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Introduction for speech to  
Institute for Humane Studies Forum  
May 17, 1993

Thank you, Bill (President Beach), for that kind introduction.

It is indeed a pleasure for me to have the opportunity to address this Forum.

The federal deficit and the federal debt are much on the minds of the public and our elected officials these days. Congress and the Administration are struggling to find politically acceptable ways to reduce the deficit, and public concern with our growing federal debt has even led to projections of dire consequences for the nation, such as Harry Figgie's recent book, **Bankruptcy 1995: The Coming Collapse of America and How to Stop It.**

In my remarks today I want to discuss federal expenditures, revenues, deficits, and debts. I want to trace the changes that have occurred over the last quarter century in the major components of federal expenditures and in federal revenues, and the consequent changes in annual deficits and the cumulative debt. I also will provide a framework for analyzing deficits and debt, and evaluate Figgie's prediction of national bankruptcy in the very near future. I'll conclude with a brief look at some long term budget concerns and point out how aggregate deficits and debt levels do not fully reflect the stance of fiscal policy.

Federal expenditures, revenues, deficits and debts have grown enormously over the last quarter century, partly from real changes and partly from inflation. At the same time, the size of our economy and our ability to afford those expenditures and to carry those debts has also grown. Looking just at the absolute levels of those numbers, therefore, can be quite misleading. So, to put them in perspective, most of the data that I will use today are presented as percentages of Gross Domestic Product, as you can see in the first table.

I'm going to present six more tables that have the same format as this first table, so I want to take a minute here to make sure that this table is clear. 1969 means fiscal 1969, which means the 12-month period that ended in June 1969. After fiscal 1976, the government shifted to fiscal years that end in September.

Federal Expenditures in fiscal 1969 were 19.5 percent of Gross Domestic Product in fiscal 1969. Federal expenditures are subdivided into four components. Defense is obvious. Transfers include expenditures for programs such as Social Security, Medicare, Medicaid, Aid to Families with Dependent Children, and Unemployment Compensation. Net interest includes interest paid on the portion of the federal debt that is held by the public and excludes interest paid on federal debt that is owned by Federal trust funds and other government agencies. Nondefense discretionary is all other federal expenditures.

Federal Revenues were slightly larger than Federal Expenditures, so there was a budget surplus in fiscal 1969. I've shown that surplus here as a negative deficit, because in most years we have an actual deficit.

The final item in the table is the Primary Deficit. That item will be important later on when I develop the framework for analyzing the growth of federal debt, but I'll define it for you now. The Primary Deficit is the actual Deficit less interest payments to service the federal debt, less the additional income taxes that the government collects from the people who receive those interest payments. Thus, the Primary Deficit is what the actual Deficit would be if the government had no debt and did not have to pay any interest on debt and did not collect any taxes on that interest.