Debt and Deficit Fact Sheet

Face the Facts USA

The debt hanging over our nation's head is $16 trillion and the federal government spends far more than we collect in taxes. The problem is bad now, but expected to get even worse as the baby boomer generation ages. Where do we spend our money? What options does the federal government have? How does the debt impact us?

To start, let's get some definitions clear. The **deficit** is the amount that spending exceeds revenues in a given year. The government must borrow this additional amount to pay its bills. The **debt** is the total amount of deficits (offset by the total amount of surpluses) that the government has accumulated over time.

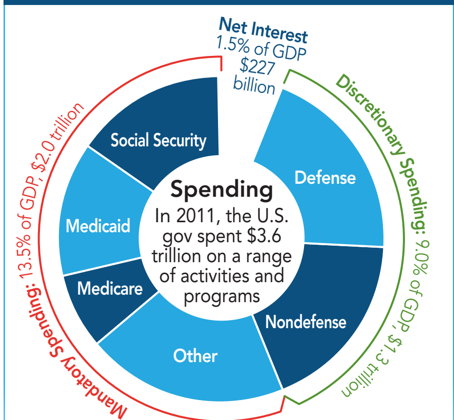
According to the Congressional Budget Office, the federal government's budget deficit for fiscal year 2011 was 1.3 trillion, the third largest shortfall in the past 40 years. **In fiscal year 2011, the government spent $3.6 trillion, but received only $2.3 trillion in revenues.**

FACT: The debt rises every day, at a rate of $3 billion daily in the first half of 2012. The government spent $114,253 per second in 2011 while only $73,043 in revenue came in per second.

So, when thinking about the deficit, we're thinking about spending, revenues, and borrowing.

Let's take a closer look at all three.

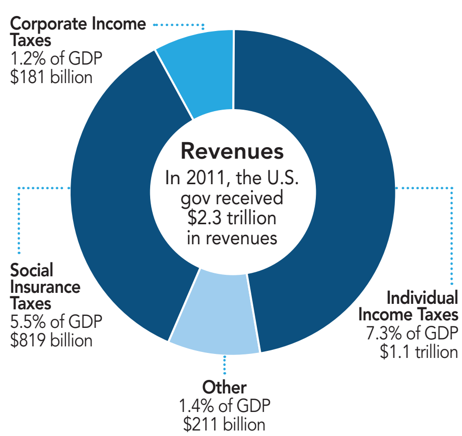
Where does the federal government spend its money?



Social Security 4.8% of GDP $725 billion	Medicare 3.2% of GDP $480 billion	Defense 4.7% of GDP $700 billion
Medicaid 1.8% of GDP $275 billion	Other 3.6% of GDP $545 billion	Nondefense 4.3% of GDP $646 billion

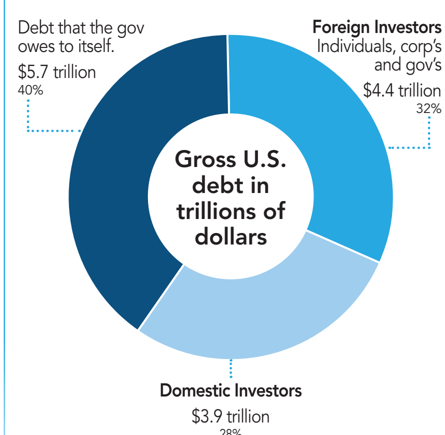
FACT: Interest on the debt alone is the 4th largest expenditure of tax dollars. $3 billion a day goes to service the debt

What are the sources of revenue that the government collects?



FACT: Federal tax revenue is at its lowest level in 60 yrs, 15% of GDP, well below historical average of 18%

Where do we borrow money from? How much do we borrow?



Now that we understand the basic components, let's consider the implications of the deficit and the national debt.

If the federal government takes on too much debt, its creditors might doubt its ability to pay the money back. They may charge more interest or even refuse to lend more money. This could negatively impact the stock market and the economy at large. As more money is spent on the debt at the federal level, the less money there is available to support state and local services. Moreover, many states and local jurisdictions are prohibited from running deficits. When their revenues fall and federal funding isn't available to fill the gap, they have to reduce services and programs.

While the federal government might seem far away, the impact of its funding choices can be felt on a very personal level. If you or your family members use Medicare, Social Security, public transportation, or public schools, or even drive on interstate highways, you're using governmental services supported by federal dollars. The federal government's choices about the debt may impact the level of services that you receive in your community and may also result in higher taxes on individuals.

The debt can impact more than just our pocketbooks. Debt owed to other nations may impact how we approach them diplomatically and America's standing on the world stage.

> ***FACT: Oil exporting nations, whose activities already hold considerable sway in U.S. policy decisions, wield a U.S. debt ownership to the tune of $257 billion combined. That's enough to buy more than 3 billion barrels of oil at today's prices, or enough to cover some nine months of oil imports for American energy needs. (Oil price on July 2, 2012 - $83.75 a barrel.)***

Entitlement Programs and the Aging of America

Social Security was created in 1935, before the baby boomer generation and when life expectancy was shorter. Medicare was created in 1965.

- As the baby boomer generation grows older, we have a dramatic increase in the number of people receiving benefits.
- With people living longer, the costs per person are rising as well.
- According to the Social Security Administration, the program provided more in benefits than it received in taxes starting in 2010.

Approaches to the Issue

Many feel that the national debt is a crisis that requires immediate action. People who hold this belief generally suggest that:

- Government spending is too high and significant cuts should be made in government programs.
- Immediate reforms to entitlement programs are necessary.
- Spending cuts should be favored over tax increases.

At the same time, there are others who are concerned about the debt, but believe that, in times of economic downturn, a sharp reduction in government spending will only cause more short term economic problems. People who hold this belief generally suggest that:

- At this time, the size of the national debt does not require drastic budget cuts.
- Social Security, Medicare and other entitlement programs must be protected, but some changes will need to be made in the long term.
- There need to be some cuts in the budget, but tax increases—especially on wealthy Americans—are needed to address the budget.

While there is much disagreement about how to approach the budget deficit and the national debt, there are also some areas of general agreement:

- Many agree that the projected level of spending into the future is unsustainable because of the aging of our population and rising healthcare costs pressuring entitlement program growth.
- Most also agree that the longer we wait to address the long-term debt trajectory, the harder our choices will be in the future.
- There is also broad agreement that, while an economic revival would help reduce the debt, it alone will not solve the problem.
- Many people also believe that viable long term solutions to the national debt will require some combination of tax reform, entitlement reform and cuts in other government spending.

How do you feel about each of these approaches? What do you think about the areas of agreement and disagreement? What other information would you like to know? What do you think we should do?

Digging Deeper

Now that we have looked at the debt and deficit at a basic level, let's get into a deeper discussion of spending, revenue, and borrowing.

Spending

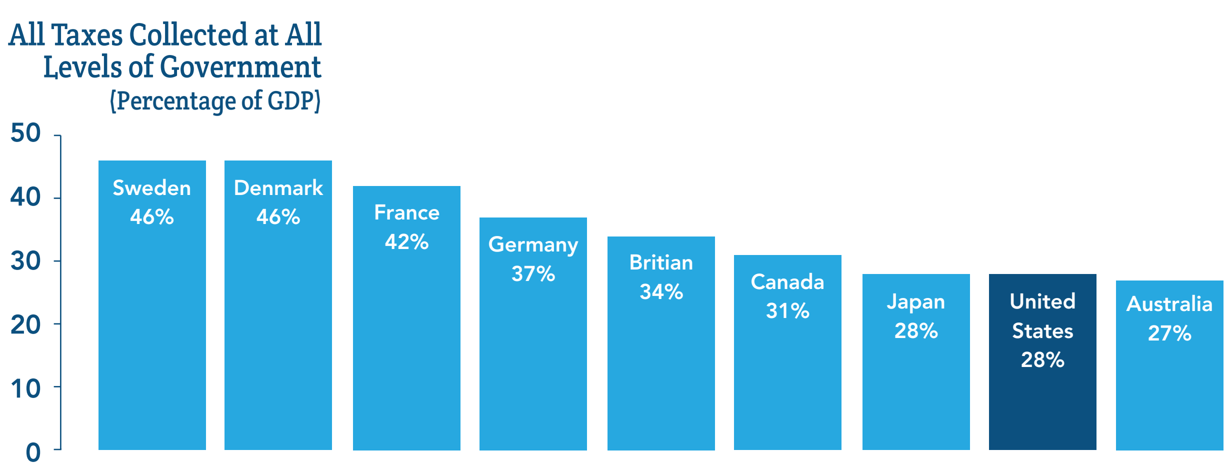
Not all federal spending is treated equally. There are two basic types of spending: discretionary and mandatory. Discretionary spending means Congress and the President have to decide each year to fund the expenditure. Programs such as defense, education, and transportation fall into this category. According to the Congressional Budget Office, discretionary spending comprised almost 40% of federal spending in 2011, totaling $1.35 trillion. Programs whose funding does not require yearly renewal are considered mandatory spending. Benefit programs with eligibility requirements, such as Social Security, Medicare, and Medicaid fall into this category.

Why does the type of spending matter? When discussing the deficit it is important to remember that there are legislative obstacles that make certain programs harder to change. The government funds many programs, but as you saw in the chart about spending on the previous page, just a few large programs make up the majority of federal spending.

FACT: On average over the past 40 years, federal spending has been 21% of GDP, while revenues have only been 18% of GDP.

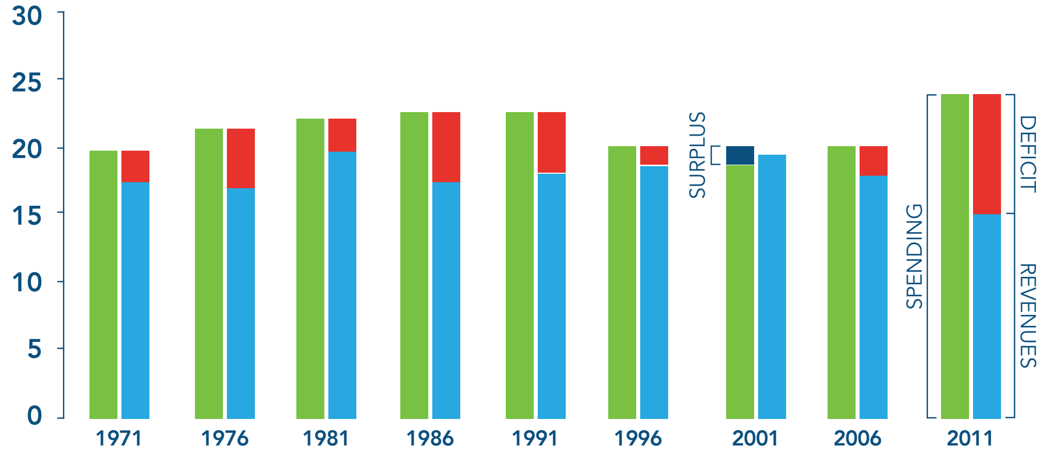
Revenue

While many Americans feel that the tax burden is too high, Americans pay some of the lowest percentage of taxes as a percentage of GDP.



When examined historically, revenues are at their lowest level (as a percentage of GDP) since 1970.

The Federal Budget
1971-2011
(Percentage of GDP)



Revenue generation is dependent on the tax code, which outlines how much individuals and businesses pay in taxes. Many feel that the tax code is overly complicated and is in need of reform.

Should the tax code be simplified? What impact do you think that would have on revenue generation?

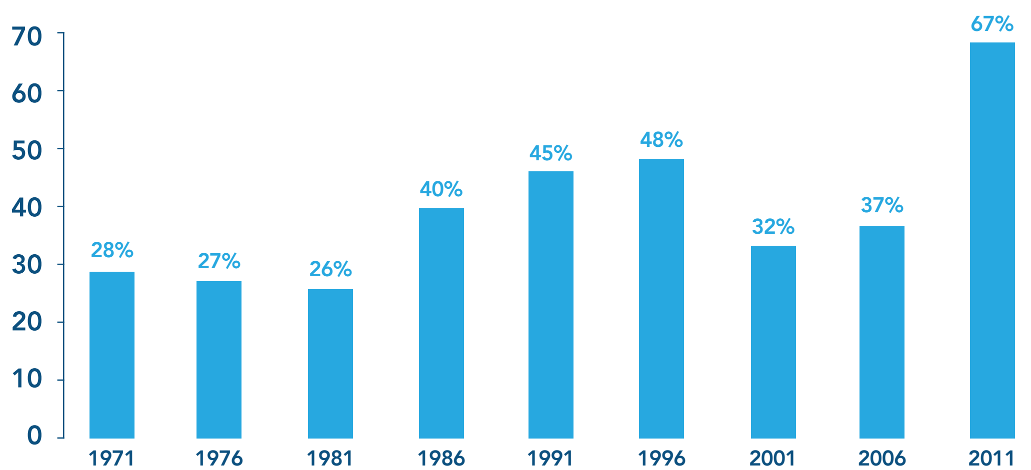
FACT: There are up to 1.2 million tax preparers being paid to demystify the labyrinth U.S. tax code for taxpayers. There are more tax preparers in the United States than law enforcement officers (765,000) and professional firefighters (310,400) combined.

Borrowing

So, how exactly does the government borrow money? It issues treasury bonds that can be purchased by individuals, groups, or other governments. When the bonds mature, the government pays the money back with interest. The interest bill has gotten quite large and as of 2011, it was the fourth largest expenditure of tax dollars in the nation's budget.

Looking at Debt Historically:

The U.S. DEBT
1971-2011
(Percentage of GDP)



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