

Review

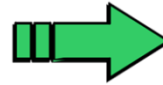
- Medicare:
 - Health care for those over age 65
- Medicaid:
 - Health care for the poor
- Social Security:
 - pension money for those who retire
 - unemployment insurance; disability



Growing National Debt

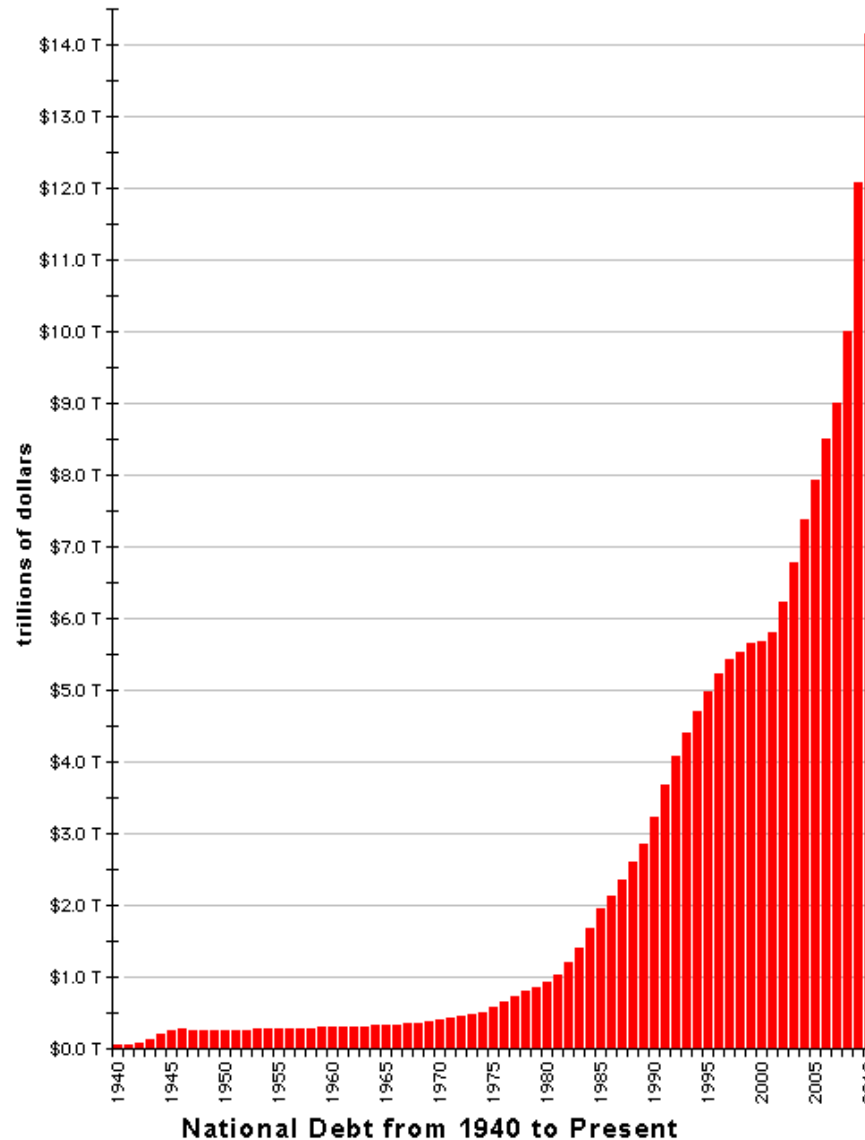
Should we be worried?

Federal Deficit



Leads to a larger

Federal Debt



\$19.5 Trillion

Source: U.S. National Debt Clock
http://www.brillig.com/debt_clock/

Okay, so How
Bad is Our
Deficit/Debt in
Context?



Deficit & Debt relative to GDP

“It’s not only what you owe”

Joe & Bob

	Joe	Bob
Housing	Owns \$800,000 home	Rents apartment
Investments	\$200,000 in stocks	none
Rental properties	One	none
Debt	\$300,000	\$300,000



Do both have an equal debt burden?

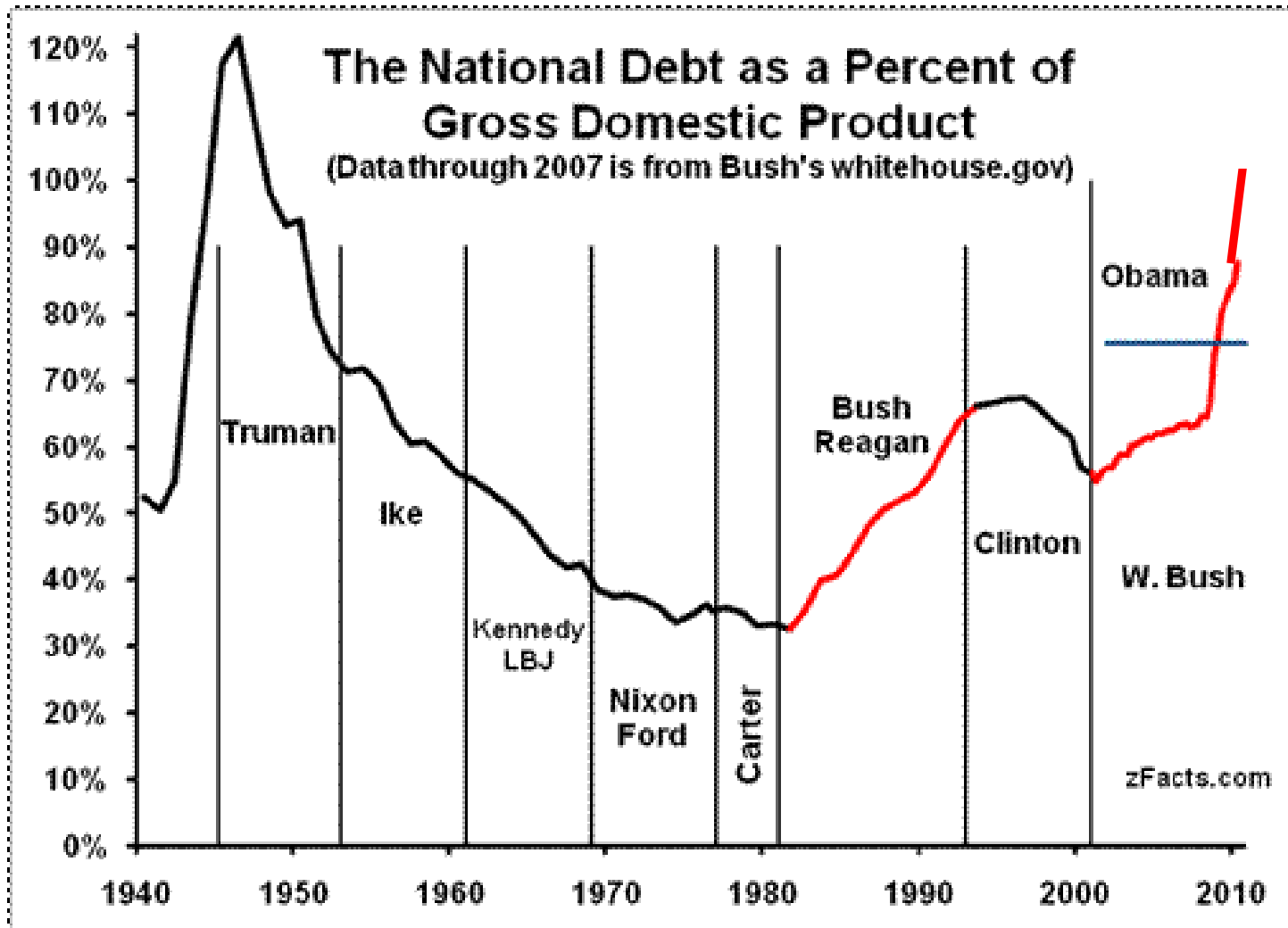
Debt relative to GDP

- Current **Debt** = \$20.4 Trillion
- Current **GDP** = \$19.3 Trillion
- **Debt** as % of GDP = **104% of GDP**

History of DEBT as % of GDP

- 1) 1946- National debt peaked: **120% of GDP (WWII)**
- 2) 1950-1980- Fell to pre-war levels: **32%**
- 3) 1980-2005- Rose to **70%**
- 4) 2009 **76%**
- 5) 2018 **104%**

NATIONAL DEBT AS % OF GDP



Debt:
19.5 Trillion

GDP
18.5 Trillion

105 % GDP

U.S. Debt in Comparison

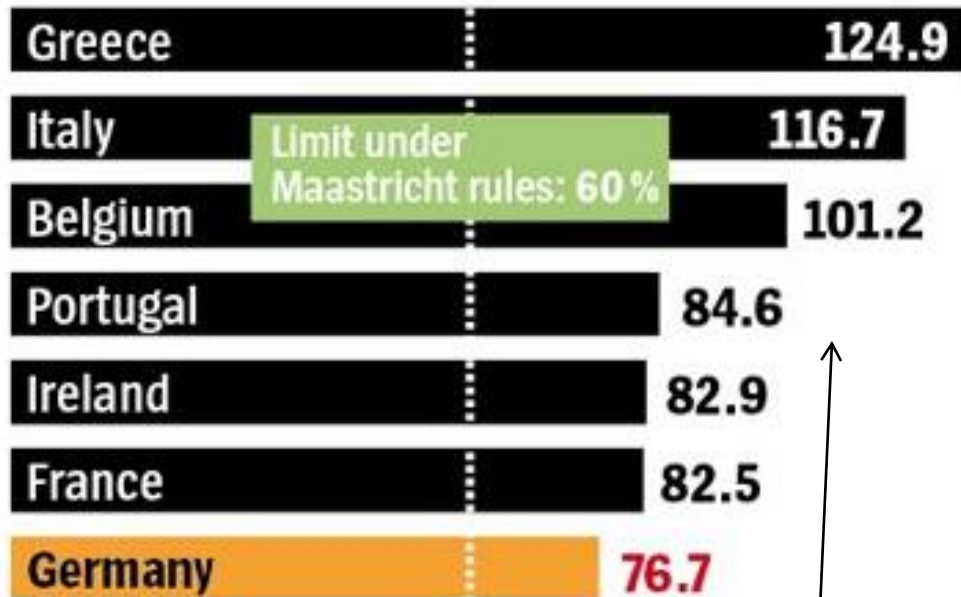
- **European Union** (EU) debt limit of 60%
- **France** 98% of GDP
- **Italy** 135% of GDP
- **Greece** 179% of GDP
- **Japan:** 243% of GDP (1970: 10% of GDP)

U.S. Debt in Comparison

- **China** 22% of GDP
- **India** 67% of GDP
- **U.K.** 89% of GDP
- **Germany:** 70% of GDP

National Debts of Euro Zone Members in 2010

as percentage of gross domestic product (forecasts)



Debt as a % of GDP

2-Types of Deficits

Structural deficit: occurs with the economy at *full potential output* (*peak of business cycle, high GDP*)

Cyclical deficit: Portion of deficit attributable to a *slowdown in the business cycle* (*during recession*)

Structural Deficits are significantly more problematic than **Cyclical Deficits**

They do not go away when the economy improves

Review Questions

#1: True or False

Two people who have debt of \$50,000 have an equal debt burden?

**It depends, but probably not.
They would have to have
identical incomes and assets to
have an equal debt burden.**

Review Questions

#2: What is a key ratio used to compare the debt burdens of various countries and to compare debt burdens over time?

The Debt-to-GDP Ratio

Review Questions

#3: TRUE or FALSE?

The Debt-to-GDP ratio of the U.S. is the highest in the world.

FALSE.

Review Questions

#4: What do we call the portion of the deficit that is attributable to a *slowdown in the business cycle*?

Cyclical Deficit

Review Questions

#5: What do we call the portion of the deficit that occurs when the economy is running at full potential?

Structural Deficit

Review Questions

#6: Which is of more concern for the U.S. right now, the cyclical deficit or structural deficit?

Structural deficit

Analyzing Deficits Summary

- Debt & Deficit should be viewed as **% GDP**
 - This allows you to compare past deficits
- Today's Deficit is primarily a **structural deficit**
 - **Entitlement spending** must be addressed to correct it

Analyzing Deficits Summary

- Entitlements make up an ever-increasing percentage of the Federal Budget
- Debt & Deficit should be viewed as **% of GDP**
 - This allows you to compare past deficits and to compare with other countries' deficits
- The current Federal Deficit is a **structural deficit**
 - **Just cutting Discretionary Spending will not be enough to fix the problem**
 - **Entitlement spending** must be addressed to correct it