

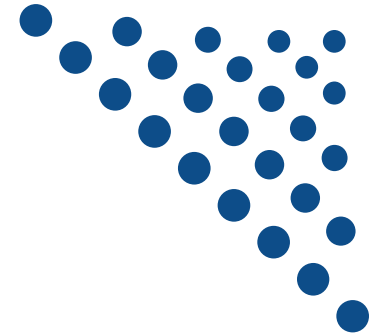
Osher Lifelong Learning Institute, June 2026

Contemporary Economic Policy

University Of Minnesota

Host: Geoffrey Woglom, Director
National Economic Education Delegation

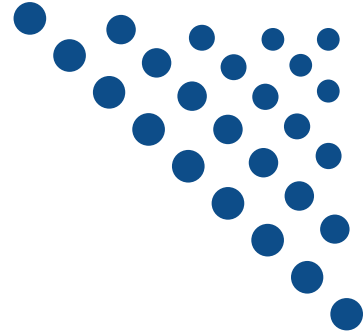
Course Schedule



Contemporary Economic Policy

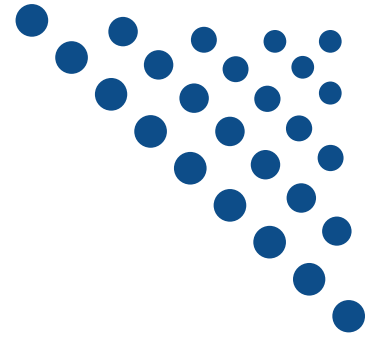
- Week 1 (6/3): Economic Update & Changes at the Fed, Geoffrey Woglom, Amherst College
- **Week 2 (6/10): Federal Debt and Deficits, Kathryn Wilson, Kent State University**
- Week 3 (6/17): Banking Crises, Gerard Caprio, Williams College
- Week 4 (6/24): Saving Social Security, Geoffrey Woglom, Amherst College

Submitting Questions



- I encourage questions. Please put questions in the chat and I will answer them periodically during the talk.
- We will do a verbal Q&A once the material has been presented.
- Slides are available from the NEED website https://needecon.org/delivered_presentations.php.





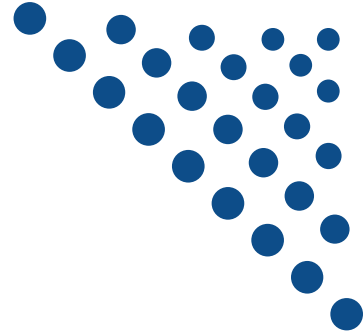
The US Federal Debt

June 10, 2026

Kathryn Wilson, Ph.D.
Kent State University

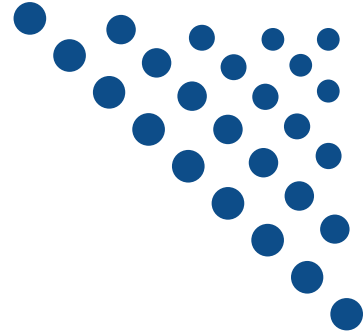


Credits and Disclaimer

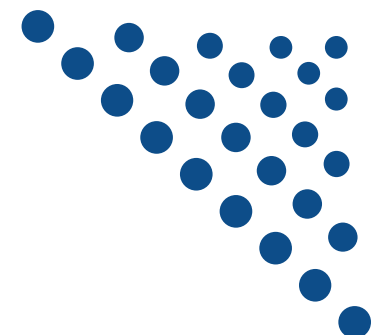


- **This slide deck was created by:**
 - Jon Haveman, Executive Director, NEED
 - Geoffrey Woglom, Amherst College, Emeritus
- **This slide deck was reviewed by:**
 - Olivier Blanchard, Brookings Institution
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that presenters will be asked for and offer their own views.
 - Such views are those of the presenters and not necessarily those of the National Economic Education Delegation (NEED).

Outline



- I. First: A Budget Overview**
- II. The Debt**
- III. Important Points About the Debt**
- IV. Can't Stop Thinking About Tomorrow**
- V. How to Think About the Debt**
- VI. Summary**



I. First: A Budget Review

What Does the US Govt. Budget Look Like?

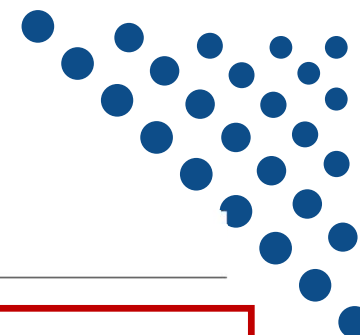


2025 Budget Summary (in Trillions, % of GDP)

Revenue		Outlays		
Income Taxes	\$2.7	Mandatory		\$4.2
Payroll Taxes	\$1.7	Discretionary		\$1.9
Corporate Taxes	\$0.5	Interest		\$1.0
Other	\$0.4			
Total	\$5.2 (17.3%)	Total		\$7.0 (23.1%)

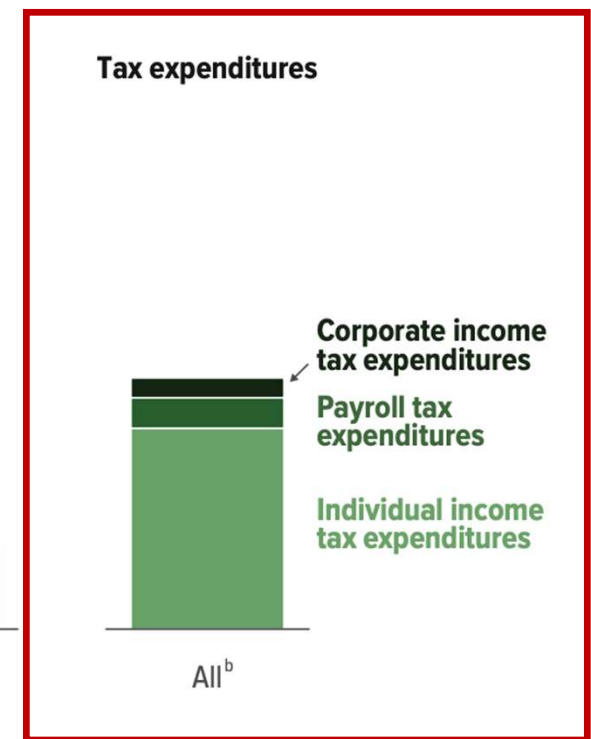
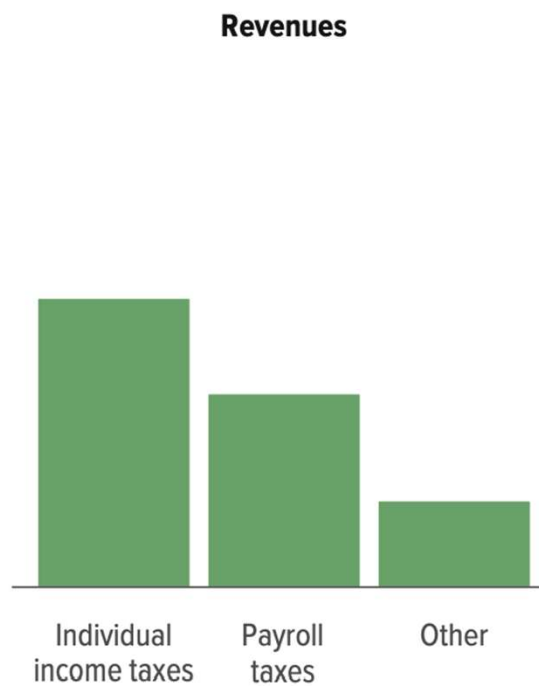
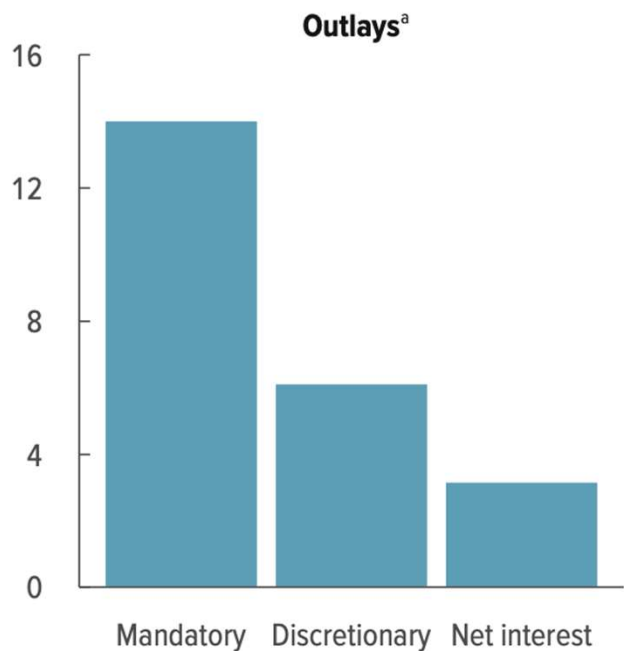
Budget Deficit: \$1.8 Trillion (5.8%)

But There is More to The Budget!

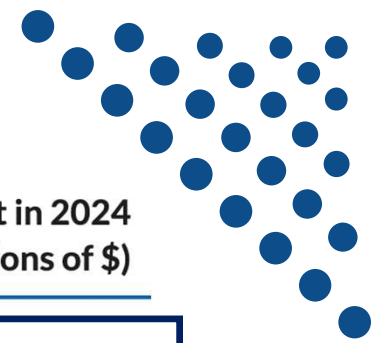


Estimated Outlays, Revenues, and Tax Expenditures in Fiscal Year 2025

Percentage of GDP



What Are Tax Expenditures?



Budgetary Cost in 2024
(Billions of \$)

Largest Individual Income Tax Expenditures

Exclusion of pension contributions and earnings and individual retirement arrangements*	395
Exclusions of and reductions on dividends and long-term capital gains**	283
Exclusion of employer contributions for medical insurance and care	218
Child Tax Credit (CTC)	127
Subsidies for insurance purchased through health benefit exchanges	114
Earned Income Tax Credit (EITC)	67
20-percent deduction for certain pass-through income	63
Step-up basis of capital gains at death	62

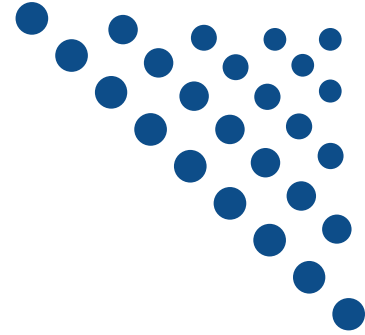
Total

1,329

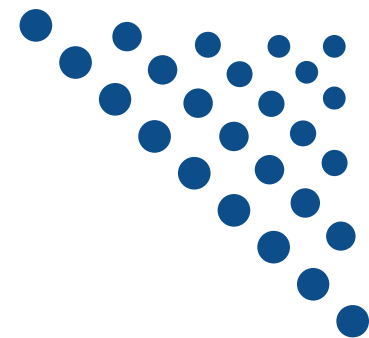


NATIONAL ECONOMIC
EDUCATION DELEGATION

Source: <https://www.pgpf.org/article/chart-pack-individual-taxes/>



II. And Now: The Debt

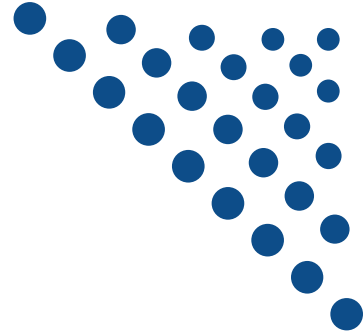


WHAT IS THE NATIONAL DEBT TODAY?

\$39,209,330,094,977

THAT'S **\$114,871** FOR EVERY SINGLE PERSON IN AMERICA

Of Debt, Deficits, and Surpluses

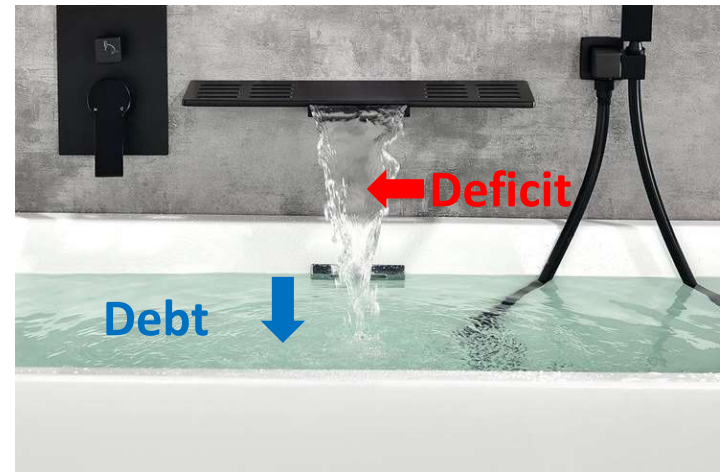


- **FLOW**

- **Deficit:** The excess of outlays over revenues in a year.
- **Surplus:** The excess of revenues over outlays in a year.

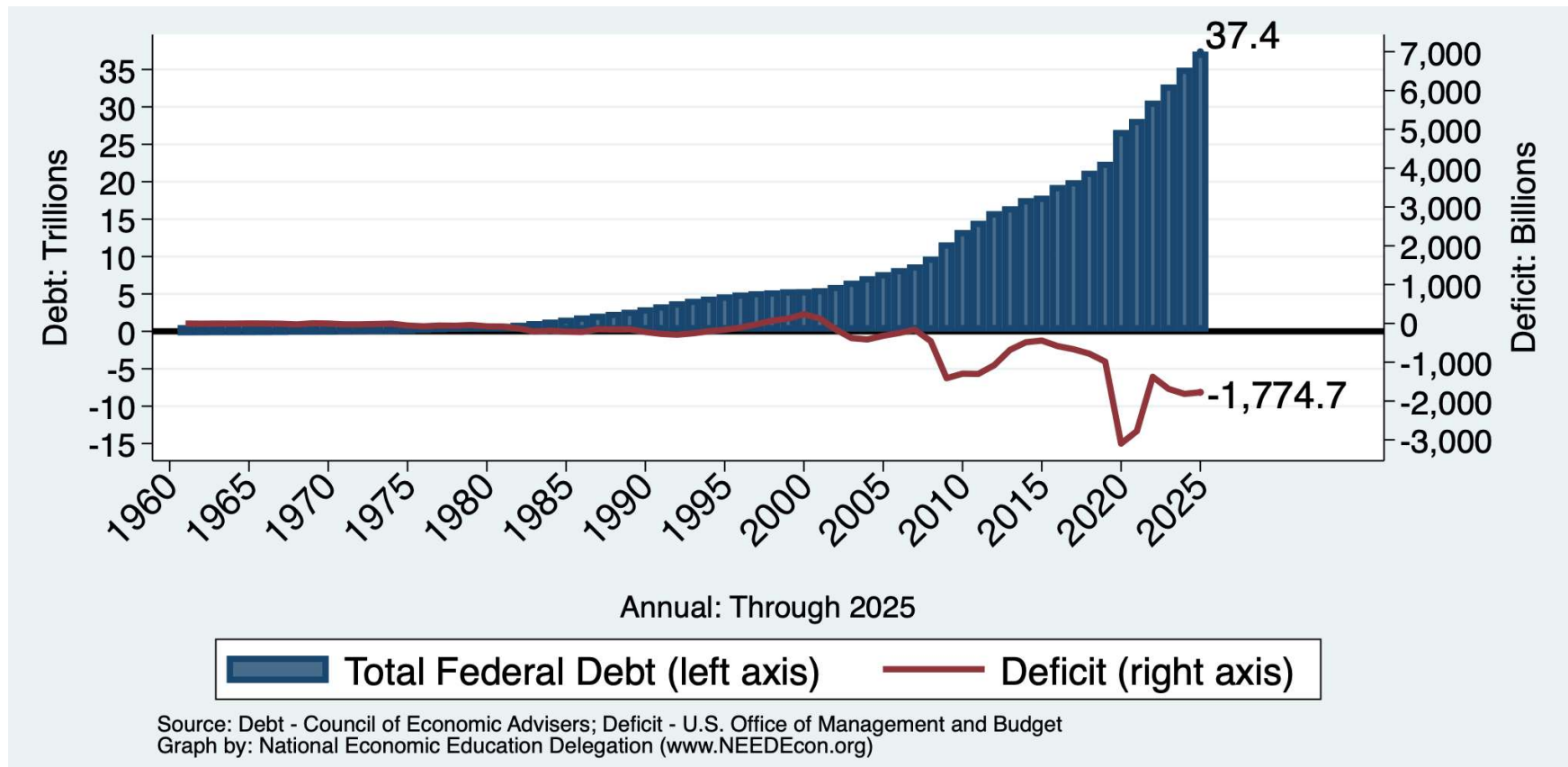
- **STOCK**

- **Debt:** The accumulation of deficits over time.
 - The sum of all past deficits and surpluses.

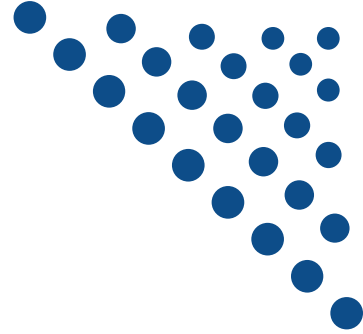


Debt vs. Deficit

Debt = The Sum of All Past Deficits Less Surpluses

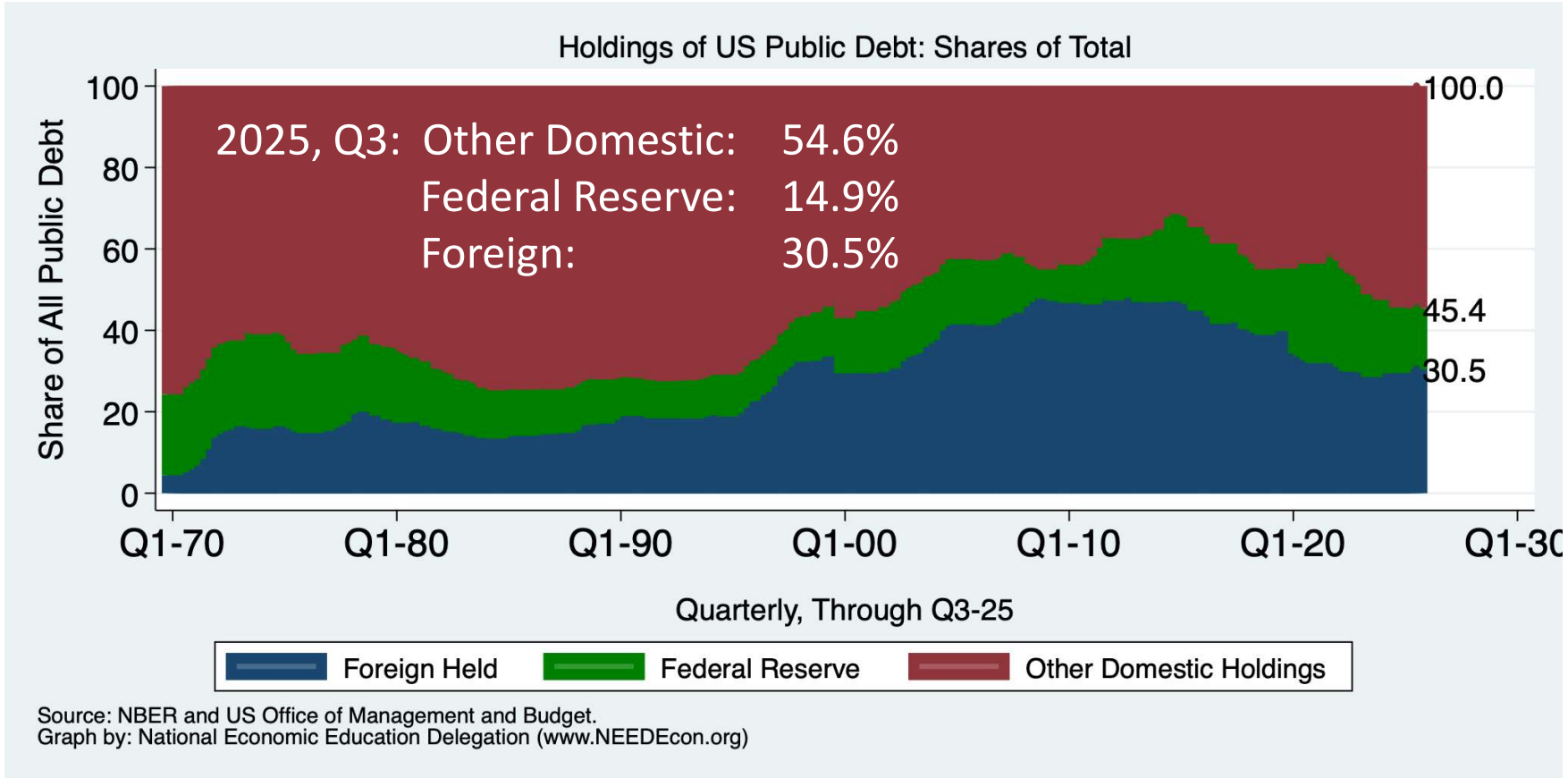
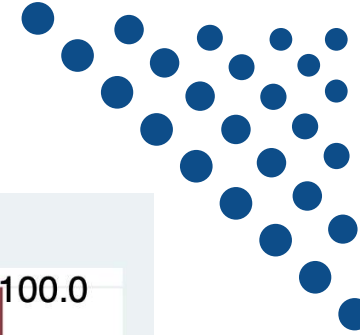


Major Takeaways: Talking Points



- **The debt is not currently a significant problem.**
- **The current trajectory of federal debt is unsustainable.**
- **We must enact plans to reduce future deficits.**
 - These are driven by Medicare and Social Security spending.
- **The longer we postpone action, the greater the probability of a “fiscal crisis.”**

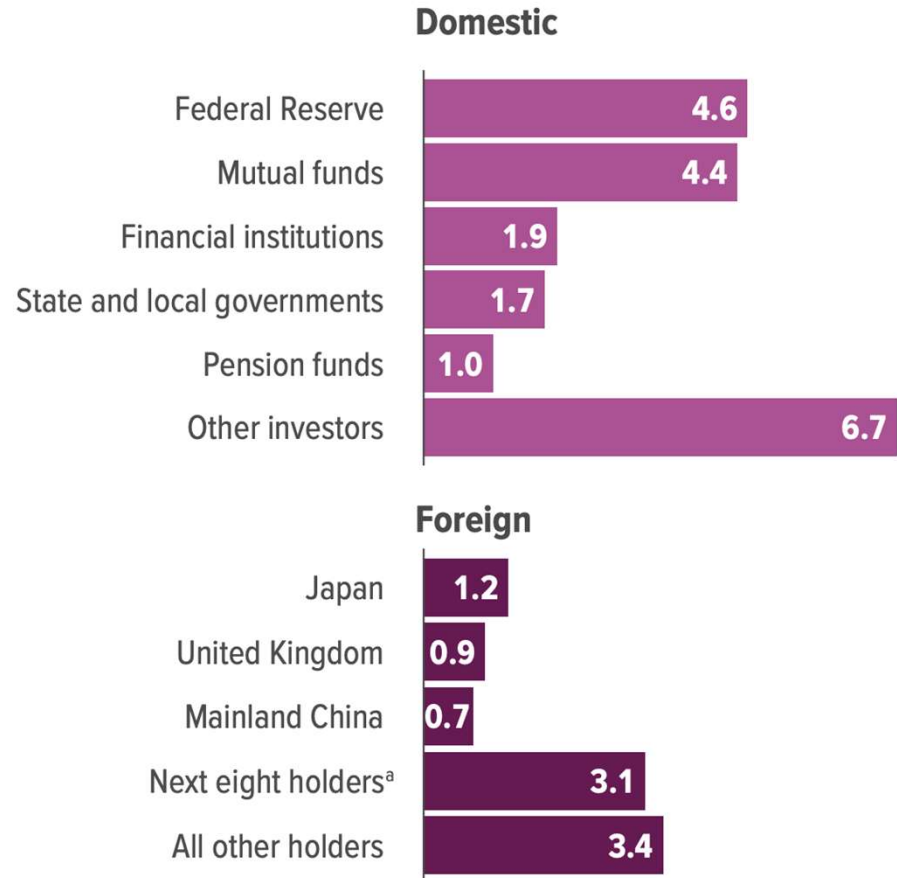
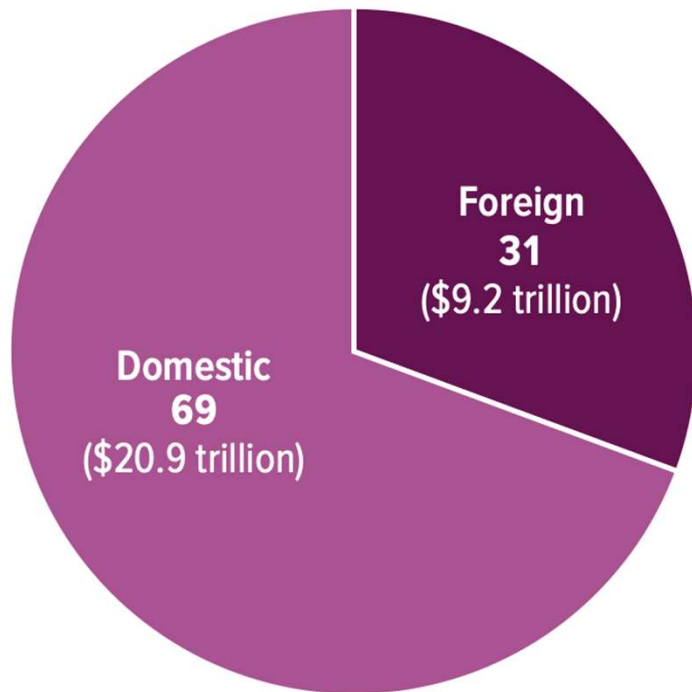
Trends in US Debt Holdings Over Time



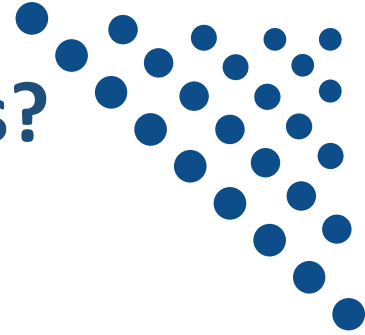
Holdings of the Public Debt, 2025

Trillions of dollars

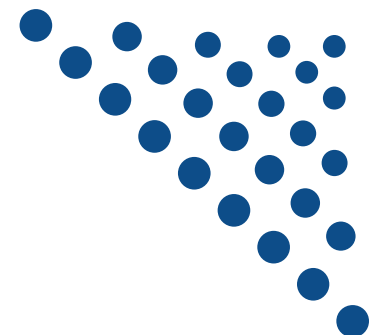
Percent



Why Do Foreign Investors Buy US Treasuries?



- **Market for Treasuries is the deepest, most liquid capital market in the world.**
- **The US economy has a history of political and economic stability.**
- **The dollar is the largest international reserve currency.**
 - Most trade transactions (e.g., oil) are quoted in dollars.
 - 54% of international trade involves the dollar.
 - 88% of international transactions involve the dollar.
 - With some exceptions, foreign governments borrow in dollars.



III. Important Points:

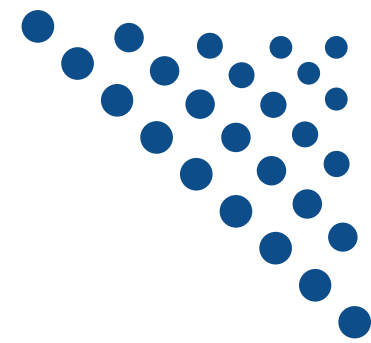
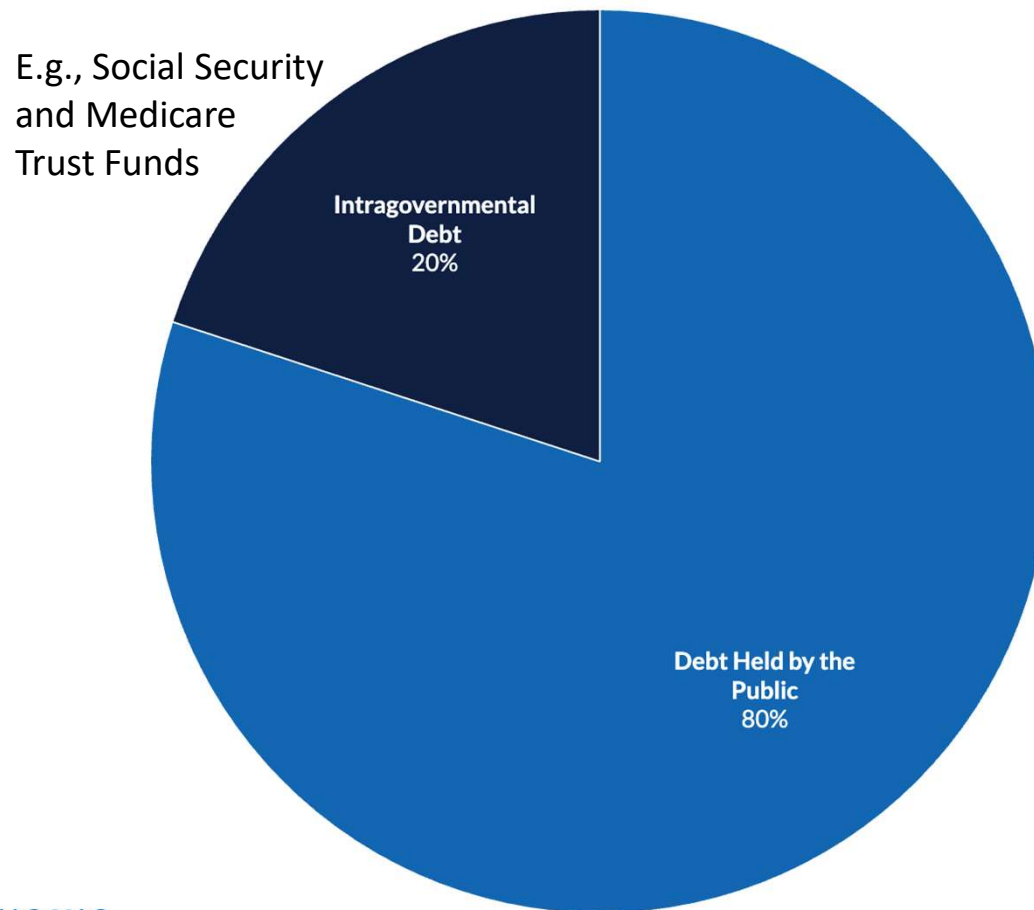
- Not all debt is created equal.
- What is the right measure of the debt?

Not All Debt Is Created Equal

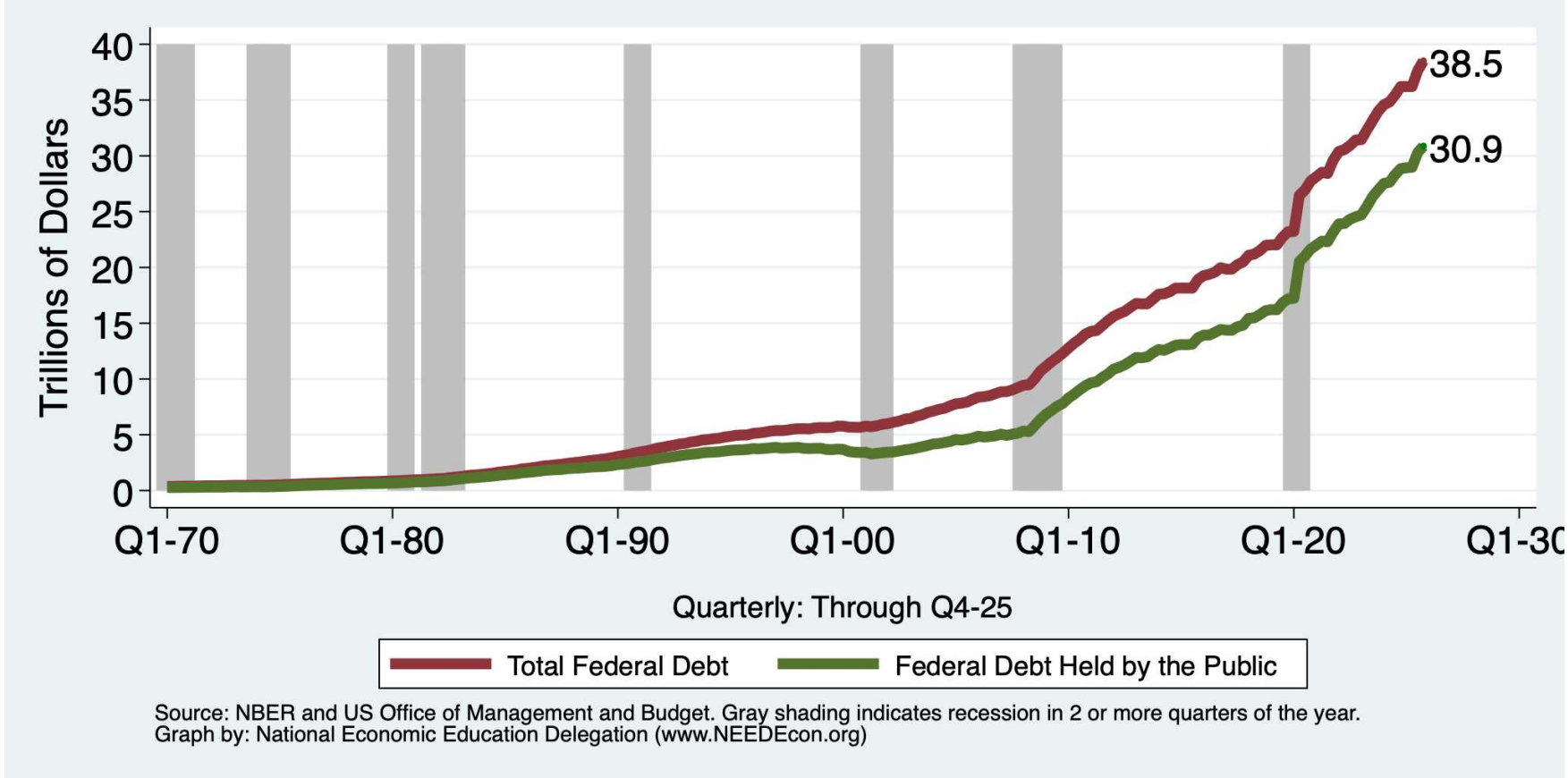
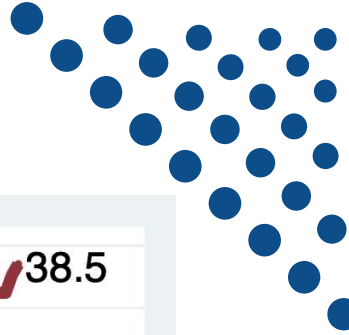


- **Some debt can reduce the availability of investment funds to other borrowers.**
 - Often referred to as “crowding out” private investment.
- **IntRAgovernmental debt is (important) bookkeeping.**
 - This debt **DOES NOT** crowd out private investment.
- **Debt held by the public.**
 - This debt **MIGHT** crowd out private investment.
- **Most analyses of debt focus on federal debt held by the public.**

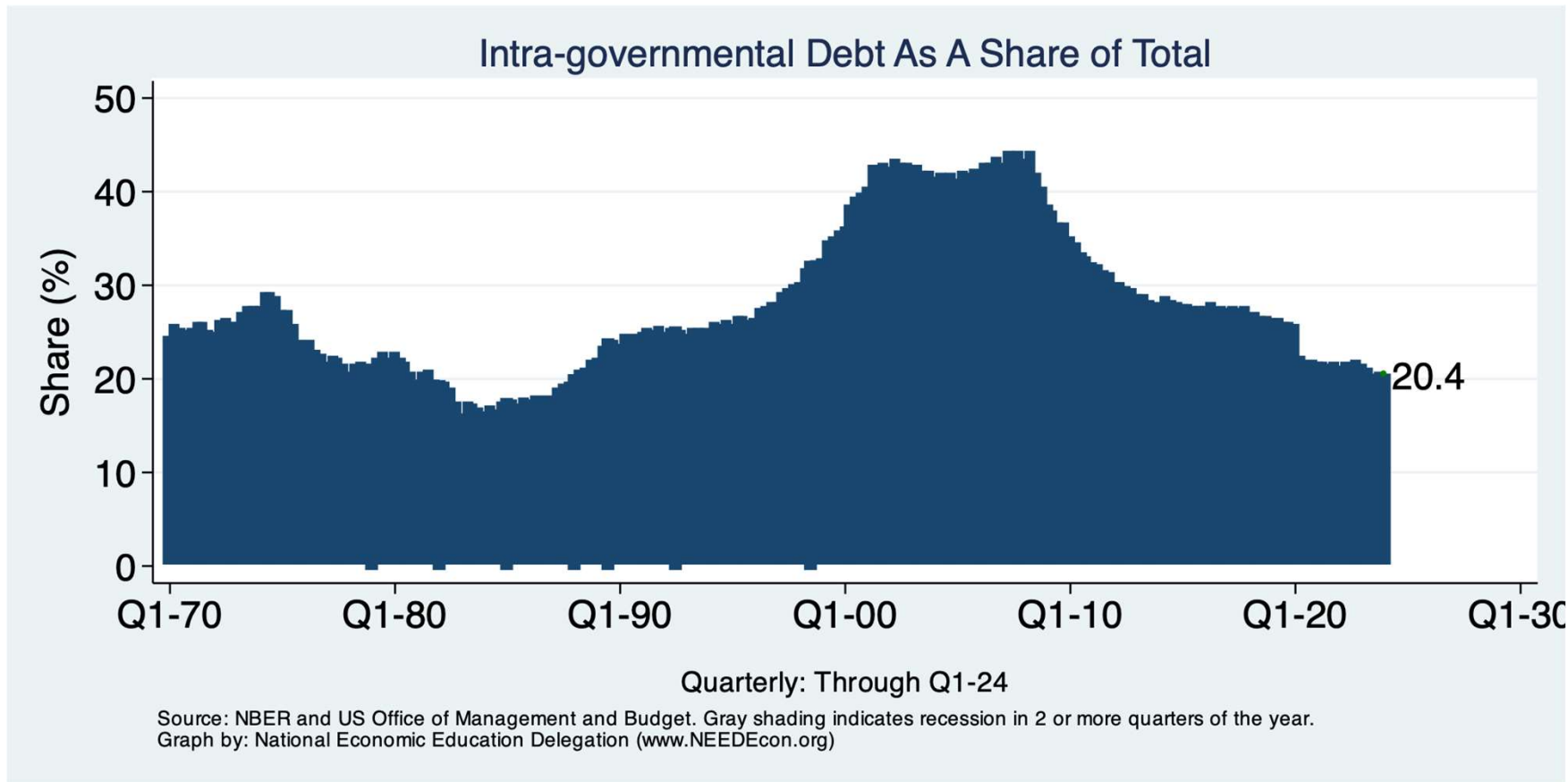
U.S. Publicly Held Debt, June, 2025



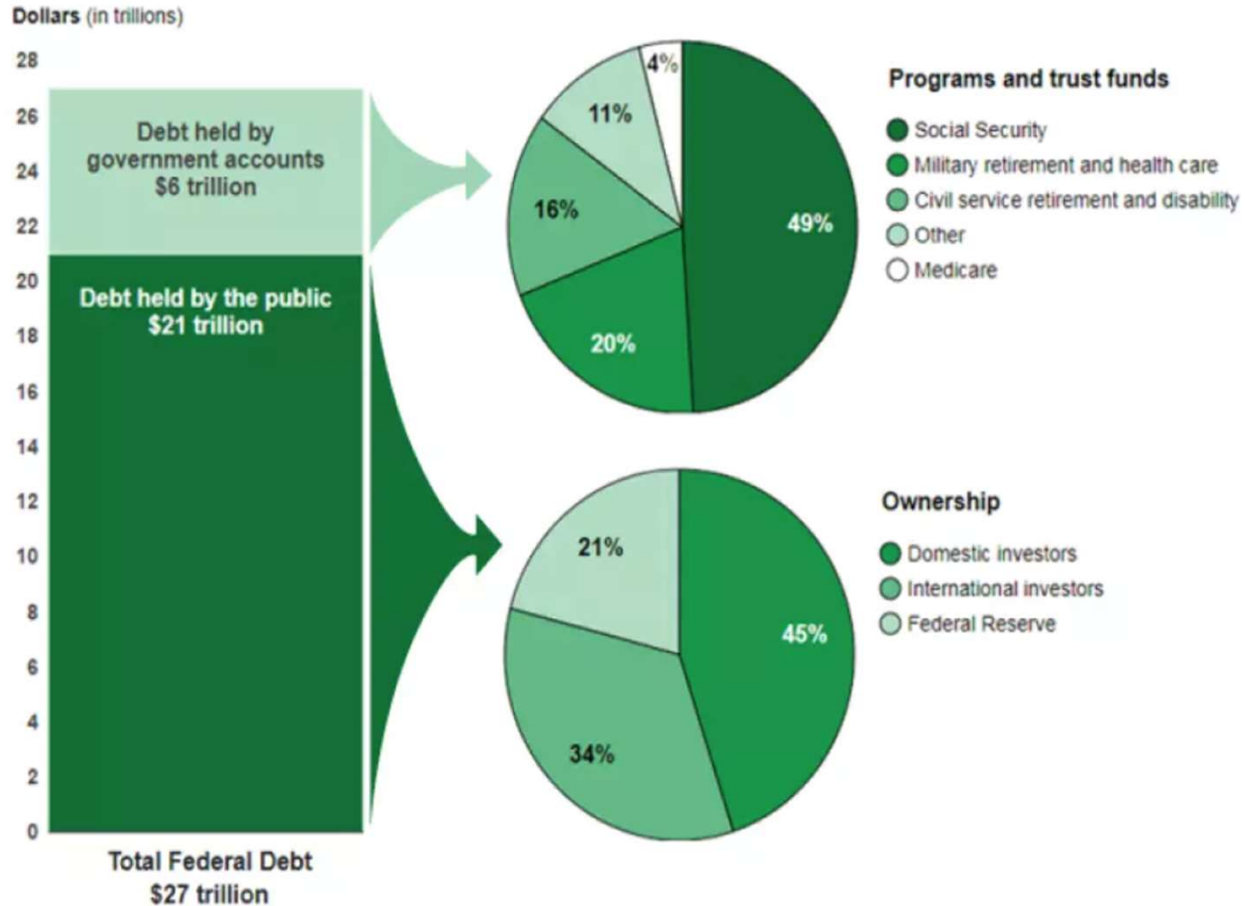
Two Measures of the Debt



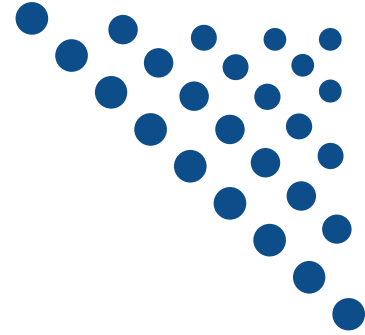
Trends in Intragovernmental Debt



A Breakdown of Total Federal Debt, 2020



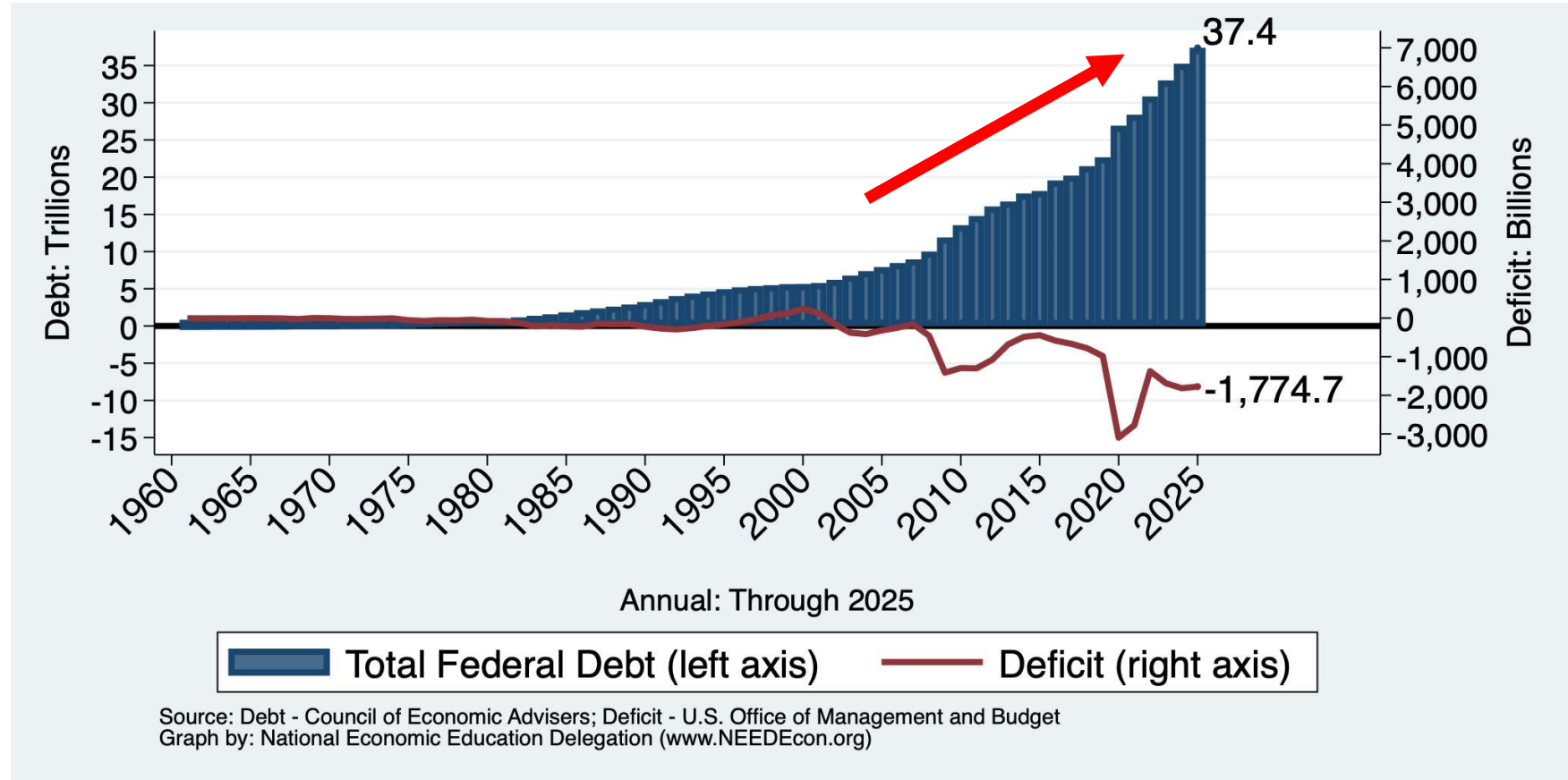
The All-Important *Relative* Debt



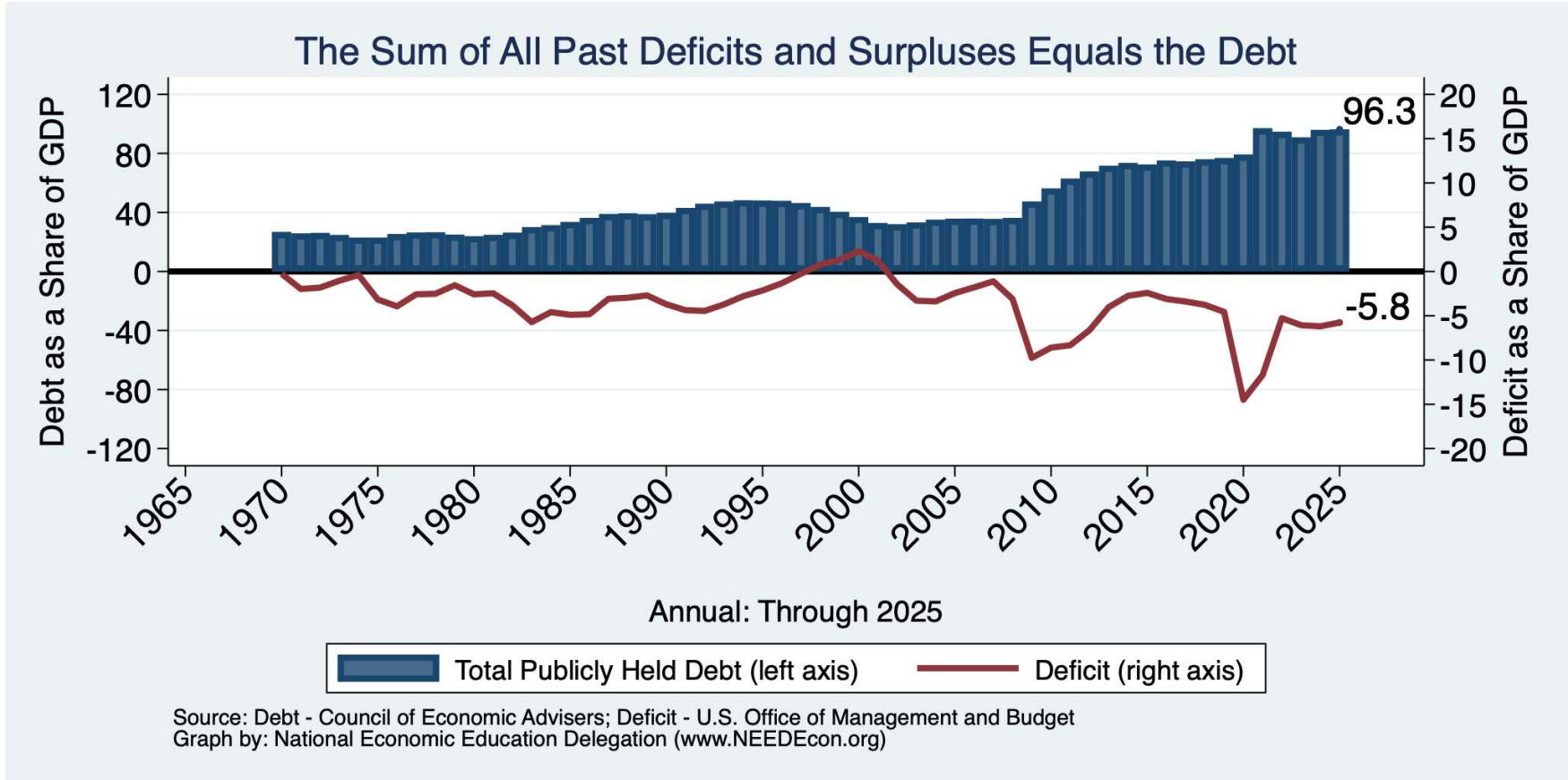
- **CBO analyzes the debt *relative* to GDP because:**
 - To the extent that debt and deficits have burdens, these burdens depend on the size of the debt *relative* to the size of the economy.

	Total Public Debt	Relative Debt Debt/GDP
United States	\$31.4 Trillion	100%
Greece	\$0.215 Trillion	170%

Relative Debt and Deficit



Relative Debt and Deficit

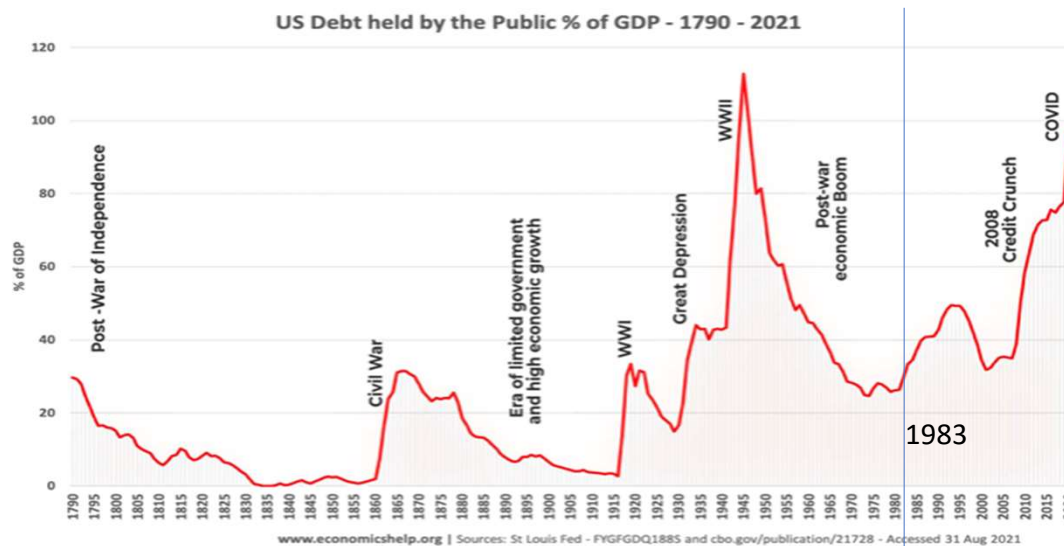


Two Measures of the Deficit



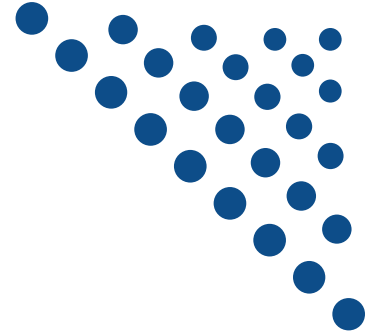
- (1) Primary deficit = current programmatic outlays – revenues
- (2) Total deficit = primary deficit + interest
- Interest on the debt is
 - The part of the total deficit that is due to past deficits.
- **This distinction becomes important for understanding:**
 - The future course of relative debt.
 - The costs borne by future generations because of the debt.

Key Points About US Relative Debt



1. Relative debt peaked during World War II, followed by a long decline.
2. Prior to 1983, relative debt rose purposefully (wars and recessions) and then fell.
3. Relative debt has been and is expected to rise for the next 30 years w/o a strategic purpose.

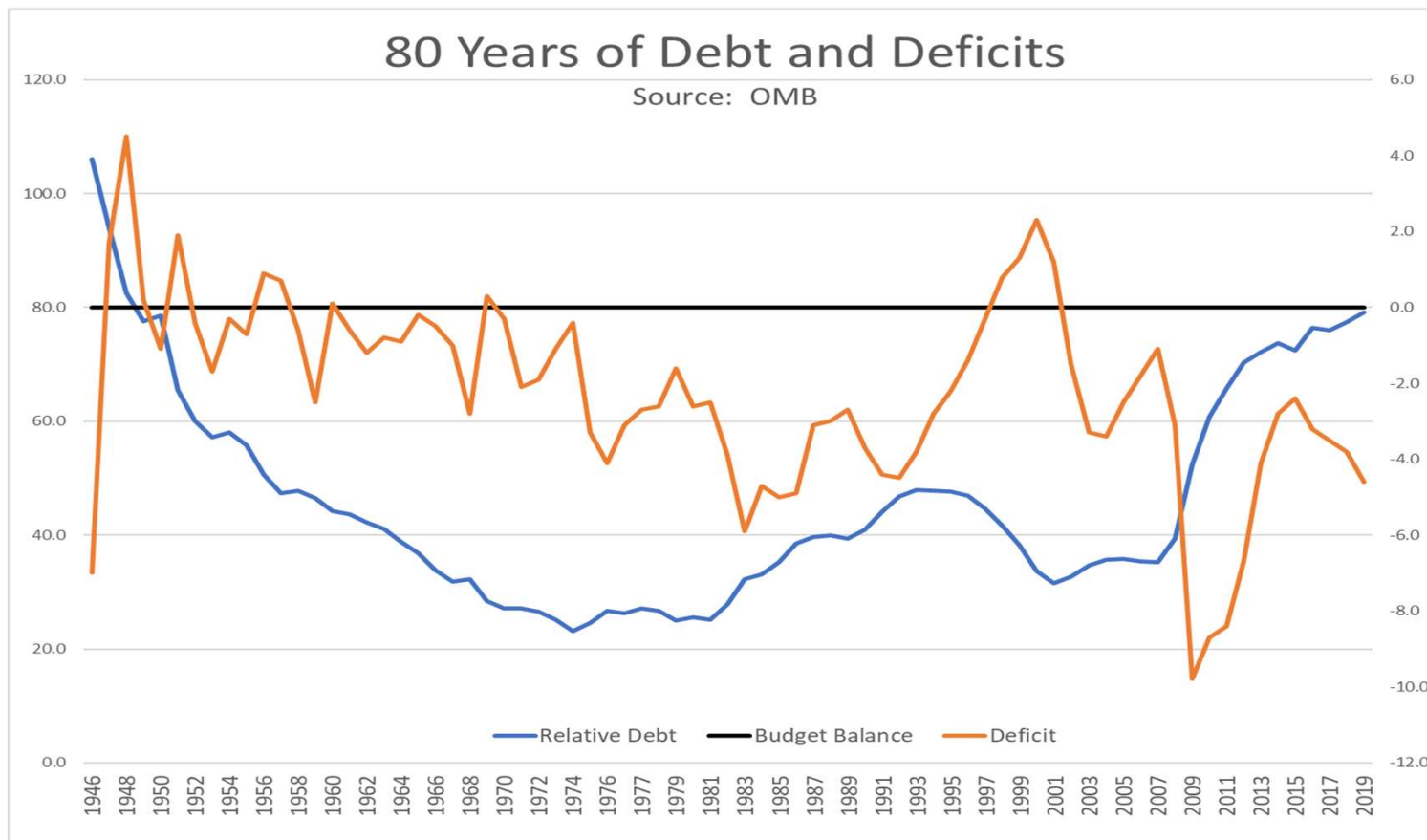
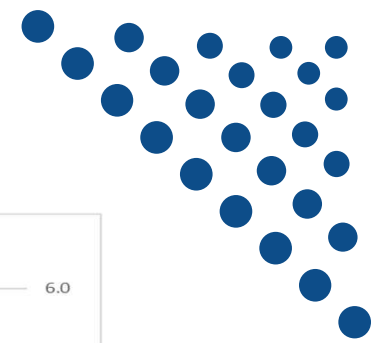
Debt Dynamics



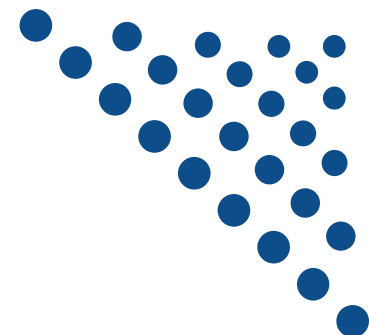
- **Surprising (?) Facts**

- From 1945 to 1979, relative debt fell from 110% of GDP to 25% of GDP.
- During this period, the federal budget was in surplus only 8/35 years!

The Post-WWII Fall in Relative Debt



Debt Dynamics



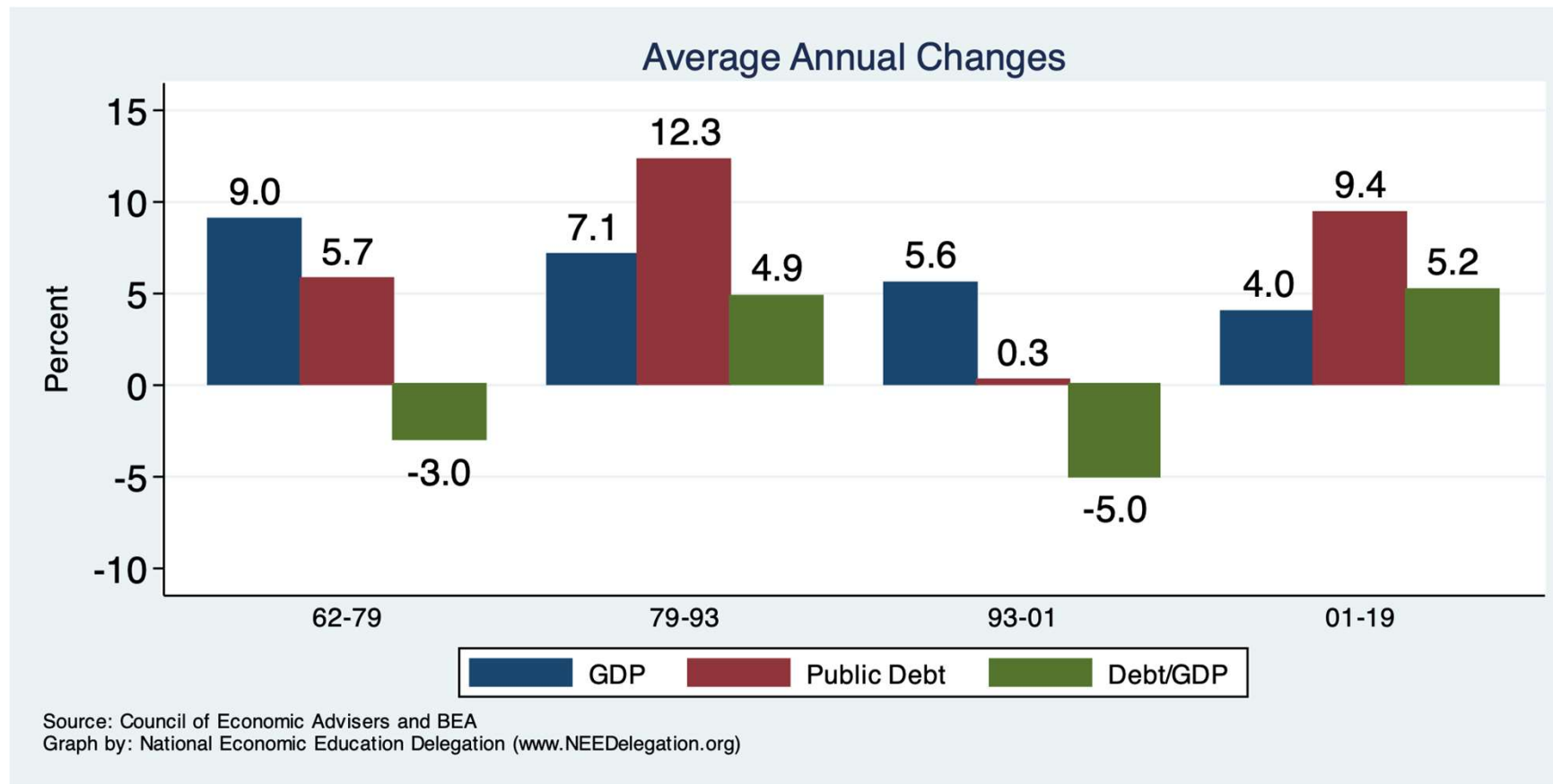
- **Surprising (?) Facts**

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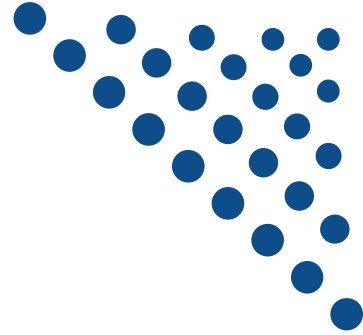
- **Relative debt is a fraction: Debt/GDP; fractions fall if:**

- The *numerator* falls (budget surplus)
- The *denominator* rises (nominal GDP growth)
- The *denominator* **grows** faster than the *numerator*
 - *GDP growth is greater than the interest rate on borrowing.*
 - *CAN still run deficits and reduce the relative debt.*

The Arithmetic of Changes in Relative Debt

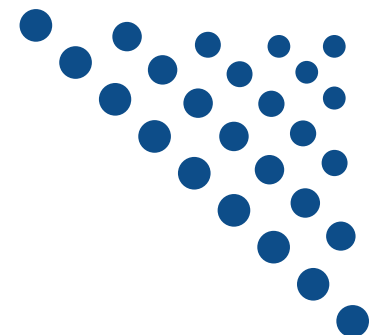


An Almost Free Lunch



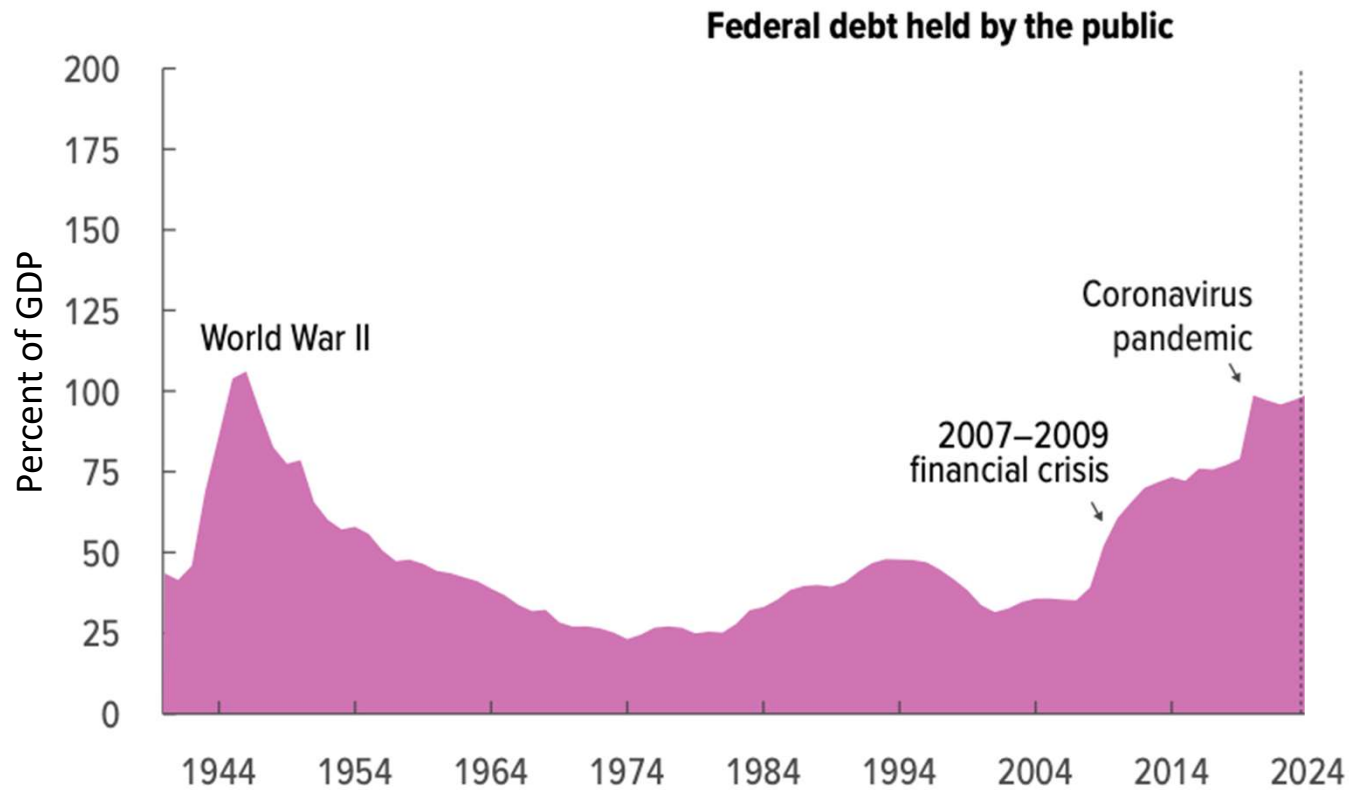
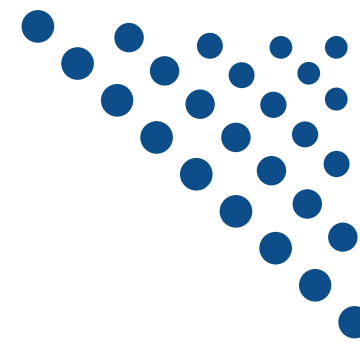
- If the interest rate is *less* than the growth rate of GDP, then the contribution from the primary budget can be positive, hence...
- Debt to GDP can be stabilized with a (small) primary *deficit*.

Is Stabilizing Relative Debt Good Enough?



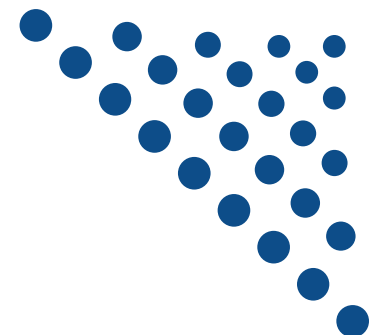
- **This means that the absolute level of the debt would continue to increase.**
- **Yes, it probably is good enough.**
 - It is a reflection of the economy's ability to support the debt.
 - Stability will avoid bond market scares.

But Let's Think About Today



Data source: Congressional Budget Office. See www.cbo.gov/publication/59711#data.

Why Has the Federal Debt Risen So Much?



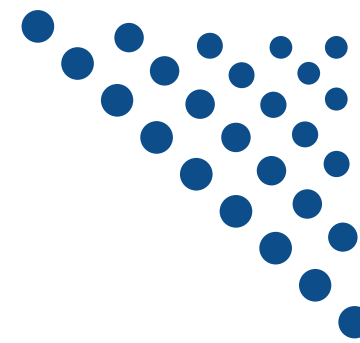
- **Expenditures UP:**

- Social Security
- Health-care costs
- Economic stimulus
 - **In particular, during the Great Recession & COVID.**
- Military engagements overseas

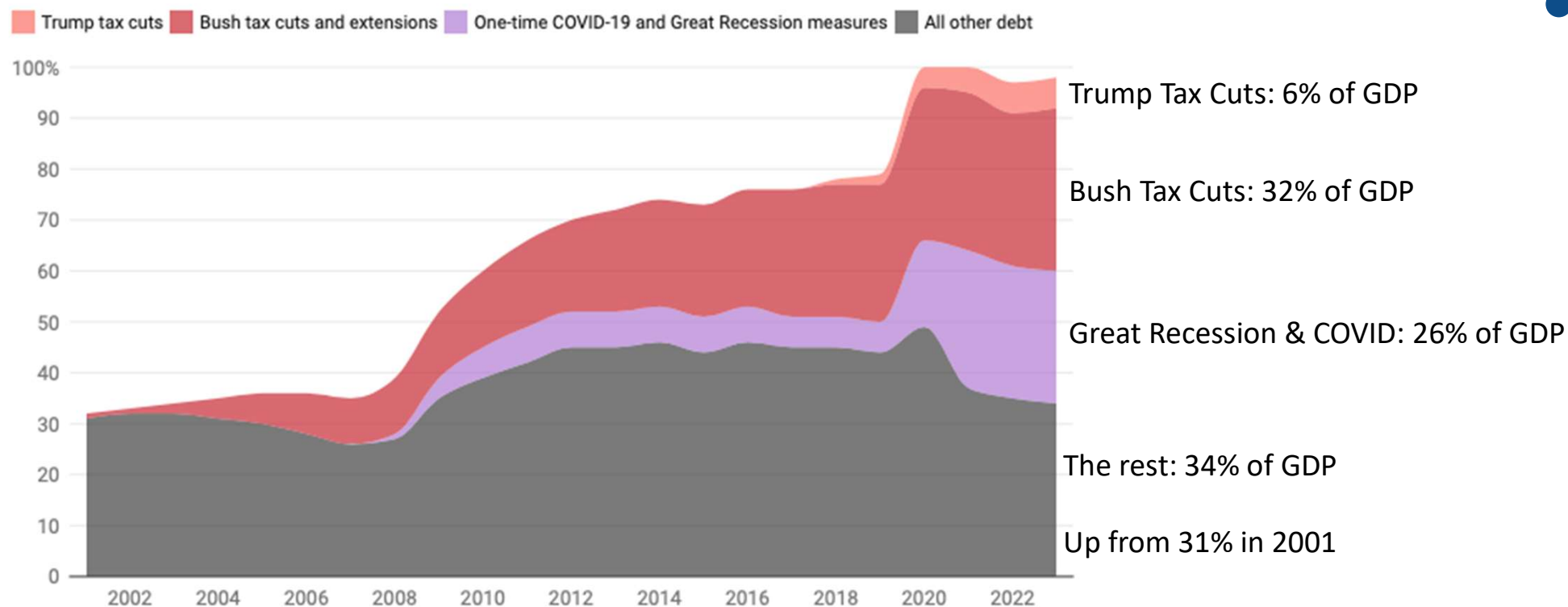
- **Revenues DOWN:**

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

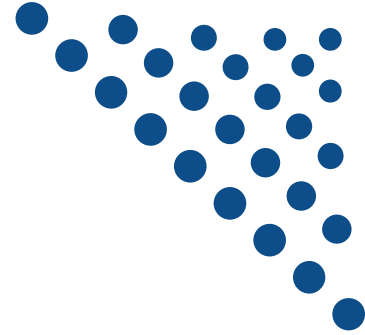
Tax Cuts Have Driven The Debt Increases



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



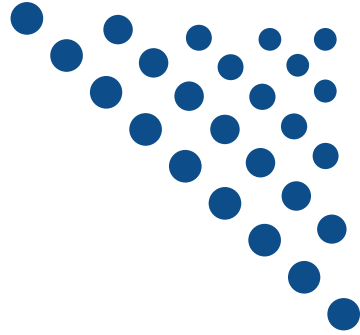
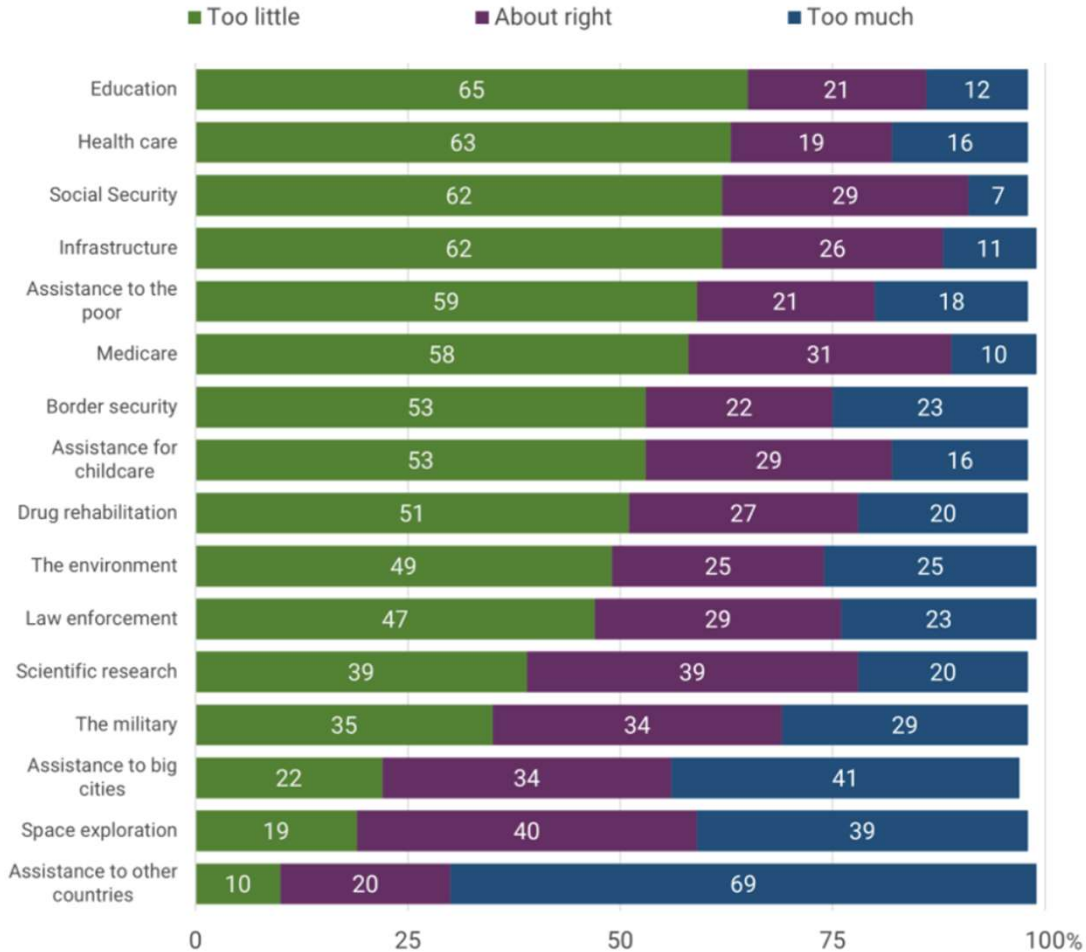
Thinking About Today....



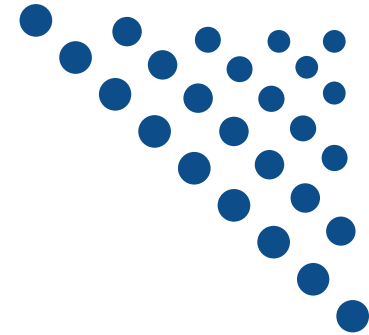
- **Do we have:**
 - A spending problem?
 - A revenue problem?
 - Both?

There is very little enthusiasm for cutting anything.

Overall, the public is dissatisfied with the way the government is spending in key public policy areas.
Percent of adults

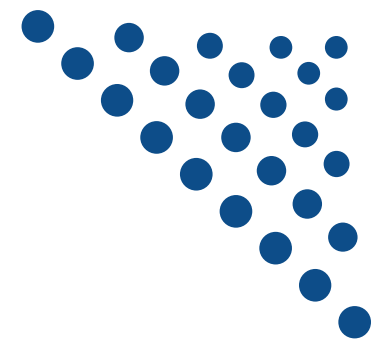


Thinking About Today....

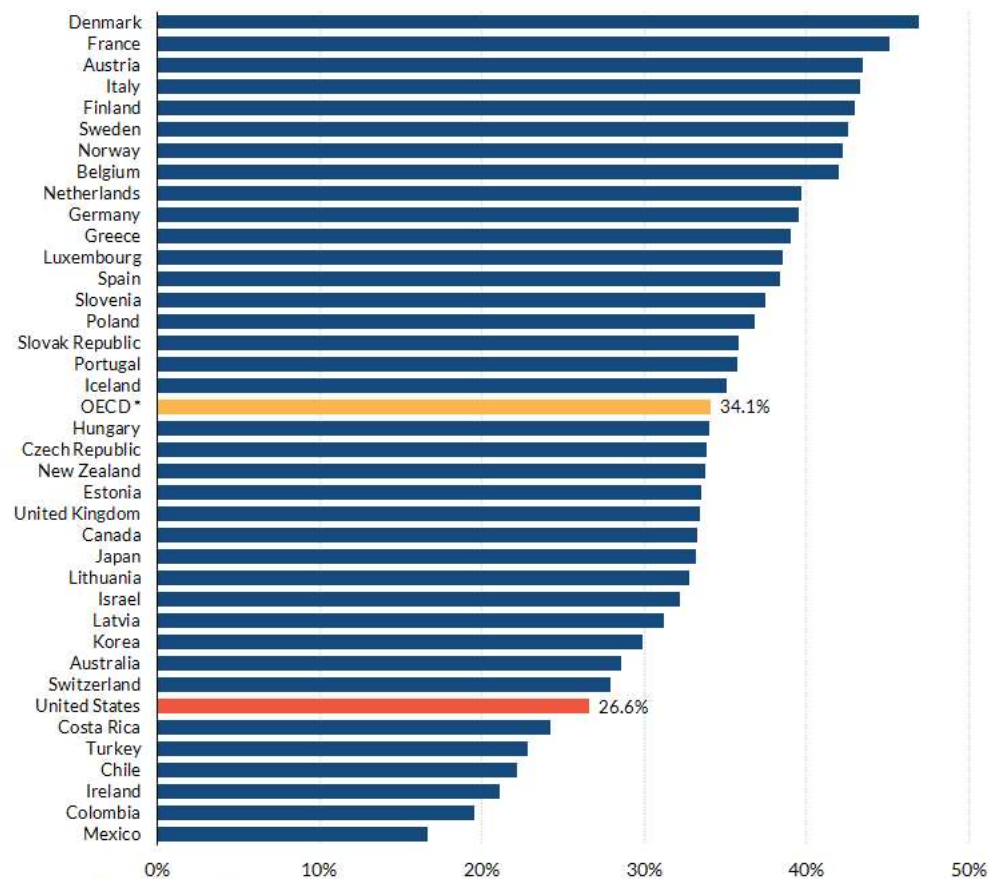


- **Do we have:**
 - A spending problem?
 - A revenue problem?
 - Both?

- **Not much support for it being a spending problem.**

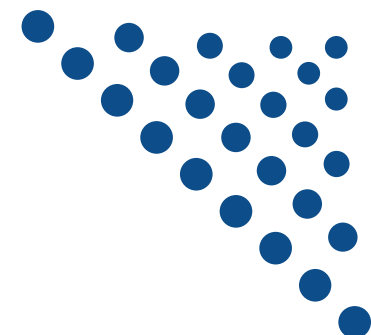


Total Tax Revenue for OECD Countries Percentage of GDP, fiscal year 2021



Source: OECD, Revenue Statistics, Comparative Tables: Tax Revenue (retrieved 06.07.2023).

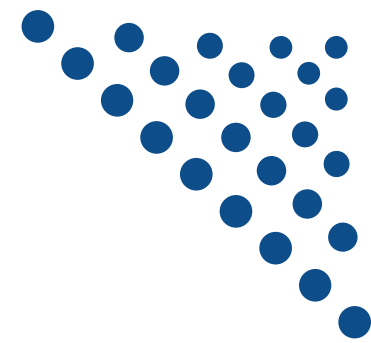
Notes: Data includes tax revenues for federal and sub-national governments. Data for Australia and Japan are for 2020. Data for "OECD" is an unweighted average of all 38 OECD members.



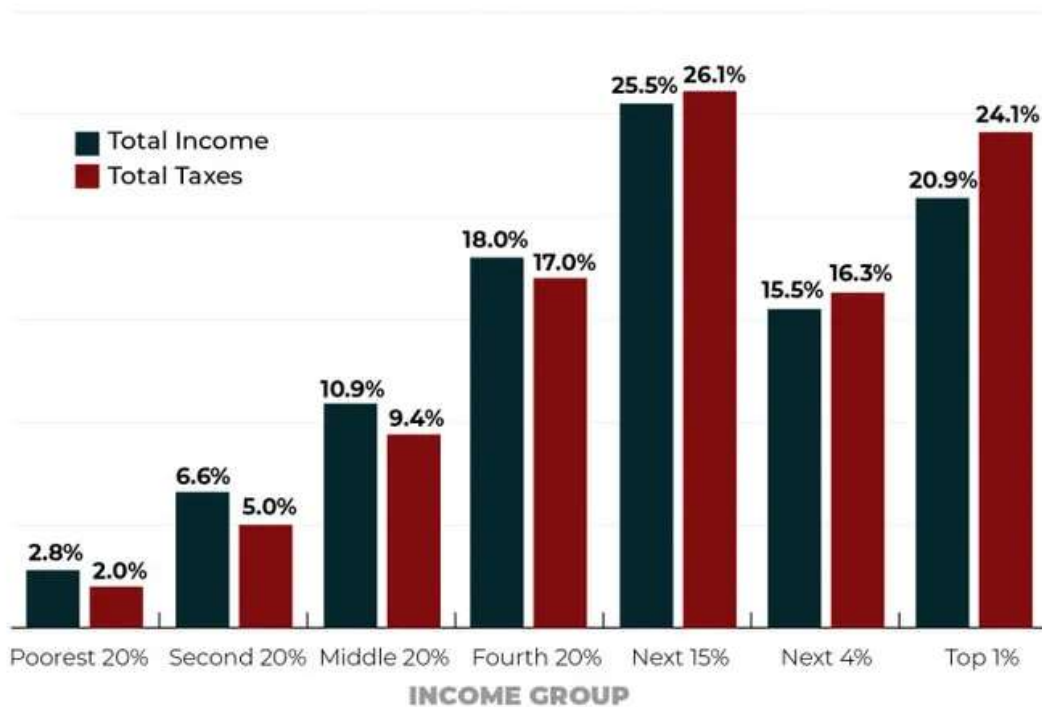
How To Address the Debt?

- The question isn't taxes vs spending cuts.
- The question is:
 - Who should bear the burden of solving the problem?
 - Spending cuts will mean primarily lower-income households.
 - Tax increases will mean primarily high-income households.
 - Soc Sec benefit cuts (age limit, actual payments, etc.) will mean primarily lower-income households.

What? It's not 40%? No, it's 24.1%.

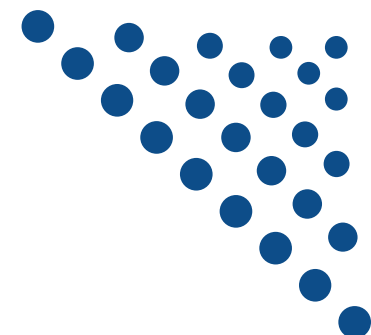


Shares of Total Taxes Paid by Each Income Group Compared to Shares of Total Income in 2019



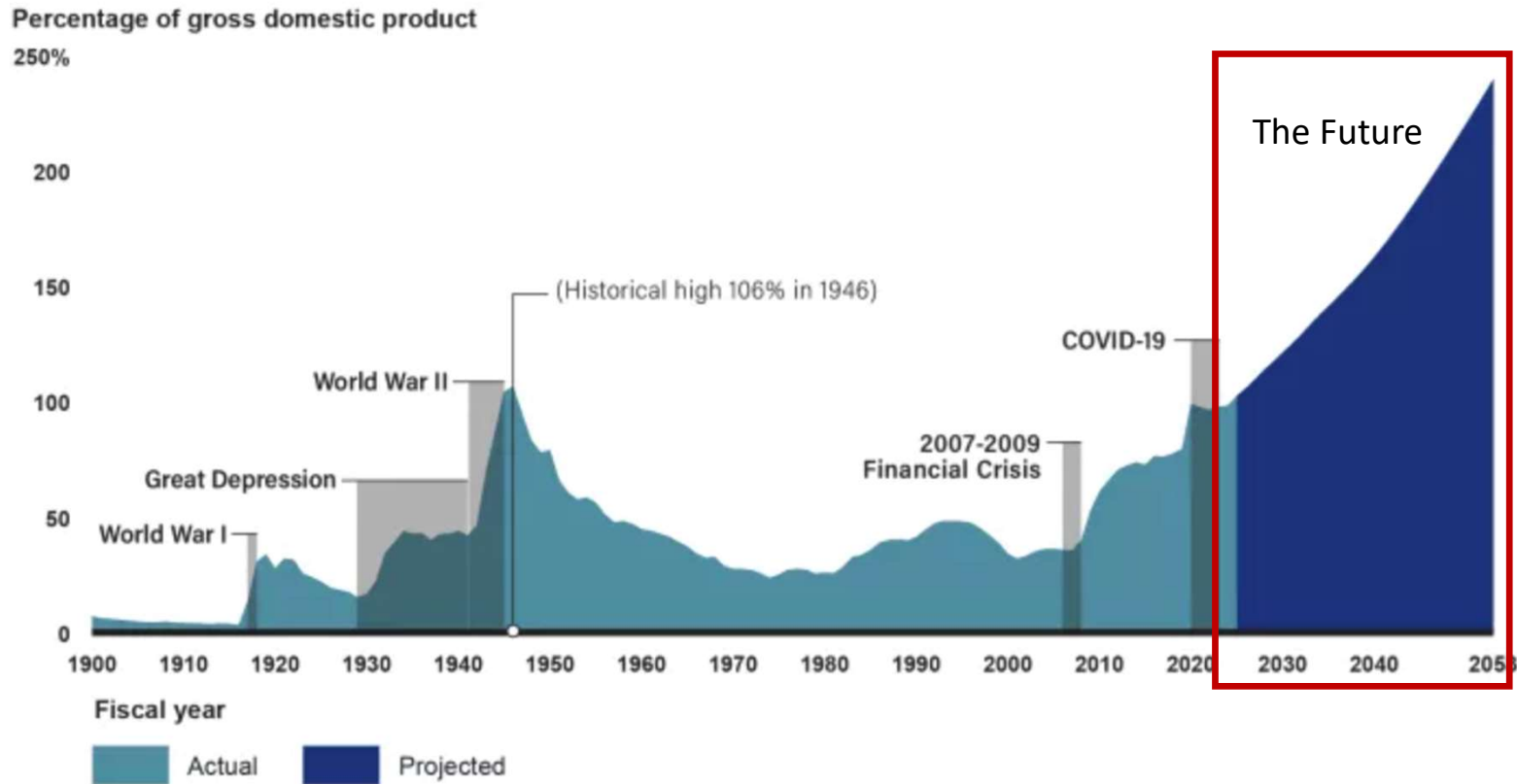
The 400 highest income households:
Paid an average tax rate of 8%.

Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, April 2019



IV. Can't Stop...Thinking About Tomorrow

Now Let's Think About Today and the Future

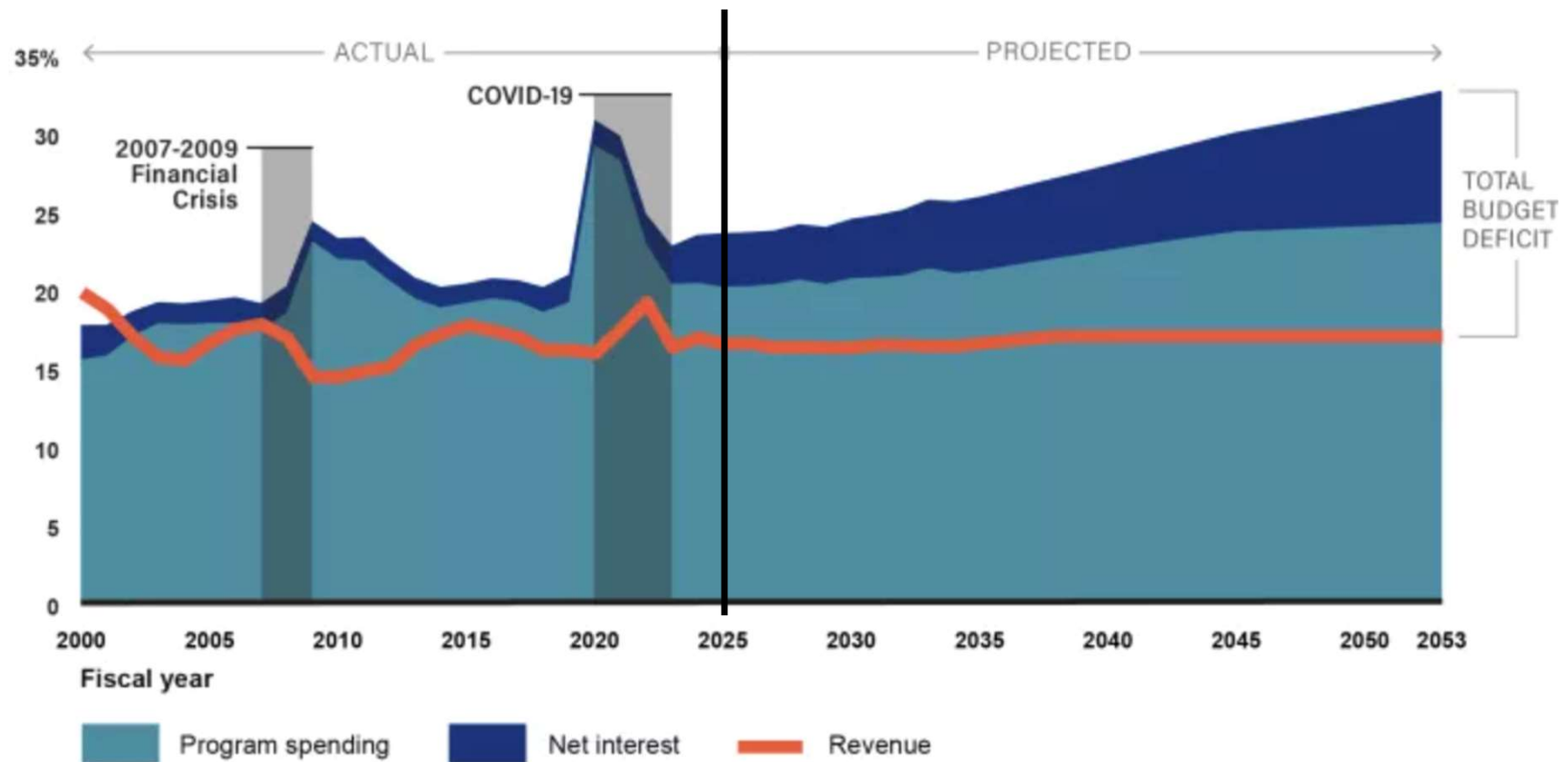


Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714



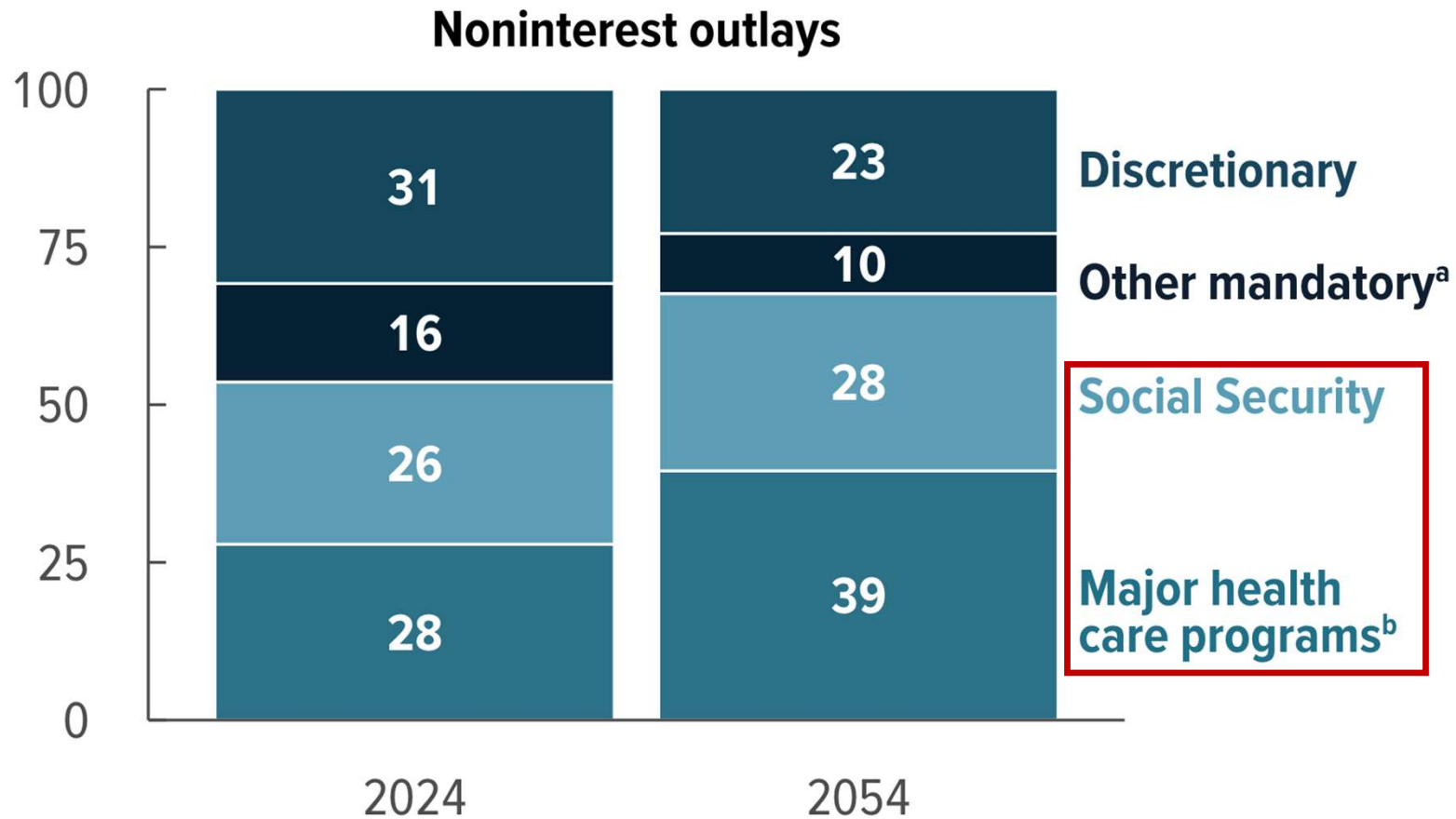
Interest on the Debt is a Growing Problem!

Percentage of gross domestic product

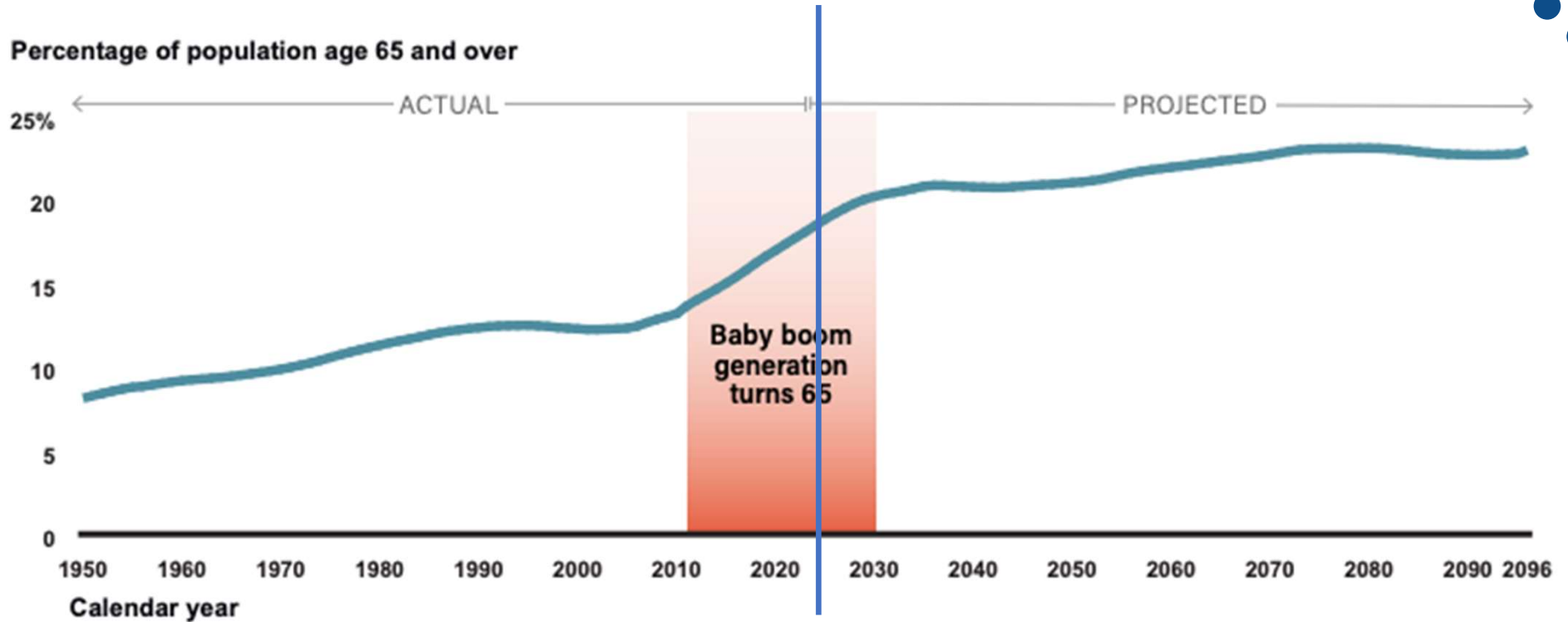


Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

What Are the Primary Drivers Going Forward?



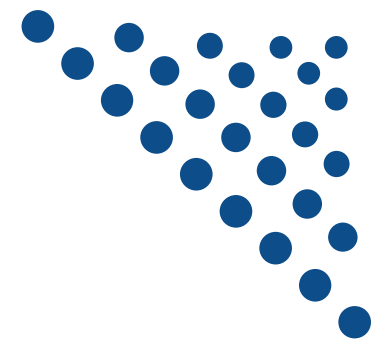
The Population is Aging



Source: GAO analysis of 2023 Social Security Trustees' Report (intermediate assumptions). | GAO-23-106201

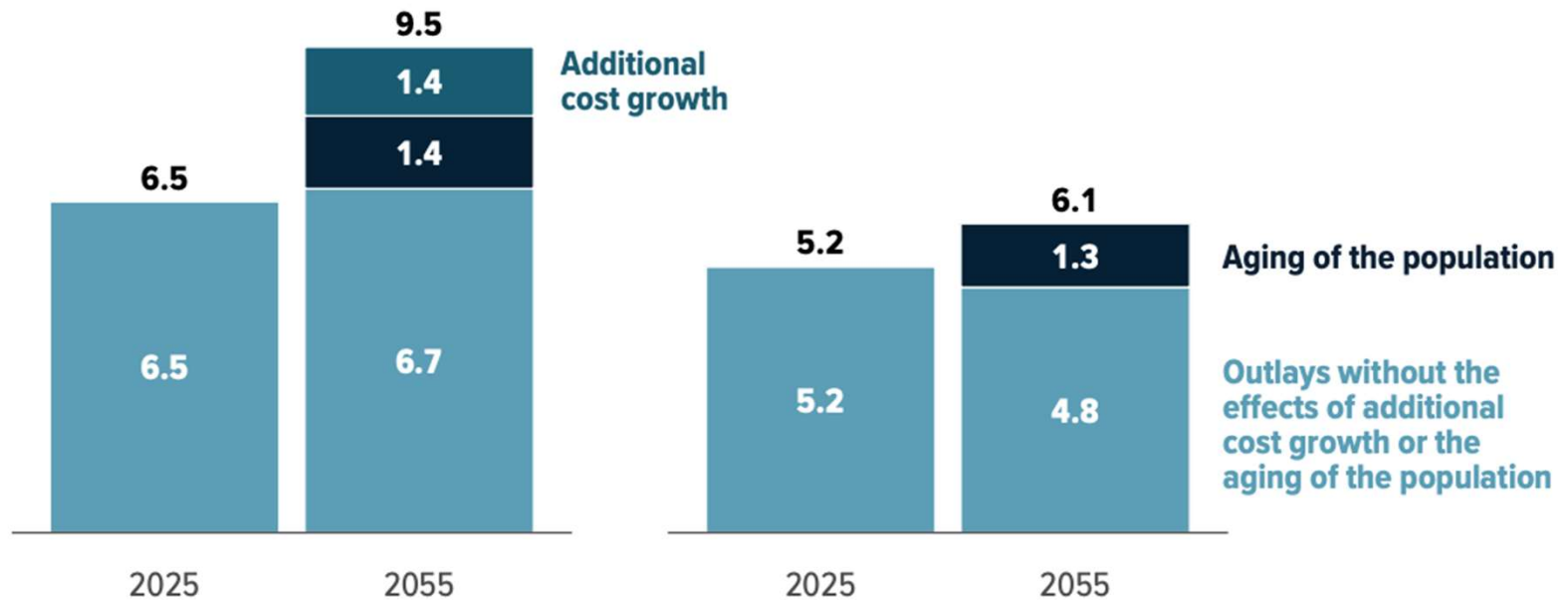
Mostly Healthcare

Percentage of GDP



Major health care programs

Social Security



Data source: Congressional Budget Office. See www.cbo.gov/publication/61187#data.

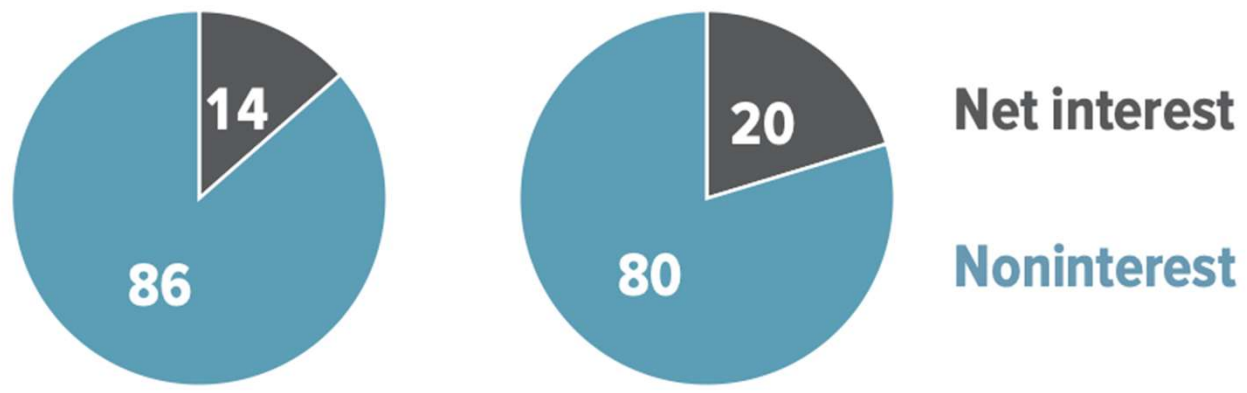


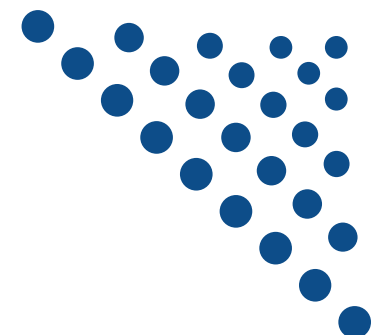
And Then There is Interest on the Debt

Composition of Outlays, 2025 and 2055

Percent

Total outlays





V. How to Think About the Debt

Perspectives on Increased Debt



- **Does debt impose a burden on future generations?**
 - Does it inevitably have to be paid off? No!
- **Government borrowing crowds out private capital and investments.**
 - Weakened by the ability to borrow from other countries.
- **In time, debt service might crowd out other government spending.**
 - Diminishing policy priorities in the budget.
- **Is it reasonable to borrow at low interest rates for investment?**
 - For example, for infrastructure.

Not All Borrowing Is Bad!

- **Two good reasons to borrow:**

1. During a temporary crisis
 - Recession
 - War
 - Pandemic
2. Productive public investment
 - Infrastructure
 - 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

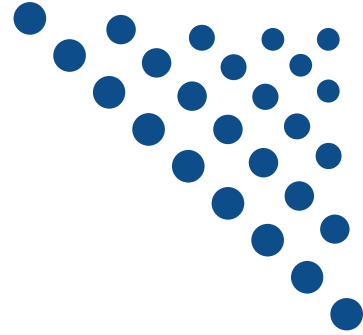
Is The Debt a Problem Today?



- Federal government borrows each month with little difficulty.
- Very little evidence of "crowding out."
- Interest rates had been low the past decade, but higher now (but coming down) – this is becoming a concern.
- So, no, it's not a problem today.



So, Why Worry About it?



- **If debt becomes too high:**

- Investors might start questioning the creditworthiness of the US government.
 - Problem: Nobody knows how high is too high.
- It becomes more difficult to borrow in times of crisis.
 - War, severe recession
 - “Fiscal space”
 - Impossible to measure how much we have.
 - Clearly, we have less now than in 2007.
- Could start to crowd out investment by consumers and businesses.
 - Not currently a problem. No idea if/when it might become one.
- Could be inflationary.

So, Why Worry About It?

- **If debt continues to grow:**

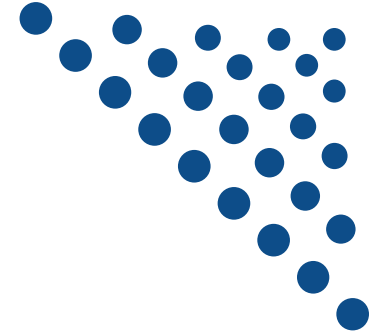
- Interest payments will grow with it.

- 14% of spending in 2025.
- 20% of spending in 2055.
- Less room for using the budget for policy priorities.
- 30% of payments go to other countries.

- The longer we wait to address it, the harder and more disruptive addressing it will be.

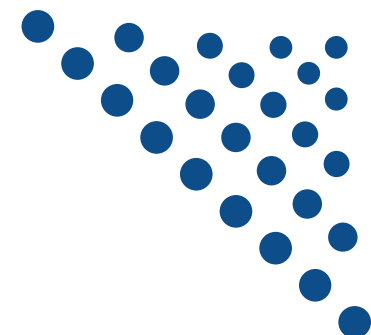


Growth in Relative Debt



- **Can be scary to....**
 - International investors
 - Bond markets

Fiscal Crisis, or a Run on the Dollar

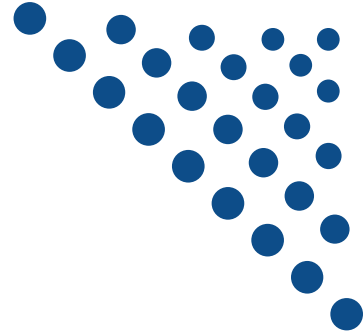


- **With an exploding relative debt, what happens if foreigners lose confidence in the stability of the dollar?**
- **CBO (*Federal Debt: A Primer, March 2020*):**

because the United States currently benefits from the dollar’s position as the world’s reserve currency and because the federal government borrows in dollars, a financial crisis—similar to those that befell Argentina, Greece, or Ireland—is less likely in the United States.

Although no one can predict whether or when a **fiscal crisis** might occur or how it would unfold, the risk is almost certainly increased by high and rising federal debt.
- **Crises of confidence, in addition to being unpredictable, happen very quickly.**

What Is 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

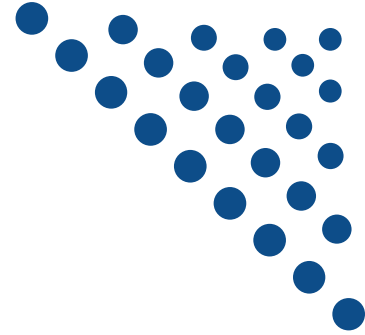


Other Countries Have Higher Debt Levels

Most Indebted Countries as of 2021



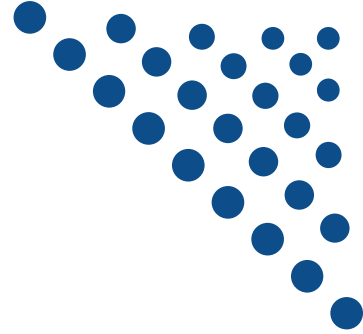
Source: IMF, "Central Government Debt as Percent of GDP"



VI. Summary

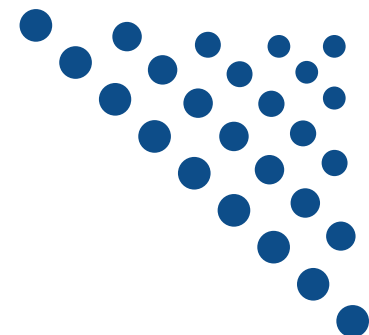


Major Takeaways: Talking Points



- **The debt is not currently a significant problem.**
- **The current trajectory for the federal debt is unsustainable.**
 - The primary drivers are an aging population, healthcare costs and interest.
- **We must enact plans to reduce the future (primary) deficits.**
 - These are driven by Medicare and Social Security spending.
- **The longer we postpone action, the greater the probability of a “fiscal crisis.”**

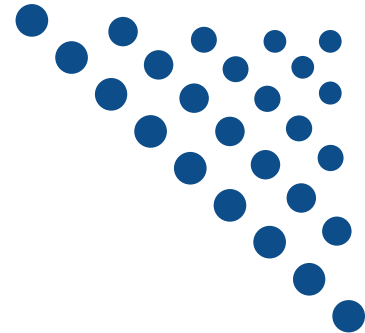
Bottom-Line Takeaways



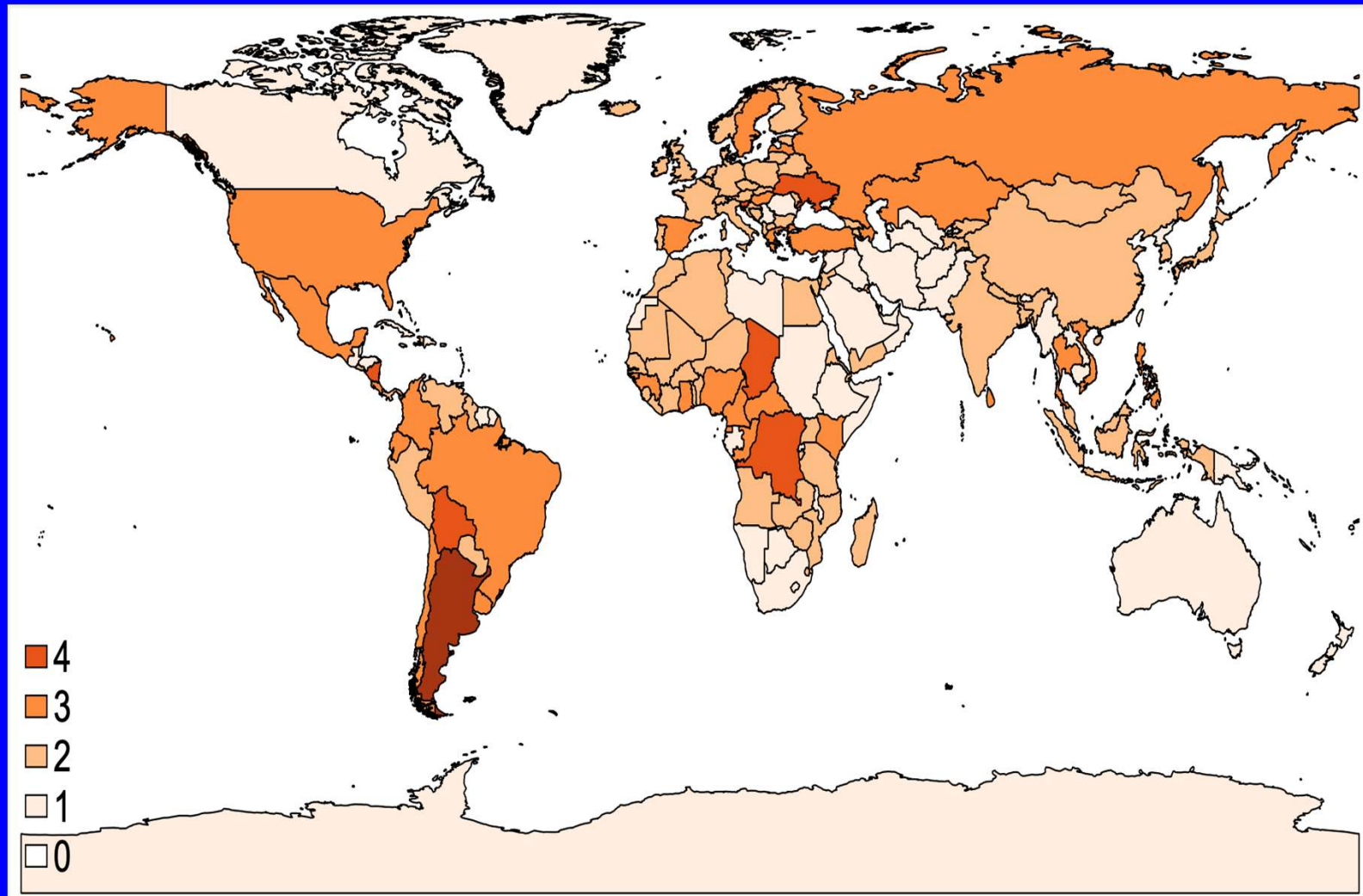
- **High debt levels should not deter:**
 - Productive infrastructure investment.
 - Fiscal responses to crises:
 - “When the house is on fire, you don’t worry about being in a drought; you just put it out.”
 - Great recession – the house was on fire.
 - COVID – the house was on fire.

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!**

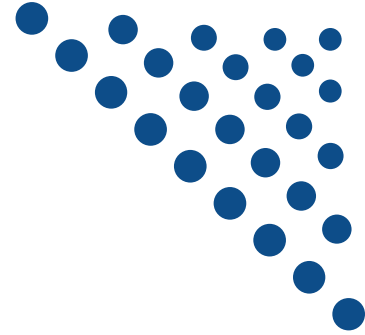


Next Week: Frequency of Systemic Crises, 1970-2024



Thank you!

Any Questions?



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