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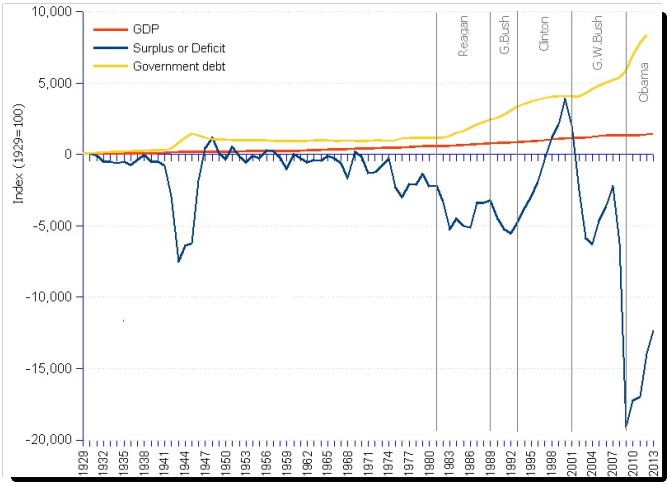
US Government Deficit and National Debt 1929-2013

Federal budget deficits have been feeding government debt year after year since the early 1980s. The trends illustrated in the chart are unequivocal. While GDP (red line) steadily grows at the average annual rate of 3.24% (doubling time 22 years) from 1929 through 2012, budget surpluses and deficits (blue line) jump up and down, with increasing amplitude for the troughs, adding to a fast swelling government debt (yellow line, average annual growth rate 5.6%, doubling time 13 years). The gap between debt and GDP widens unflinchingly, self-feeding itself through further budget imbalances.



Presidential debt

The trends have been magnified since Reagan's presidency. Apart from Clinton's second mandate, during which the budget was balanced, thus allowing for a stabilization of the debt, the other presidential tenures have been appallingly extravagant in expenditure, the high end of prodigality being reached during G. W. Bush's mandates. The result is shown in the steep ascending line of government debt since 2001.

Options open

In the context of a spending behavior stronger than the economy growth, any attempt to restore a balanced budget can only be achieved by means of massive cuts on spending, or substantial tax increases, or a combination of both — assuming that other radical measures are excluded, such as repudiating the government debt, or drastically relinquishing state responsibilities.

Taxes won't help

An anemic economy, immersed in recession or sluggish growth as during the years since the 2008 financial meltdown, does not allow for tax raises to be very productive. High unemployment and compensation freezes hinder private incomes, and are not efficient tax feeders. Furthermore, on top of the social strain that high taxes place on the low-income strata of the population, they induce generalized consumption and investment restraint, thus causing still more foreclosures, more unemployment, lower incomes, lower tax revenues, and higher claims for government subsidies. The cure may prove worse than the evil.

Could debt be OK after all ?

The alternative is to accept budget deficits on a regular basis. Alas, if the occasional deficit is not a cause for alarm, continued deficits may inflate an already huge government debt. High debt in itself is not a bad thing, provided debt is used to finance a thriving economy capable of generating fiscal revenue outweighing the debt burden. But it may become a many-sided evil if and when debt grows faster than the

economy, or if interest rates are higher than the economy growth rate, or if low inflation does not eat away the real cost of debt-related expenses.

Debt carries interest, and high debt not only causes an increase of net amounts of interest spending, but, other things remaining equal, it also tends to induce higher interest rates, thus feeding further budget deficits. In spite of a gross federal debt increase from 66.1% in 1993 to 106.5% of GDP in 2013, net interest as percent of GDP has fallen significantly from 3% to 1.4% of GDP in the same period. The diverging trends are explained by the dramatic fall of the average interest rate on total interest-bearing debt from 6.6% in 2001, to 2.4% in 2013. So far, declining interest rates succeeded in checking the adverse effects of the swelling debt. However, if low interest rates yield to higher rates, the impact on the budget can prove catastrophic.

The debt spiral

A higher net interest burden implies the reduction of public sector savings, meaning less investment and slower growth of the capital stock. Furthermore, as borrowing hits the "debt-limit" ceiling — the $16.7 trillion mark expected to be reached in October 2013 —, the ability of the federal government to finance its activities is impaired, and its fiscal difficulties are exposed. The October 2013 federal "shutdown" and the harsh political battle in US Congress over the 2013-2014 budget are an aggravation. The potential impact on the citizens' everyday life, on the economy, and on public and business confidence may prove devastating. The government credit rating could be downgraded, making borrowing by the government harder and more expensive.

The problem is compounded by the long-term prospects. Indeed, even under the assumption that the economy will recover, thus stimulating consumption, investment, job creation and revamped tax revenues, and also assuming that the government will put a stop to the expensive Iraq, Afghanistan, Yemen, Libya, Somalia and other wars, as well as to the innumerable on-going covert military operations, accounting for a defense spending representing 4.4% of GDP in 2012, it still remains that the heaviest spending category, i.e. mandatory spending — 13.1% of GDP in 2012 —, will undergo strong pressure.

The burden of an aging population

Projections of the US age pyramid alert to an aging population. People above 65 years of age were 13% of the total 2010 population, and will be 20% in 2030. Spending with retirement and Medicare programs will follow suit. Conversely, working age population aged 20 to 64, will decrease from 58% in 2010 to 52% of the total population in 2030, thus bringing the number of working age people that provide for one old-age beneficiary (inverse dependency ratio) from 4.6 to 2.7. This will likely bring down the total social insurance and retirement receipts (payroll taxes).

Health care costs

The rapid growth of health care costs per capita will also inflate health-related government discretionary and mandatory spending (health programs, Medicare, Medicaid). The uncontrolled upwards trend of health care costs can be blamed to organic and management causes. On one hand, organic causes such as the longer life spans of individuals, as well as the ongoing progress of medical processes and technologies render health care services more lengthy, widely available and more expensive for the

government, the health insurers and the private pockets.

On the other hand, the management of the US medical system tends to make it inherently expensive, 40% to 100% more so than in other industrialized countries. A deficient health insurance coverage drives low-income patients to public hospital emergency services. Profit-oriented agents such as insurers and health maintenance organizations (HMO) dominate the health care industry pushing margins and prices up. Statutory constraints, such as the mandatory civil liability insurance for physicians, commanding outrageously priced premiums, or the government's exclusion in the negotiations of medical services and drug pricing are an obstacle to economies of scale in Medicare and Medicaid. Notwithstanding the government claims according to which the Affordable Care Act or "Obamacare" — the program that arose the opposition's furor leading to the government "shutdown" on 1st October 2013 — should reduce the growth in healthcare spending, government estimates still place the cost of the programmatic spending at 13.6% of GDP by 2018. In short, no slack is contemplated for this spending item.

Too easy a fix

Fixing the federal fiscal problem is not an easy, and certainly not a quick task. Short of a miracle — and who still believes in miracles ? — deficits will remain the rule, and debt will continue to pile up. That is bad enough news. The good news is that about 40% of the government debt is external debt, of which at least 82% is labeled in US dollars — it is a cinch to let the steam out by telling the Federal Reserve to keep printing greenbacks until they are told to stop. More than 30% of the debt will just vanish, as if by sheer magic.

References :

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- *Implicit Price Deflators for Gross Domestic Product. BEA - US Bureau of Economic Analysis, 2013.*
- *World Population Prospects. United Nations Population Division's annual estimates and projections, New York 2011.*

Source :

http://stats.areppim.com/stats/stats_usxdeficitxdebtxgdp.htm

United States Federal Finance
Budget surplus or deficit, Government debt, and GDP
1929-2013

Year	GDP		Surplus or deficit (-)		Government debt oustanding	
	US$ billion [1]	Index, 1929=100	US$ billion [1]	Index, 1929=100	US$ billion [1]	Index, 1929=100
1929	1,045.9	100	7.4	100	170.9	100
1930	1,020.6	98	7.7	104	169.6	99
1931	979.9	94	-5.4	-73	196.2	115
1932	894.3	86	-36.2	-488	257.8	151
1933	783.6	75	-35.4	-478	306.6	179
1934	789.1	75	-46.2	-624	348.8	204
1935	879.3	84	-35.4	-478	362.6	212
1936	980.3	94	-53.7	-725	421.8	247
1937	1,051.0	100	-26.3	-354	436.0	255
1938	1,096.6	105	-1.1	-15	457.9	268
1939	1,108.2	106	-35.4	-478	503.0	294
1940	1,189.5	114	-35.9	-484	528.0	309
1941	1,313.3	126	-56.9	-767	563.6	330
1942	1,538.9	147	-218.7	-2,951	772.3	452
1943	1,839.2	176	-556.5	-7,510	1,394.4	816
1944	2,084.5	199	-473.9	-6,395	2,002.8	1,172
1945	2,150.1	206	-461.8	-6,232	2,512.2	1,470
1946	1,914.2	183	-137.0	-1,849	2,316.8	1,355
1947	1,807.8	173	31.1	420	2,002.2	1,171
1948	1,884.3	180	86.6	1,169	1,852.6	1,084
1949	1,995.7	191	4.3	58	1,859.4	1,088
1950	1,984.9	190	-22.7	-306	1,870.5	1,094
1951	2,173.8	208	41.4	559	1,732.7	1,014
1952	2,326.8	222	-10.1	-137	1,729.0	1,011
1953	2,455.3	235	-42.8	-578	1,753.8	1,026
1954	2,462.0	235	-7.5	-102	1,771.4	1,036
1955	2,542.1	243	-19.2	-259	1,761.7	1,031
1956	2,651.2	253	24.5	331	1,693.5	991
1957	2,709.6	259	20.5	277	1,625.7	951
1958	2,703.0	258	-16.3	-220	1,623.8	950
1959	2,841.1	272	-74.5	-1,005	1,650.1	965
1960	2,966.3	284	1.7	23	1,636.8	958
1961	2,996.2	286	-18.9	-254	1,633.9	956
1962	3,171.5	303	-39.9	-539	1,665.6	974
1963	3,309.6	316	-26.3	-354	1,689.4	988
1964	3,489.6	334	-32.2	-434	1,695.7	992
1965	3,672.5	351	-7.5	-102	1,694.8	992
1966	3,927.0	375	-19.2	-259	1,662.2	972
1967	4,089.9	391	-43.6	-589	1,647.2	964
1968	4,205.9	402	-121.9	-1,644	1,683.4	985
1969	4,376.6	418	15.0	202	1,632.8	955
1970	4,440.7	425	-12.5	-168	1,626.5	952
1971	4,506.8	431	-96.1	-1,297	1,661.4	972
1972	4,705.1	450	-93.5	-1,261	1,708.7	1,000
1973	4,970.8	475	-56.5	-763	1,737.6	1,017
1974	5,006.3	479	-21.4	-288	1,653.3	967
1975	4,969.6	475	-169.6	-2,289	1,698.3	994
1976	5,248.0	502	-222.6	-3,004	1,873.3	1,096
1977	5,610.8	536	-152.6	-2,059	1,986.9	1,162
1978	5,890.9	563	-157.2	-2,122	2,049.6	1,162
1979	6,138.4	587	-99.9	-1,349	2,028.3	1,199
1980	6,132.1	586	-166.2	-2,243	2,043.2	1,187
1981	6,293.7	602	-162.6	-2,194	2,054.4	1,195
1982	6,249.2	597	-248.1	-3,348	2,213.8	1,202
1983	6,416.5	613	-387.5	-5,229	2,568.3	1,295
1984	6,923.7	662	-333.8	-4,505	2,831.6	1,503
1985	7,235.9	692	-370.5	-5,000	3,181.6	1,657
1986	7,533.4	720	-378.4	-5,107	3,635.6	1,861
1987	7,758.9	742	-249.8	-3,370	3,920.5	2,127
1988	8,072.0	772	-250.1	-3,375	4,194.1	2,294
1989	8,376.5	801	-236.8	-3,195	4,432.9	2,454
1990	8,578.8	820	-330.7	-4,462	4,837.0	2,593
1991	8,586.3	821	-389.8	-5,260	5,306.7	2,830
1992	8,835.9	845	-411.0	-5,546	5,753.7	3,105
1993	9,107.9	871	-352.6	-4,759	6,099.5	3,366
1994	9,445.1	903	-275.1	-3,712	6,353.1	3,568
1995	9,735.4	931	-217.4	-2,934	6,596.3	3,717
1996	10,052.1	961	-139.9	-1,888	6,804.6	3,859
1997	10,514.9	1,005	-28.0	-378	6,931.4	3,981
1998	10,973.6	1,049	87.7	1,184	7,000.1	4,055
1999	11,500.3	1,100	156.9	2,117	7,064.1	4,095
2000	11,992.8	1,147	288.5	3,893	6,928.9	4,133
2001	12,207.0	1,167	153.1	2,066	6,933.0	4,054
2002	12,396.7	1,185	-185.5	-2,503	7,322.7	4,056
2003	12,656.7	1,210	-435.2	-5,873	7,818.9	4,284
2004	13,099.7	1,252	-463.1	-6,249	8,278.8	4,574
2005	13,510.7	1,292	-346.1	-4,670	8,623.4	4,843
2006	13,928.3	1,332	-261.7	-3,532	8,971.9	5,045
2007	14,240.9	1,362	-165.1	-2,228	9,254.3	5,249
2008	14,444.8	1,381	-462.1	-6,236	10,101.9	5,414
2009	13,960.7	1,335	-1,412.7	-19,064	11,909.8	5,910
2010	14,176.7	1,355	-1,278.9	-17,258	13,399.4	6,967
2011	14,466.6	1,383	-1,259.3	-16,994	14,331.9	7,839
2012	14,806.8	1,416	-1,035.2	-13,969	15,300.9	8,384
2013 [2]	15,259.3	1,459	-916.3	-12,364		
Average annual change rate	3.24%				5.56%	
Doubling time	21.74 years				12.81 years	

[1] Constant dollars 2009=100, after applying the US GDP deflator.
[2] Government estimate.