREST PAYMENTS BECOME MORE MANAGEABLE. THIS MEANS THAT THE RIGHT POLICIES TO BOOST ECONOMIC GROWTH AND INVEST IN AMERICA'S ECONOMIC POTENTIAL CAN PAY OFF IN THE FORM OF HIGHER TAX REVENUES TO PAY DOWN THE DEBT.



# POTENTIAL SOLUTIONS

## STRENGTHEN THE SOCIAL SAFETY NET

REGULAR FEDERAL DEFICITS AND THE GROWING NATIONAL DEBT ARE MAINLY DRIVEN BY FINANCIAL PROBLEMS WITH THE WAY SOCIAL SAFETY PROGRAMS LIKE SOCIAL SECURITY, MEDICARE, AND MEDICAID ARE CURRENTLY FINANCED. FINDING WAYS TO REDUCE THE COST OF HEALTHCARE AND MAKE SOCIAL SECURITY MORE SUSTAINABLE CAN HELP TO SHRINK FEDERAL DEFICITS AND BEGIN ADDRESSING THE DEBT.

## SIMPLIFY THE US TAX CODE

THE US TAX CODE'S INCREDIBLY COMPLEX SYSTEM OF LOOPHOLES, DEDUCTIONS, AND CARVEOUTS TILTS THE PLAYING FIELD TOWARD ESTABLISHED FIRMS WITH LARGE ACCOUNTING DEPARTMENTS AND AGAINST SMALL BUSINESSES AND POTENTIAL ENTREPRENEURS. CLOSING LOOPHOLES AND MAKING THE TAX SYSTEM EASIER TO COMPLY WITH CAN RAISE REVENUE WHILE MAKING THE US ECONOMY MORE DYNAMIC.

## GREATER CITIZEN AWARENESS OF PUBLIC FINANCES

A BROADER DEFINITION OF CIVICS THAT INCLUDES UNDERSTANDING THE FINANCIAL HEALTH AND SUSTAINABILITY OF GOVERNMENT SPENDING CAN HELP CREATE POLITICAL PRESSURE FOR MORE SUSTAINABLE GOVERNMENT SPENDING. JUST LIKE A HOUSEHOLD'S FINANCIAL HEALTH DEPENDS ON FAMILY MEMBERS' ABILITY TO BALANCE INCOME AND EXPENSES, AN INFORMED ELECTORATE IS CRUCIAL TO PUSH FOR MORE SUSTAINABLE LOCAL, STATE, AND FEDERAL FINANCING AND DEBT LEVELS.

# ➤ WHAT YOU CAN DO ◀

## MEASURE -

DO YOU KNOW THE STATE OF BUDGET AND FINANCES IN YOUR COMMUNITY OR STATE?  
WHAT ARE YOUR STATE'S BUDGET POLICIES AND TAX POLICIES?  
IS THERE A TASK FORCE OR ORGANIZATION THAT ADDRESSES THIS, OR DOES ONE NEED TO BE FORMED?



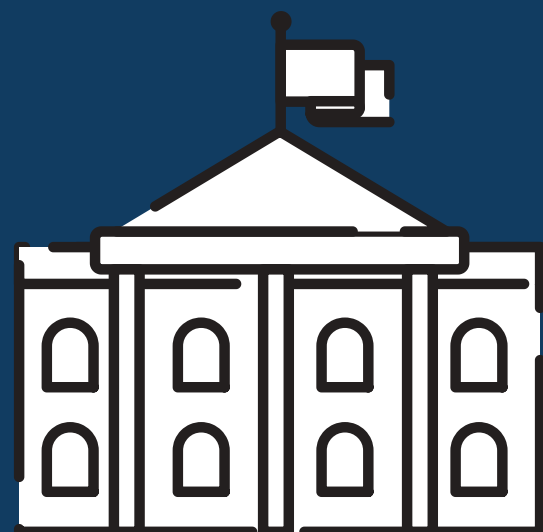
## IDENTIFY -

WHO LEADS YOUR STATE'S OFFICE OF MANAGEMENT AND BUDGET?  
WHO IN YOUR COMMUNITY IS A SUBJECT MATTER EXPERT?  
CONSIDER FINANCIAL INSTITUTIONS, PROFESSIONALS IN THE FINANCIAL FIELD, OR TEACHERS.  
WHAT STEPS HAVE YOUR STATE'S OR COMMUNITY'S ELECTED AND APPOINTED OFFICIALS TAKEN?



## REACH OUT -

FIND ALLIES IN YOUR COMMUNITY OR IN NEARBY TOWNS AND ELSEWHERE IN THE STATE.  
FOSTER COLLABORATIVE RELATIONSHIPS WITH LOCAL HOSPITALS, COMMUNITY ORGANIZATIONS, SCHOOL BOARDS, AND LOCAL BUSINESSES.



## PLAN -

SET MILESTONES BASED ON YOUR STATE'S LEGISLATIVE CALENDAR OR LOCAL COMMUNITY CALENDAR.



## EXECUTE -

EDUCATE YOURSELF – READ FREQUENTLY, OR SEE WHAT RESOURCES MAY BE AVAILABLE AT YOUR COMMUNITY ORGANIZATIONS, LOCAL FINANCIAL INSTITUTIONS, OR LOCAL BUSINESSES.  
EDUCATE OTHERS – CAN YOU BE A MENTOR THROUGH A COMMUNITY ORGANIZATION, FINANCIAL INSTITUTION, OR WITH YOUR SCHOOL DISTRICT?  
VISIT YOUR STATE'S OFFICE OF MANAGEMENT AND BUDGET WEBSITE TO TAKE A CLOSER LOOK AT YOUR STATE'S FINANCES.  
SEE HOW YOUR STATE RANKS IN TERMS OF DEBT, AND HOW IT COMPARES TO OTHER STATES.  
HOLD YOUR PUBLIC OFFICIALS ACCOUNTABLE. WHICH COMMITTEES OVERSEE STATE FINANCES?

