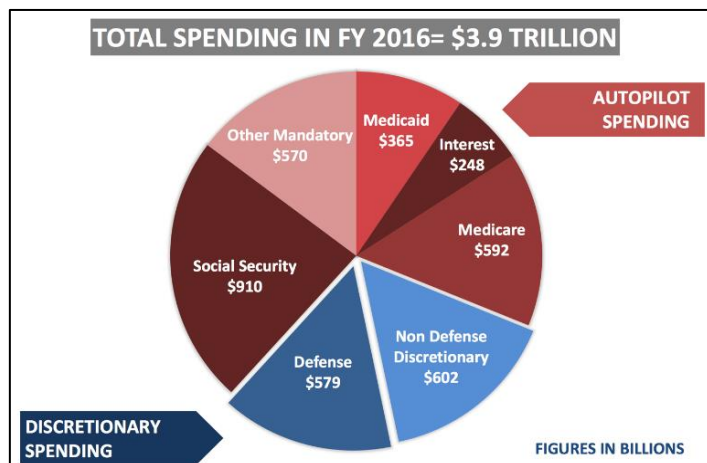


## Budget Digest – Week of February 6th

### THE LINK BETWEEN DEFICITS AND DEBT

**A recap of fiscal year 2016.** For the first time in five years, the Federal budget deficit increased in fiscal year 2016, rising to \$587 billion from \$438 billion in 2015. The increase stemmed from a sizeable excess of government spending over revenue. Government spending in fiscal year 2016 totaled \$3.9 trillion, roughly 70 percent of it from automatic spending on programs such as Social Security, Medicare, Medicaid, and interest on the national debt. Discretionary spending, which is subject to annual appropriations, was \$1.2 trillion, or 30 percent of the total.

Federal revenue totaled \$3.3 trillion in fiscal year 2016, or about 17.8 percent of gross domestic product [GDP] – higher than the 50-year annual average of revenue as a share of the economy. As in most years, individual income tax receipts accounted for nearly half the total, while payroll taxes, funding programs such as Social Security and Medicare, accounted for one-third.



**Deficits lead to a higher stock of debt.** The Congressional Budget Office [CBO] projects annual budget deficits will rise over the next decade, reaching \$1.4 trillion by 2027. That will push up the stock of national debt – which reflects the *cumulative* level of deficits over time – to \$25 trillion, or 89 percent of GDP, in 2027. That would mark the highest debt share since 1947, just after World War II.

**Rising interest payments on the debt.** Given this large and growing stock of debt, and the expected gradual rise in interest rates from current low levels, CBO projects interest on the debt will be the fastest growing part of the Federal budget over the next 10 years. Interest payments will more than triple, from \$241 billion in fiscal year 2016 to \$768 billion in 2027, when they will exceed the amount spent on national defense (\$741 billion). Annual deficits add to the cumulative stock of debt, increasing interest payments, which – barring other budget reductions – must be funded by ever-higher annual borrowing (increased deficits). Lowering annual deficits and putting the debt on a downward path is the way to correct this dangerous fiscal loop. The Budget Committee is working to do just that, by drafting a fiscal year 2018 budget resolution that puts the government's finances on a sustainable path.