Federal Budget and Debt: <u>So What</u>

Session 6: The Finale

"The Debt: Where are We….Where are We going

https://www.usdebtclock.org/

US National Debt: $28.2 trillion
Per Citizen: $85 thousand
Per Taxpayer: $225 thousand

With continued thanks to Duke OLLI, Chris McLeod our Duke class "support" and my co-instructor, Dale Pahl as moderator (again)

First: Recap of Prior Budget Sessions

1. **<u>Federal Budget “Who</u>”** (Session 1)
   a) *<u>Legislative Branch</u> (funding, revenue, surplus/deficit and public debt through appropriations and authorizing legislation):* Appropriations*; Budget*; Authorizing; & House Ways & Means/Senate Finance Committees, with the Congressional Budget Office as the “number checker” * Rep. David Price, NC-4 on House Committee
   b) *<u>Executive Branch</u> (Proposals and Execution of the Federal budget, with briefings and reporting to Congress, Debt and Deficit actuals/estimates, and fiscal/tax/economic policies):* Office of Management and Budget; Federal Departments (15) and Agencies; Department of the Treasury; Council of Economic Advisers; Bureau of Labor Statistics; Census Bureau; and others.
   c) <u>Others</u> (influencers, oversight, monetary/credit, and users)*:* Lobbyists; State and Local Governments; Public & Public Interest Groups; Federal Reserve; Government Accountability Office/GAO; Inspector Generals (IG); Congressional Research Service; National Commissions; the Press; and ?? Foreign entities ??

2. **Federal Budget "When/How"** (Session 2)

a) *Planning, Programming, Budgeting & Execution (PPBE)*: Multi-year process* to prepare, justify & execute budget at program, project & activity levels based on strategic forward-looking objectives. * prior; current; budget; budget +1 to +5 (or +9 for DoD) years, with fiscal year (FY) as of October 1st (or typically July 1st for States)

b) *Foundation*: exacted budget (baseline); current services (the "as is" adjusted for inflation/cost of living); current laws; strategic plans (goals/objectives/outcomes); Presidential directives; & Congressional, GAO, IG reports. AND Budget Laws, e.g., G-R-H spending caps or sequestration & 2010 PAYGO Act offsets for any debt/deficit increase.

c) *Key dates*: 1st Monday in February President's budget request; April Concurrent Budget Resolution & OMB Scoring President's budget; June-Sept. House/Senate appropriations; NLT September 30th appropriations to President for signing or veto. IF changes (on going), reprogramings/transfers, budget amendments, rescissions/deferrals & supplementals

d) Final Arbiters*:* Congress & the President (enacted on-time, Continuing Resolution, or Federal shut-down IF funded by annual appropriation).

3. **<u>Federal Budget "What"</u>** (Session 3)

a) *<u>Key terms</u>:* Budget authority; Period of Availability; Obligation; Outlay; Revenue; **<u>Deficit</u>** (*spending that exceeds revenue for a given period, i.e., FY*); and **<u>Debt</u>** *(sum of debt held by the public or held by government accounts, i.e., mostly held by Society Security, Medicare, Federal Reserve Bank)*

[Every dollar of spending and revenue collected (or not) drives both the Deficit and Debt]

b) *<u>Crisis funding</u>*: Typically supplemental appropriations (e.g., most of COVID), which can be multi- or no-year, direct types of spending (incl. loans, reimbursements), & <u>be exempt</u> from spending caps, i.e., "*Provided, That such amount is designated by the Congress as being for an emergency requirement pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985*"

c) *<u>Largest "Pots" of Spending</u>*: **Discretionary Appropriations** = DoD (50%, $700+ billion), then HHS & the VA (7-8% & approx. $100 billion each); **Entitlement/Mandatory** = Social Security (37%, $1.1 trillion), then Medicare (23+% $700 billion) & Medicaid (17% $500 billion).

d) *<u>Recent key events/influences</u>*: (1) 2011 Affordable Care Act; (2) 2017 Tax Cuts & Jobs Act; (3) 2020 Budget Agreement (no $126 billion automatic spending cuts & suspended debt ceiling thru 7/2021); (4) COVID

e) *<u>North Carolina</u>*: Grants, grants & more grants, i.e., Transportation, Education, Health & Human Svcs. (approx. 30+% of state budget) https://www.cbpp.org/research/state-budget-and-tax/federal-aid-to-state-and-local-governments

4. <u>**Federal Budget "Oversight & Accountability"**</u> (Sessions 4 & 5)

a) Oversight and accountability involve a public accounting for what actually happens when the executive branch implements congressional laws and programs:
   - <u>Accounting</u> for budget, expenditures, and the absence of fraud, waste, and abuse (data available at *usaspending.gov*)
   - <u>Measuring</u> program progress to achieve outcome-oriented results which contribute to agency strategic goals authorized by Congress (data available at *performance.gov*)
   - <u>Demonstrating</u> (with evaluation evidence) that programs are effective and efficient

b) Program evaluation is an important technique for developing evidence of program effectiveness

c) Performance measurement is systematic monitoring, verifying, and reporting of a program's progress toward outcomes and long-term goals. Recent OMB information indicates that Congress may not be following its own laws about using performance measurement data.

d) Congressional laws during the past century are important "drivers" for oversight & accountability

4. **Federal Budget "Oversight & Accountability"** (Sessions 4 & 5)

e) In reviewing federal programs that respond to congressional laws and national crises--where the "stakes are high" and outcomes matter--we learned that accountability methods and reports help identify:

- What actually happens when the executive branch implements congressional laws
- Whether federal programs are effective and achieving congressional objectives
- The nature of leadership problems in communicating about accountability in an open, objective, and transparent manner
- Whether Congress and the executive branch are using taxpayer resources effectively to achieve important goals and objectives

f) Accountability methods are evolving to address complex societal challenges and legislative goals (e.g., risk mitigation, response, and recovery) for federal programs

- The use of science and evidence are essential to evaluate programs, policies, and decision-making

Before our Debt Discussion: a few earlier reminders ☺ ☺

1. Not an Economist, Actuarial or Scientist
2. Not a Soothsayer, Clairvoyant or Fortune Teller
3. Data changes every day, as do assumptions and policies
4. Many Opinions and Options/Approaches

So let's look at Data, Examine and Discuss, and Decide

Current Composition of Deficit (**FY 2021 ending 9/30/21**)
Per CBO* (*excluding American Rescue Plan Act $1.9 Trillion*)

Estimated Outlays:	**$5.8 Trillion** *(26% GDP)*
Discretionary appropriations	*$1.7 trillion*
Entitlement funding (including interest)	*$4.1 trillion*
Estimated Revenue:	**$3.5 Trillion** *(16% GDP)*
Taxes (Personal)	*$1.7 trillion*
Corporate	*$0.2 trillion*
Other (primarily payroll)	*$1.6 trillion*
Estimated Deficit:	**$2.3 Trillion** *(10% GDP)*
Estimated Debt:	**$29 + Trillion**
Debt owed to the Public (apprx. 40% foreign)	*$22.5 Trillion* (102% GDP)
(rest intragovernmental, e.g., Social Security $2.9 trillion)	

** why CBO – apolitical analysis especially per economic drivers/assumptions*

Key Takeaways:

1. Outlays inflated by COVID BUT true entitlement spending will continue to rise.
2. Do nothing and Debt will continue to rise especially if interest and inflation rates increase, and given “unmet” needs (unless cost-bearing shift)

For Awareness/Reference: Who Currently Owns the U.S. Debt?

https://www.treasurydirect.gov/govt/charts/principal/principal_govpub.htm

Public Debt (Non-Federal)	**$15.4 Trillion**
Mutual Funds	*$ 3.5 trillion*
State and local governments	*$ 1.1 trillion*
Federal Reserve	*$10.2 trillion*
(Other: Savings Bonds, Insurance Companies, Banks, etc.)	
Public Debt (Foreign)	**$ 7.1 Trillion**
Japan	*$ 1.3t (18%)*
China	*$ 1.1t (15%)*
United Kingdom	*$ 0.4t (6%)*
(Other notables: Saudi Arabia $0.1t; Korea $0.1t; Canada $0.1t; Ireland $0.3t)	
Intragovernmental	
Social Security trusts/Medicare	*$3.2 trillion*
Military/Civilian retirement	*$2.0 trillion*
"Cash on hand"	*$0.7 trillion*

Many people believe that much of U.S. debt is owed to foreign countries like China and Japan. The truth is, most of it is owed to Social Security, Federal Reserve, and "us" through pension funds, banks, and other financial institutions. DOES NOT MAKE IT LESS REAL BUT **"negotiability" factor**

Presented by Ed Johnson & Dale Pahl (ehjsolutions@gmail.com & dalepahl@gmail.com)

So being a "Data Guy" and "Budget Geek", I'll go through some "Ugly Data" CBO Tables to provide more context to the Spending, Revenue, and Deficit/Debt information

☺

Then "So What", "What's Next" and "What's Possible" Questions!

CBO Discretionary Estimates

Key takeaways:

1. Prior to American Rescue Plan Act (ARPA)

2. Non-Defense basically flat after COVID $

3. DoD grows to 52% of discretionary funding

4. Total discretionary is still only 6.5% of total current Debt

CBO's Baseline Projections of Discretionary Spending (www.cbo.gov/publication/56970) AS OF FEBRUARY 2021*

Billions of Dollars	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Budget Authority												
Defense	757	741	758	776	794	814	834	856	878	900	923	946
Nondefense	1,139	873	709	726	744	768	788	809	829	850	872	893
Total	1,896	1,614	1,468	1,502	1,538	1,582	1,622	1,665	1,707	1,750	1,794	1,839
Outlays												
Defense	714	733	749	757	767	789	808	828	855	865	893	915
Nondefense	914	935	866	836	818	831	846	866	885	907	929	952
Total	1,628	1,668	1,615	1,593	1,585	1,620	1,654	1,694	1,740	1,772	1,822	1,867
Memorandum:												
Emergency Spending in Est.	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Budget Authority												
Defense	19	0	0	0	0	0	0	0	0	0	0	0
Nondefense	470	192	10	10	10	10	11	11	11	11	12	12
Total	489	192	10	10	10	10	11	11	11	11	12	12
Outlays												
Defense	n.a.	0	0	0	0	0	0	0	0	0	0	0
Nondefense	n.a.	82	64	36	22	14	11	11	10	10	11	11
Total	n.a.	82	64	36	23	14	11	11	10	10	11	11

* Before the American Rescue Plan Act, which CBO estimates will increase deficits by $1.9 trillion over the 2021-2031 period. AND most of COVID-related funding is within Mandatory amounts

CBO Mandatory Estimates

Key takeaways:

1. Prior to ARPA

2. 2020 vs. 2021 deltas primarily COVID-related.

3. Nearly 100% jump in Social Security and Major Health Care spending in 11 years.

Mandatory Outlays Projected in CBO's Baseline (www.cbo.gov/publication/56970) AS OF FEBRUARY 2021*

Billions of Dollars	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Social Security												
Old-Age and Survivors Insurance	945	991	1,047	1,108	1,175	1,245	1,319	1,396	1,484	1,573	1,664	1,757
Disability Insurance	144	145	152	161	170	177	185	192	195	201	207	214
Subtotal	1,090	1,136	1,199	1,269	1,344	1,422	1,504	1,588	1,679	1,774	1,871	1,971
Major Health Care Programs												
Medicare	917	830	943	1,018	1,047	1,172	1,256	1,348	1,516	1,475	1,643	1,782
Medicaid	458	507	514	492	504	533	563	597	632	667	705	744
Other (Tax credits & CHIP)	74	71	70	68	69	69	70	72	77	82	87	94
Subtotal	1,450	1,409	1,527	1,578	1,619	1,774	1,889	2,018	2,225	2,224	2,435	2,620
Income Security Programs												
Earned income, child, and other tax credits	380	268	90	92	93	93	92	78	78	79	79	80
Supplemental Nutrition Assistance Program	86	132	99	78	76	75	75	74	74	73	72	71
Unemployment compensation	473	242	40	37	36	34	33	34	36	38	41	46
Other (SSI, Child Nutrion, Foster Care/Family	114	114	124	122	121	130	133	137	146	139	149	153
Subtotal	1,052	757	354	330	326	332	333	323	334	328	341	350
Federal Civilian & Military Retirement	171	176	187	187	187	194	209	212	224	217	230	235
Veterans (incl. Income Security)	122	137	152	146	138	155	160	166	185	163	183	190
Other Programs												
Small Business Administration	551	303	5	0	0	0						
Coronavirus relief fund	149	0										
Higher education	124	7	4	3	4	5	5	6	7	7	8	8
Emergency rental assistance		24	1									
Other (Ag, DoD Medicare, Fannie Mae/Freddi	152	138	108	107	107	105	105	106	108	109	107	108
TOTAL Mandatory Outlays	**4,861**	**4,085**	**3,537**	**3,621**	**3,726**	**3,987**	**4,206**	**4,418**	**4,761**	**4,823**	**5,175**	**5,481**
Net of Offsetting Receipts	*4,579*	*3,793*	*3,153*	*3,293*	*3,389*	*3,618*	*3,828*	*4,016*	*4,340*	*4,384*	*4,711*	*4,988*

* Before the American Rescue Plan Act, which CBO estimates will increase deficits by $1.9 trillion over the 2021-2031 period.

CBO Revenue Projections

Key takeaways:

1. *Prior to ARPA**

2. *Debt Held by the Public is over 100% of GDP*

3. *Mandatory less 2020 to 2021 due to all the COVID "mandatory" but 2021 will grow due to ARPA.*

4. *2021 deficit is 10.3 % of GDP; 2nd most since 1945 (which was 2020)*

CBO's Baseline Budget Projections, by Category (https://www.cbo.gov/publication/56970) AS OF FEBRUARY 2021*

$ in billions	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues												
Individual income taxes	1,609	1,699	2,041	2,084	2,139	2,228	2,479	2,698	2,782	2,882	2,985	3,096
Payroll taxes	1,310	1,325	1,351	1,452	1,507	1,558	1,619	1,673	1,729	1,788	1,849	1,914
Corporate income taxes	212	164	252	304	328	355	365	361	369	377	385	393
Other	289	318	351	362	379	365	354	365	363	360	357	367
Total	3,420	3,506	3,995	4,202	4,352	4,507	4,817	5,097	5,243	5,408	5,577	5,771
Outlays												
Mandatory	4,579	3,793	3,153	3,293	3,389	3,618	3,828	4,016	4,340	4,384	4,711	4,988
Discretionary	1,628	1,668	1,615	1,593	1,585	1,620	1,654	1,694	1,740	1,772	1,822	1,867
Net Interest	345	303	282	278	284	306	361	435	516	597	695	799
Total	6,552	5,764	5,050	5,165	5,258	5,544	5,843	6,145	6,595	6,754	7,227	7,654
Deficit (-) or Surplus	**-3,132**	**-2,258**	**-1,056**	**-963**	**-905**	**-1,037**	**-1,026**	**-1,048**	**-1,352**	**-1,346**	**-1,650**	**-1,883**
Debt Held by the Public	*21,019*	*22,461*	*23,541*	*24,547*	*25,488*	*26,559*	*27,596*	*28,702*	*30,162*	*31,593*	*33,331*	*35,304*
Gross Domestic Product	***21,000***	***21,951***	***23,082***	***24,066***	***25,127***	***26,249***	***27,359***	***28,425***	***29,506***	***30,623***	***31,751***	***32,933***

As a Percentage of Gross Domestic Product

$ in billions	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues												
Individual income taxes	7.7	7.7	8.8	8.7	8.5	8.5	9.1	9.5	9.4	9.4	9.4	9.4
Payroll taxes	6.2	6.0	5.9	6.0	6.0	5.9	5.9	5.9	5.9	5.8	5.8	5.8
Corporate income taxes	1.0	0.7	1.1	1.3	1.3	1.4	1.3	1.3	1.2	1.2	1.2	1.2
Other	1.4	1.4	1.5	1.5	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1
Total	16.3	16.0	17.3	17.5	17.3	17.2	17.6	17.9	17.8	17.7	17.6	17.5
Outlays												
Mandatory	21.8	17.3	13.7	13.7	13.5	13.8	14.0	14.1	14.7	14.3	14.8	15.1
Discretionary	7.8	7.6	7.0	6.6	6.3	6.2	6.0	6.0	5.9	5.8	5.7	5.7
Net Interest	1.6	1.4	1.2	1.2	1.1	1.2	1.3	1.5	1.7	2.0	2.2	2.4
Total	31.2	26.3	21.9	21.5	20.9	21.1	21.4	21.6	22.4	22.1	22.8	23.2
Deficit (-) or Surplus	-14.9	-10.3	-4.6	-4.0	-3.6	-4.0	-3.7	-3.7	-4.6	-4.4	-5.2	-5.7
Debt Held by the Public	**100.1**	**102.3**	**102.0**	**102.0**	**101.4**	**101.2**	**100.9**	**101.0**	**102.2**	**103.2**	**105.0**	**107.2**

** Before the American Rescue Plan Act, which CBO estimates will increase deficits by $1.9 trillion over the 2021-2031 period.*

Key takeaways:

1. Prior to American Rescue Plan Act (ARPA)
2. Debt is "out of control – in total and as "% of GDP"
3. If interest rates grow, so does the Debt
4. "Good News": Debt ceiling is coming back (possibly) this year.

CBO's Baseline Projections of Federal Debt https://www.cbo.gov/publication/56991#_idTextAnchor004

$ in billions	Actual, 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Debt Held by the Public at the Beginning of the Year	16,801	21,019	22,461	23,541	24,547	25,488	26,559	27,596	28,702	30,162	31,593	33,331
Changes in Debt Held by the Public												
Deficit	3,132	2,258	1,056	963	905	1,037	1,026	1,048	1,352	1,346	1,650	1,883
Other means of financing[a]	1,086	-817	25	43	35	34	11	57	108	85	88	90
Total	4,218	1,442	1,080	1,006	941	1,071	1,037	1,106	1,460	1,432	1,738	1,973
Debt Held by the Public at the End of the Year												
In billions of dollars	**21,019**	**22,461**	**23,541**	**24,547**	**25,488**	**26,559**	**27,596**	**28,702**	**30,162**	**31,593**	**33,331**	**35,304**
As a percentage of GDP	**100.1**	**102.3**	**102.0**	**102.0**	**101.4**	**101.2**	**100.9**	**101.0**	**102.2**	**103.2**	**105.0**	**107.2**
Memorandum:												
Debt Held by the Public Minus Financial Assets[b]												
In billions of dollars	18,096	20,354	21,410	22,372	23,278	24,315	25,340	26,388	27,741	29,087	30,737	32,620
As a percentage of GDP	86.2	92.7	92.8	93.0	92.6	92.6	92.6	92.8	94.0	95.0	96.8	99.0
Debt Net of Financial Assets and Federal Reserve Holdings												
In billions of dollars	13,730	15,062	15,282	15,872	16,748	17,768	18,775	20,180	21,896	23,569	25,508	27,678
As a percentage of GDP	65.4	68.6	66.2	66.0	66.7	67.7	68.6	71.0	74.2	77.0	80.3	84.0
Gross Federal Debt[c]	26,901	28,467	29,580	30,610	31,561	32,578	33,590	34,544	35,765	36,959	38,369	39,955
Debt Subject to Limit[d]	26,920	28,487	29,600	30,631	31,582	32,600	33,612	34,566	35,787	36,980	38,390	39,975
Average Interest Rate on Debt Held by the Public (Percent)	2.0	1.5	1.4	1.3	1.3	1.3	1.5	1.7	1.9	2.0	2.2	2.4

OTHER KEY DATA TO CONSIDER FOR NEXT STEPS

Three Data Points

(1) Debt to GDP%, (2) U.S Trade Balance, (3) Corporate Tax Rates

Country	**Debt to GDP %**	**2020 Trade Balance ($ in billion)**	2021 Population (in millions)	**2020 Corporate Tax Rates**
Japan	237.0%	$ (55.4)	126.1	30%
Greece	177.0%	$ 0.1	$ 10.4	24%
Italy	135.0%	$ (29.5)	$ 60.4	28%
United States	**107.0%**	**N/A**	$ 332.9	21%
France	98.1%	$ (15.6)	$ 65.4	32%
Spain	95.5%	$ (2.4)	$ 46.7	25%
Canada	89.7%	$ (15.0)	$ 38.1	26%
Argentina	89.4%	$ 1.8	$ 45.6	30%
United Kingdom	80.7%	$ 8.8	$ 68.2	19%
Brazil	75.8%	$ 11.7	$ 214.0	34%
Germany	59.8%	$ (57.3)	$ 83.9	30%
Ireland	58.8%	$ (55.9)	$ 5.0	13%
China	50.5%	$ (310.8)	$ 1,444.2	25%
Mexico	45.5%	$ (112.7)	$ 130.3	30%
South Korea	37.7%	$ (24.8)	$ 51.3	28%
Taiwan	28.2%	$ (29.9)	$ 23.9	20%
Saudi Arabia	22.8%	$ 2.2	$ 35.3	20%
United Arab Emirates	18.6%	$ 11.7	$ 10.0	0%
Russia	12.2%	$ (12.0)	$ 145.9	20%
Afghanistan	7.1%	$ 0.7	$ 39.8	20%

https://worldpopulationreview.com/country-rankings/debt-to-gdp-ratio-by-country
https://www.census.gov/foreign-trade/balance/index.html
https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/

MORE KEY DAY: Interest Expense on Debt, Treasury Interest Rates and Unemployment Rates

Interest Expense Fiscal Year 2021	
Fiscal Year	**$ in billions**
FY 2021 Est.*	$457.26
2020	$522.77
2019	$574.59
2018	$523.02
2017	$458.54

* simple calculation: actuals through March and average for rest of FY 2021

https://www.treasurydirect.gov/govt/reports/ir/ir_expense.htm

Perspective:8% of total outlays for FY 2020 was for Interest payments on the outstanding U.S. Federal Debt. What could you buy with ½ trillion of funds? How about raising the minimum wage to $15 an hour?

Daily Treasury Long Term Rate Data		
Date	**Composite < 10 years**	**20-Yr CMT**
1/2/2019	2.90	2.83
4/1/2019	2.80	2.71
7/1/2019	2.44	2.34
10/1/2019	2.02	1.93
1/2/2020	2.26	2.19
4/1/2020	1.15	1.04
7/1/2020	1.27	1.20
10/1/2020	1.26	1.23
1/4/2021	1.47	1.46
4/1/2021	2.23	2.24
4/19/2021	**2.18**	**2.18**

Illustrative why borrowing is driven by low interest rates based on Federal Reserve policies, which is creating rise of the Stock Market. https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=longtermrateYear&year=2021

Unemployment Rates	
Year	**Avg %**
2011	8.9
2012	8.1
2013	7.4
2014	6.2
2015	5.3
2016	4.9
2017	4.4
2018	3.9
2019	3.7
2020	8.1
2021 (thru March)	6.2
2022 est.	**3.9**
2023 est.	**3.5**

https://data.bls.gov/timeseries/LNS14000000

https://fred.stlouisfed.org/series/UNRATECTM

Fed estimates **unemployment rate** to drop to 3.9% and 3.5% **in** 2022 and 2023, respectively.

And what about Inflation?

The Consumer Price Index for All Urban Consumers rose 2.6 percent for the 12 months ending March 2021, the largest over-the-year increase since August 2018. Food prices advanced 3.5 percent over the past 12 months, while energy prices increased 13.2 percent over that period. Prices for all items less food and energy rose 1.6 percent.

Consumer Price Index

Year	%
2019	1.8
2020	1.2
2021	1.9
2022	2.2
2023	2.2
2024-2025	2.4
2026-2031	2.4

https://www.bls.gov/regions/mid-atlantic/data/consumerpriceindexhistorical_us_table.htm
https://www.cbo.gov/system/files/2021-02/56965-Economic-Outlook.pdf

"Debt: So What"

And a few recent Headlines and Views

1. Economic Recovery Post-COVID (4/15/21): China's economy is roaring back as world's 2nd largest economy has more than regained its pre-pandemic activity (despite U.S. sanctions) & is catching up "faster than ever before" to the level of advanced economies (Peterson Institute) https://www.washingtonpost.com/world/asia_pacific/china-gdp-growth-coronavirus-economy/2021/04/15/659185a6-9d93-11eb-b2f5-7d2f0182750d_story.html
2. Oversight of COVID Spending (3/26/21): Justice takes historic level of enforcement actions against COVID-19 fraud, i.e., Paycheck Protection Program Historic level of enforcement action during national health emergency) https://www.justice.gov/opa/pr/justice-department-takes-action-against-covid-19-fraud?utm_medium=email&utm_source=govdelivery
3. CBO Analysis of COVID: Annual real GDP will be 3.4 percent lower in 2030 than CBO previously projected (hence predicted size of the US economy $8 trillion smaller by 2030. Also, updated Social Security "insolvent" date moved up by 1-2 years from Year 2035 estimate. Despite all of the economic impacts and increased debt, interest rates on federal borrowing are expected to remain below average to rates in recent decades (but higher than now).

I borrowed this graphic because I believe it depicts the essential reasons for how we got here. <u>HOWEVER</u>, what I would add for example:

1. Inconsistent tax policies
2. Federal spending unchecked with no enforcement of budget laws
3. More haves and have nots
4. Global markets and economies, as well as variances among States
5. Federal reserve monetary policies (e.g., controlling inflation and interest rates)
6. Entitlement programs and aging/disadvantage population
7. Steady increase of Defense funding

A View: Why Federal Deficits & Debt Matter

- Majority of debt held by purchasers of Treasury notes & other securities. With increasing deficits/debt, willingness to continue to purchase in future given other options (including globally)? Also, growing debt increases risk debt cannot be repaid, which causes debt holders to demand higher interest to compensate for the higher risk.
- Likely future interest rate changes (+) could cause higher inflation and recession, and could the Federal government/Federal Reserve do more? And what about additional needed investments?
- The Federal government is also borrowing from itself (e.g., Medicare premiums, Social Security, etc.) and these liabilities are due in the future.

https://www.pgpf.org/top-10-reasons-why-the-national-debt-matters?utm_source=link&utm_medium=blog&utm_campaign=related

Per the Committee for Responsible Budget (CFRB) "Why High and Rising National Debt is a Problem"
High, rising debt threatens economic growth and the standard of living **for all** Americans (wages). As debt rises, higher interest payments will crowd out important investment (e.g., research). Getting the debt under control once the crisis is over will be very beneficial for generations to come, from higher wages to increased investment to lower borrowing costs for families and businesses, and per CBO, the economy will grow faster with debt on a declining path. https://www.crfb.org/debtfixer/

BUT: interest has remained historically low, the Stock Market is at an all-time high, unemployment was at a all-time low and is fast improving again…..so what's the problem? **Remember** the Housing boom and cheap credit?

The Federal Deficit/Debt: So What

Is the Debt "Bad" and is it "Sustainable"

For this discussion, I am going to offer different view points (including mine). However, before presenting an discussing, I'm going to qualify everything with the following statement:

Qualifier: WHEN A CRISIS strikes, we need to first examine funding for the Crisis (immediate and future impacts) because the funding may or may not be recurring, i.e., impact future budget levels, and definitely impacts annual budget levels.

AND a few reminders from previous discussions for "Stage Setting"

What's driving Costs & what can be done?

1. Aging U.S. Population (www.census.gov/programs-surveys/popest.html (including rising health care costs, including Social Security, Medicare, Medicaid). The Federal government is estimated to spend ½ of its budget on older adults in 10 year*.
2. What will constitute public assistance in the future (e.g., mental health, homelessness, children programs, care for the elderly, etc.): social-economic equity

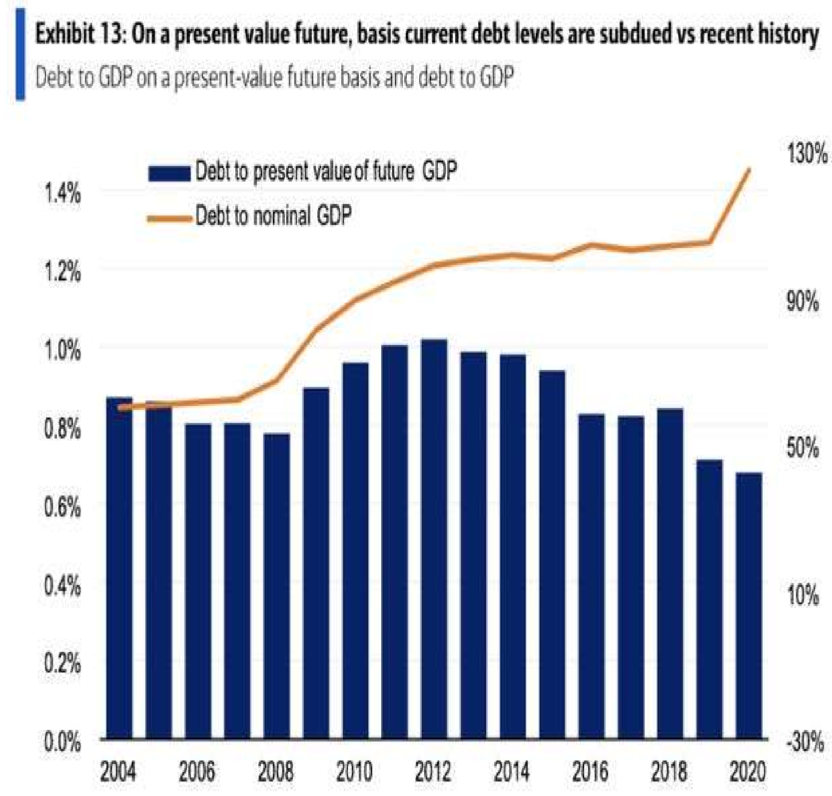
2. Veterans: reduced over past decade (1/3) but post 9/11?
3. Inflation & interest rates down now but, and growing interest on the Public debt? Also, impact of future Federal Reserve monetary policies?
4. Costs related to cybersecurity and protection of our institutions/**infrastructure** (roadways, bridges, electrical grid, water systems, etc.; not per se current Administration's proposal)
5. Continued & future pandemic impacts and the environment (including climate changes)
6. Terrorism (Domestic/International) & growing threats abroad (China, Russia, Korea, Iran): views regarding law enforcement and defense spending

OTHERS (size/role of the government)? Biden's 2022 Budget and Infrastructure Proposals

* https://www.forbes.com/sites/howardgleckman/2019/02/01/the-federal-government-will-spend-half-its-budget-on-older-adults-in-ten-years/?sh=6f7945ab56b6

PERSPECTIVE #1: "The US national debt isn't actually very high" (4/2021 Bank of America)
https://www.businessinsider.com/national-debt-not-actually-high-bank-of-america-larry-summers-2021-4

1. The US debt @ $28 trillion is measured wrong.
2. Instead of comparing the debt to the nominal gross domestic product (over 100%), use a discounted cash flow (DCF) analysis, which estimates the value of an investment based on expected future cash flows.
3. Using this method, which is how companies and financial assets are traditionally valued, the bank found the ratio of US federal debt to total GDP, defined as discounted future economic output of the entire US economy, comes in at 0.7%; lowest since 2004.

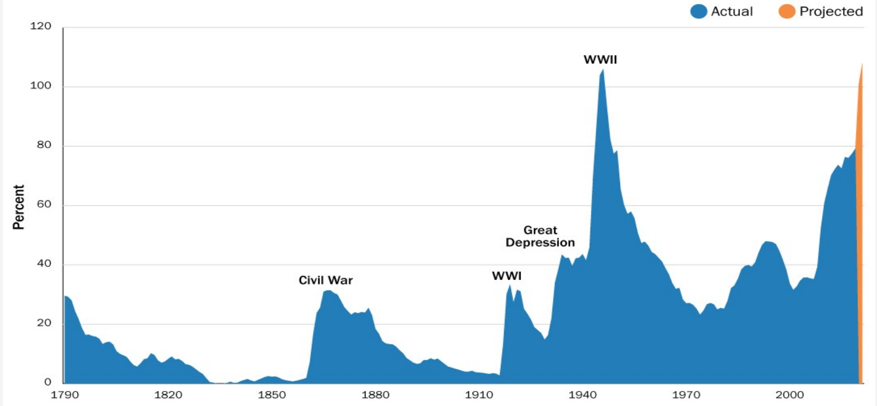


"If we apply the same concepts used to value a company, and view the value of the US economy as the sum of the present values of future GDP, we can make an apples-to-apples comparison vs. debt," the report said.

PERSPECTIVE #2: "How worried should you be about the federal deficit and debt?" (7/2020 Brookings) https://www.brookings.edu/policy2020/votervital/how-worried-should-you-be-about-the-federal-deficit-and-debt/

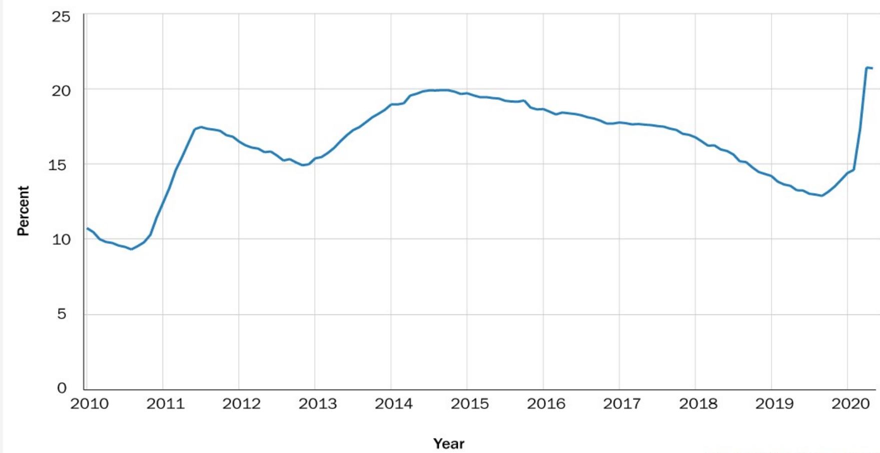
1. Is debt at that level a problem? For now, it isn't. U.S. government borrows trillions at very low interest rates on global financial markets, and there doesn't appear to be much private sector borrowing that is crowded out by U.S. Treasury borrowing right now.
2. No one really knows at what level a government's debt begins to hurt an economy with heated debate among economists. If interest rates remain low, as currently anticipated, the government can handle a much heavier debt load than was once thought possible.
3. BUT WHAT about the FUTURE?. And while the recent debt increases seem quite manageable, the federal debt cannot grow faster than the economy indefinitely. Eventually, private borrowing will be crowded out if the government's debt continues to grow, and interest rates will rise. At some point, action will have to be taken to rein in the deficit, but we may be a long way from that point.

Figure 2: Federal debt held by the public
As a share of GDP



Source: CBO; April 2020 projections
BROOKINGS

Figure 3: Federal Reserve holdings of U.S. Treasury debt as % of total outstanding



Source: Haver
BROOKINGS

<u>PERSPECTIVE #3</u>: "Yes, the National Debt Is Still a Problem. Always Was?" (12/2020 Cato Institute) https://www.cato.org/blog/yes-national-debt-still-problem-always-was

1. It is some gamble to just expect you can go on racking up debt like this, year on year, and continue to do bailouts every time a recession hits, without interest rates rising significantly, some eventual debt crisis, or a burst of damaging inflation.
2. That means deficit reduction will likely one day come anyway: whether in the form of more modest adjustments to the entitlement programs to reduce the debt trajectory or else the sudden necessity of sharp austerity (aka Britain in the 1980s, World in 2008-9, Greece in the 2010s, etc.)
3. No one really knows at what level a government's debt begins to hurt an economy with heated debate among economists. If interest rates remain low, as currently anticipated, the government can handle a much heavier debt load than was once thought possible.
4. One person who understands this appears to be Treasury Secretary (and former Federal Reserve Chair) Janet Yellen, who prior to her new position stated, "The U.S. debt path is completely unsustainable under current tax and spending plans," and that it is "something that most people don't understand and I see very little evidence of concern about it."
5. Politicians will only act on the debt, however, when there is a public demand to do so. The national debt is still a problem. Spread the word.

PERSPECTIVE #4: **"We need to do something or else we mortgage our future to others like the Roman Empire" (4/2021 Ed Johnson)**

My views are shaped by David Walker, former GAO head, the Simpson-Bowles Commission, my time working in the White House, and my mentor budget and financial mentors. It is not a question of IF but WHEN austerity measures on spending or increased taxes (or revenue) will need to occur.

Simple fact: Not only does the Federal government have a historical level of debt (in total and as a percent of the GDP), but U.S. Corporations and Citizens do as well. The Stock Market is not an economic indicator of the economic health of the U.S. Moreover, the growing disparity of wealth will drive this discussion as well.

David Walker served as the former United States comptroller general and is the author of "America in 2040: Still a Superpower? A Pathway to Success." As stated by David Walker, "**America must restore fiscal sanity"** (https://thehill.com/opinion/finance/527978-america-must-restore-fiscal-sanity)

1. Given our current deteriorated financial condition, it is time to create a statutory Fiscal Sustainability Commission. We must take steps to halt the projected dramatic increase with federal debt levels….failure to control our escalating federal debt levels would result in lower economic growth, national security, domestic peace, and world standing.
2. Putting our finances in order takes difficult choices on revenue, spending, investments, & reforms (e.g., Medicare and Social Security). Such comprehensive reforms are highly unlikely to occur with the normal legislative process. As a result, the president should use the bully pulpit to create a new Fiscal Sustainability Commission & the bipartisan House Problem Solvers Caucus should support this effort.

PERSPECTIVE #4: (continued)

3. This new panel would use lessons from the Simpson Bowles Commission. It would be statutory and transpartisan.
4. Contrary to the opinion held by numerous elected officials, Americans are willing to accept several difficult choices today in order to create a better tomorrow for their children and future generations. But such choices must be part of a broad plan consistent with a set of principles and values that will bring people together rather than divide them.
5. Do not be fooled by modern monetary theory advocates who say federal deficits and debt levels do not matter for a country like the U.S. if inflation is under control. This notion is simply contrary to history, against economic principles, and downright dangerous. If it is used by the government, it would likely cause excess inflation and would likely result in more unsustainable fiscal and monetary policies.

It is vital to remember that the U.S. is not excused from the laws of prudent finance. The greatest threat to our national security is internal. But we can solve our own problems today, and Americans will support important reforms with strong leaders. It is time to establish a better future for this country and for Americans. This would be a powerful legacy for the next president and his administration.

SO IF WE NEED TO DO SOMETHING, WHAT ARE THE CHOICES/OPTIONS INCLUDING "IOUs"
AND I do recognize the sense of "political gridlock" AND as I have stated before, the "Budget "WHAT" is more than dollars; it represent policy, psychology, philosophy & of course politics, and much more

Spending Offset/Reduction Proposals ($ adj. to Deficit/Debt estimated thru 2030)

Education
- Devolve K-12 Education to the States ($540 billion)
- Replace current Student Loan subsidies with income-based repayment ($140 billion)

Infrastructure
- Increase Gas Tax by 10 cents & then grow in future years ($200 billion)
- Limit Highway spending to Current Revenue ($220 billion)

Defense(Internal/External)
- End War in Iraq and Afghanistan ($740 billion)
- Freeze Defense spending (for two years: $310 billion; to 2017 levels $970 billion)
- Limit Eligibility for and Scope of Veterans' Benefits ($370 billion)
- Reduce Foreign Aid and International Program Spending ($170 billion BUT look at trade too)
- Provide a Pathway to Citizenship for Undocumented Immigrants ($210 billion)

Spending Offset/Reduction Proposals ($ adj. to Deficit/Debt estimated thru 2030) -- continued

Social Security/Health Care

- Raise the Normal Retirement Age to 69 ($100 billion)
- Raise Payroll Tax Cap to Cover All Earnings ($840 billion) or Raise Payroll Tax Rate by 1% ($560 billion)
- Slow Benefit Growth-Top 70% of Earners ($160b) or Means-Test Benefits -High-Earning Seniors ($160b)
- Replace Obamacare with State Grants ($550 billion)
- Increase Medicare Premiums High-Income Beneficiaries ($190 billion)
- Reduce Medicare Provider Payments ($250b or Allow Private Plans to Compete with Medicare ($360b)

Domestic Programs

- Freeze Non-Defense Appropriations (for two years: $370 billion; to 2017 levels $870 billion)
- Reduce the Cost of the Federal Workforce and Benefits ($440 billion)
- Eliminate Farm Subsidies ($180 billion)
- **Eliminate 19 Independent Agencies/Commissions ($40 billion**)

Taxes

- Repeals the 2017 Tax Law ($1,130 billion)
- Eliminate Mortgage Interest Deduction ($270 billion) and State and Local Tax Deduction ($240 billion)
- Institute Cap on Health Insurance Tax Exclusion ($660 billion)
- Increase Corporate Tax Rate to 25% ($500 billion) – but included in repeal of 2017 tax law
- Enact a Carbon Tax ($1,420 billion), Value-added Tax ($2,620 billion), and Wealth Tax ($1,760 billion)

Spending Proposals ($ adj. to Deficit/Debt estimate through 2030)

Education

- Increase Higher Education: Free Community College ($80 billion) or Public College ($970 billion)
- Provide universal Pre-K ($90 billion)

Research

- Double NIH Research budget ($510b)

Infrastructure

- Increase spending per CFRB analysis –not the Administration's proposal ($640 billion)

Defense(Internal/External)

- Further tighten Border Security and expansion of Border Wall ($160 billion)
- Allow Veterans to See Any Doctor Outside of the VA ($640 billion)

Social Security/Health Care

- Increase Benefits for Vulnerable Beneficiaries ($160 billion)
- Increase Obamacare Subsidies ($670 billion) or Expand Coverage with Public Insurance Plan ($4,540 billion)

Spending Proposals ($ adj. to Deficit/Debt estimate through 2030)

Domestic

- Invest in Clean Energy Research ($470 billion)

Taxes

- Extend the 2017 Tax Law ($1,350 billion)
- Increase New Tax Credit for Low and Middle Earners ($3,590 billion)
- Repeal the Estate Tax ($290 billion)

Debt Fixer/Game

The FEW spending increases and debt reductions I just presented I pulled from the Committee for Responsible Federal Budget "Debt Game", which I highly recommended, for you to identify actions for Congress and the Administration. **WHY?** BECAUSE of the members including Co-Chair Mitch Daniels and Leon Panetta(former OMB Directors +) (http://www.crfb.org/board-members), and previously the late Alice Rivlin. There are other resources to check-out also including on CBO's website.

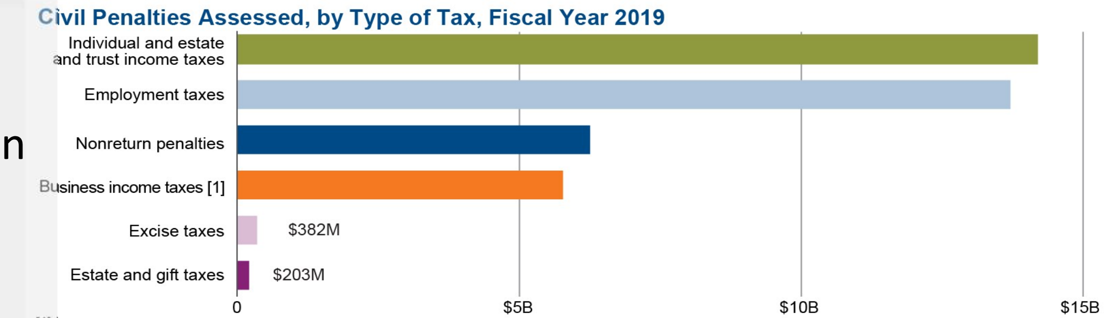
So the questions is whether you can you do better?

- SHORT-TERM GOAL (10 years): Steadying debt held by the public (70% of economy)
- LONG-TERM GOAL (By 2050): Get debt down to average level of about 40% of economy for fiscal space to deal with emergencies, promote economic growth, offset recession

To date: Thousands upon thousands have completed, with nearly 70% who reduced debt to 70% of economy in 10 years. Average user $7.6 trillion in debt reduction over 10 years. (www.crfg.org/papers/americans-show-they-can-make-tough-federal-budget-decisions-and-reduce-national-debt)

OTHER SOURCES OF FUNDING AND ACTIONS: While personal income taxes remain the largest source of federal funding, there are a number of other funding sources to cover spending:

1. User fees (e.g., Immigration applications, TSA, Patent and Trademark, Customs, National Parks, etc.)
2. Loans (with subsidies) & Sales and receipts
3. Higher, cost-based insurance premiums (e.g., Flood Insurance program)
4. Increase IRS compliance & enforcement funding (e.g., $15 billion increase over 10 years estimated to generate about $79 billion in revenues, excluding revenue from enforcement deterrent effect
5. Evaluate & take action on open receivables/aged debt (student loans, defaulted guaranteed loans, etc.) = many billions
6. Reduce carry-over balances that remain unobligated = nearly a trillion



[1] Includes partnership, corporation, and S corporation income taxes.
SOURCE: 2019 *IRS Data Book* Table 26

Federal Aged/Outstanding Receivables (as of 12/31/20)
$ in billions

Receivable Type	1-2 Year	2-6 Years	6-10 Years	> 10 Years	TOTAL
Administrative	3.7	5.6	2.3	3.0	14.6
Direct Loans	2.8	4.2	2.2	5.6	14.8
Defaulted Guaranteed Loans	8.5	71.3	30.3	14.1	124.3
TOTAL	**15.1**	**81.1**	**34.8**	**22.7**	**153.7**

https://fiscaldata.treasury.gov/datasets/treasury-report-on-receivables/delinquent-debt

When considering Federal spending cuts, need to also consider "downstream" impacts, e.g.,

- **Federal grants to state & local governments fund roughly 31% of state budgets and 23% of state/local budgets combined** (e.g., health care, public education, housing, child care, job training, transportation, clean water etc.), which is vital to every state, particularly those with low or moderate income residents.
- **Americans now have a record $14.9 trillion in debt**; $2 trillion more than the 2008 financial crisis & consumer spending is the biggest drive of the economy. Over the past decade, U.S. consumers continued to borrow driven by "cheap borrowing". Mortgage rates largest chunk nearly $10 trillion and student loans at $1.6 trillion. AT THE SAME TIME, the "**AFFORDABILITY GAP** continued to increase, i.e., difference between the price that the average household can afford to pay for a home and the median price of housing on the market. (https://www.washingtonpost.com/business/2020/02/24/this-chart-is-best-explanation-middle-class-finances-you-will-ever-see/)
- **U.S. Corporates Continue To Gorge at the Debt Trough.** In 1980, the level of US corporate bonds outstanding was $468 billion, about 16% equivalent of U.S. GDP. Forty years later, the amount of corporate bonds outstanding has grown by over 2,000% to $10.6 trillion; this is 50% of equivalent of GDP. This level of corporate bond debt is the highest in the history of U.S. companies. The amount of corporate bonds is rapidly approaching the level of mortgage backed securities (and does not include loans and different lines of credit) https://www.forbes.com/sites/mayrarodriguezvalladares/2021/04/10/us-corporates-continue-to-gorge-at-the-debt-trough/?sh=41111ff31d01
- **GDP while recovering will remain flat for many years**

Some good news (and possible sources for revenue?)

1. **Americans to inherit $764B this year, mostly tax-free (info from 1/28/2020 before Stock Market Rise of 2020 into 2021):** One way the rich get richer is through inheritance, and they're barely paying taxes on it (just 2.1%) By contrast, the estimated tax on work and savings is 15.8 percent, more than seven times higher (although many higher-income workers pay far more)
2. **The Average Net Worth of Americans.** The U.S. Census is conducted every 10 years. Among the data collected is information on household income, which can then be used to determine the average American household net worth. The most recent U.S. Census available data on income and net worth from 2017 show that the average American net worth is $104 thousand.

•

Median Value of Assets by Age of Householder	
younger than 35	$ 9,773
35-44	$ 73,560
45-54	$125,400
55-64	$194,800
65-69	$236,900
70-74	$302,300
75 and older	$237,900

Some more good news (and possible sources for revenue?)

3. **Lot's of Companies not paying taxes --- time to collect! And opportunity to raise taxes to more consistent with other G7 nations** **[**How do corporations avoid paying taxes? First, S corporations are the most common type of corporation. These pass-through-firms pay no corporate taxes. Instead, they pass corporate income, losses, deductions, and credits through to their shareholders. The shareholders are then taxed on these profits or losses at their individual income tax rates]

Comparison of Tax Rates: Clinton to Trump

Year	Max Tax Rate	President	Comments
1993	35%	Clinton	Omnibus Budget Reconciliation
2018	21%	Trump	Tax and Jobs Act

Corporations who have paid no taxes or received a "refund"

Recent reports highlighted corporations who have not paid Federal taxes. The below information is from three articles, cited at the bottom of this page.

First, NYT's cited 26 "Fortune 500 companies" that for three years (2018-2020) were profitable and had an effective federal tax rate of zero or less over those years including:

- Duke Energy -- $7.9 billion in profits and -15.9% effective tax rate
- Federal Express -- $6.9 billion in profits and -12.8% effective tax rate
- Nike -- $4.1 billion in profits and -18% effective tax rate

Other notable listings included Salesforce.com ($4.1 billion), Xcel Energy ($4.4 billion) and Dish Network ($6.6 billion); all with a negative effective tax rate.

Second, 55 companies earned in total $40.5 billion in 2020 pre-tax income, and received $3.5 billion in tax refunds for an -8.6% effective tax rate, including:

- **Archer Daniels Midland** -- $438 million U.S. pretax income & tax rebate of $164 million
- **FedEx** -- $1.2 billion U.S. pretax income & tax rebate of $230 million
- **Nike --** $2.9 billion U.S. pretax income & tax rebate of $109 million

https://itep.org/55-profitable-corporations-zero-corporate-tax/ https://www.nytimes.com/2021/04/02/business/economy/zero-corporate-tax.html
https://fortune.com/2021/04/02/55-companies-paid-zero-in-federal-2020-taxes-itep-report/

And my views of the future

1. The American "will & spirit" have tackled overwhelming issues in the past, & we can do so again. I truly believe is we can live through the creation of this country, through multiple global wars, Presidents Harding (and others), Watergate, social and technology changes, and so much more, we can address and resolve ANY issue. And like our group here, many similar discussions now!
2. The United States' economy is LARGE and still World's largest: 25% of the world, despite only 5% of world population. AND while our deficit is by far the largest on Earth in absolute terms, it is firmly in the middle of the pack in relative terms.
3. Budget "control" laws are already on the books and can be enforced (like PAYGO)! And we have "survived" sequestration (automatic Budget cuts) before. Lots of detailed analysis and options to drive budget and debt changes, including Debt reductions, inefficient programs, cost-benefit analyses, etc.
4. And finally, no magic number for the national debt. It is not necessary to pay off the national debt entirely to restore our nation's fiscal health. In fact, incurring some national debt can be useful in responding quickly to unexpected events such as wars, crises, and recessions. However, current debt levels limit this flexibility; RECESSION!!

Decisions?

What are the three big ideas with your "elevator speech"?

1.

2.

3.

What Can I Do Next?

1. Continue to engage and learn
2. Know how and who to raise questions/ideas: ? David Price ?
3. Expect more of your elected officials to be accountable and “compromise”
4. Don’t give up…..be resilient and more engagement is better
5. Get engaged locally as well (Governor, State Legislators, etc.)
6. Create similar groups/discussions to stay up-to-date
7. Focus on priorities and get your “elevator speeches” ready ☺ ☺ ☺

Unanswered Questions/IOUs

- ✓ We have covered a lot of material in our six sessions (nine hours together). We hope you have found the course informative, helpful and interesting.
- ✓ Dale & I will remain engaged in the Budget and Debt processes so keep in touch!

………………………………………………………………………………………………

- ✓ **Pre-Course Questions: What did we not address?**

References and Sources

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NOT EXHAUSTIVE AND OTHERS INCLUDED ON THE COURSE WEBSITE AND ENJOY YOUR OWN JOURNEY TO GATHER MORE INFORMATION AND INSIGHTS!!