

## Special Order Hour - Our Deficit and Debt Crisis

### Introduction

1. Focus tonight is on the quietest, most avoided crisis in America today
2. Federal budget in particular is unsustainable, crippling federal deficit and debt
3. This quiet but accelerating crisis threatens us all
  - a. Fiscal crisis
  - b. Economic crisis
  - c. Social crisis
  - d. Security crisis
4. It is a crisis we want to deny or explain away but which we all know consciously or instinctively
5. Tonight, I will join colleagues of both parties who are committed to facing and solving this threat. In a too – brief, ad-hoc discussion with you,
6. We will highlight:
  - a. How our federal finances work
  - b. What's gone wrong and why
  - c. What are the severe consequences if we don't correct the cause
  - d. What can we do about it

### How Our Federal Finances Work

1. No different in concept than our family or business budget
  - a. Taxes and fees create revenues
  - b. Programs create expenses
  - c. If revenues exceed expenses, that's a surplus
  - d. If expenses exceed revenues, that's a deficit
2. We run our federal budget on a fiscal year
3. How do we address deficit in any year?
  - a. We borrow money, mostly by issuing government bonds
  - b. We pay interest on what we've borrowed
  - c. Our total borrowings are our debt
4. Just like any family or business:
  - a. No deficit or debt is nice, but
  - b. it's fine to run some debt, if
  - c. the debt is not chronic and not just an excuse to be irresponsible
  - d. the debt is not too high in relation to our overall budget or economy (GDP)
  - e. the interest on the debt is not too high in relation to our total budget

### What's Going Wrong and Why

1. The last year we had a balanced budget was 2001
2. We have run deficits every year since then
  - a. COVID – 2020 was our highest point at \$3.1 trillion
  - b. Growing since then: current year @ \$1.9 trillion
  - c. Projected on current path to reach \$2.9 trillion in 2034
3. Why?
  - a. We have grown federal spending at the same time as we've curtailed revenues
  - b. We can argue about the policies of revenues and expenses, but this is the result
4. Where are we today and where are we headed?
  - a. Our total debt is now over \$35 trillion
  - b. It was \$7 trillion in 2004, \$18 trillion in 2014, and \$23 trillion in 2019
  - c. Our gross debt-to-GDP is now at 124%
  - d. This is our highest since the last years of WWII when it was at 126%
  - e. Unless corrected, it is projected to grow to \$57 trillion and 134% of GDP by 2034

### **What Are The Consequences**

1. Crowds out other needed spending
2. Reduces fiscal flexibility especially in crises
3. Creates inflation pressure
4. Slows economic growth
5. Creates interest rate increase pressure
6. Creates national security risks especially with adversaries owning our debt
7. Disincentivizes responsible budgeting internationally
8. Feeds into arguments to replace \$ as world's reserve currency

### **What Do We Do About It**

1. Stop the bleeding: reduce annual deficits (PAYGO)
2. Rebalance revenue and expense over time: tax and spending policies
3. Fiscal Commission to assist

### **Conclusion**

1. First step in crisis is to stop the denial
2. Next step is to ask: what can we do
3. We need to get through Step #1 now and firmly into Step #2
4. The solutions are hard, but the alternative of doing nothing is and will be far harder
5. We urge acknowledgement and action