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Evidence for a Stronger Economy

Econ 101: Contextualizing the Federal Debt

November 17, 2026



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Contextualizing the origins of the structural deficit



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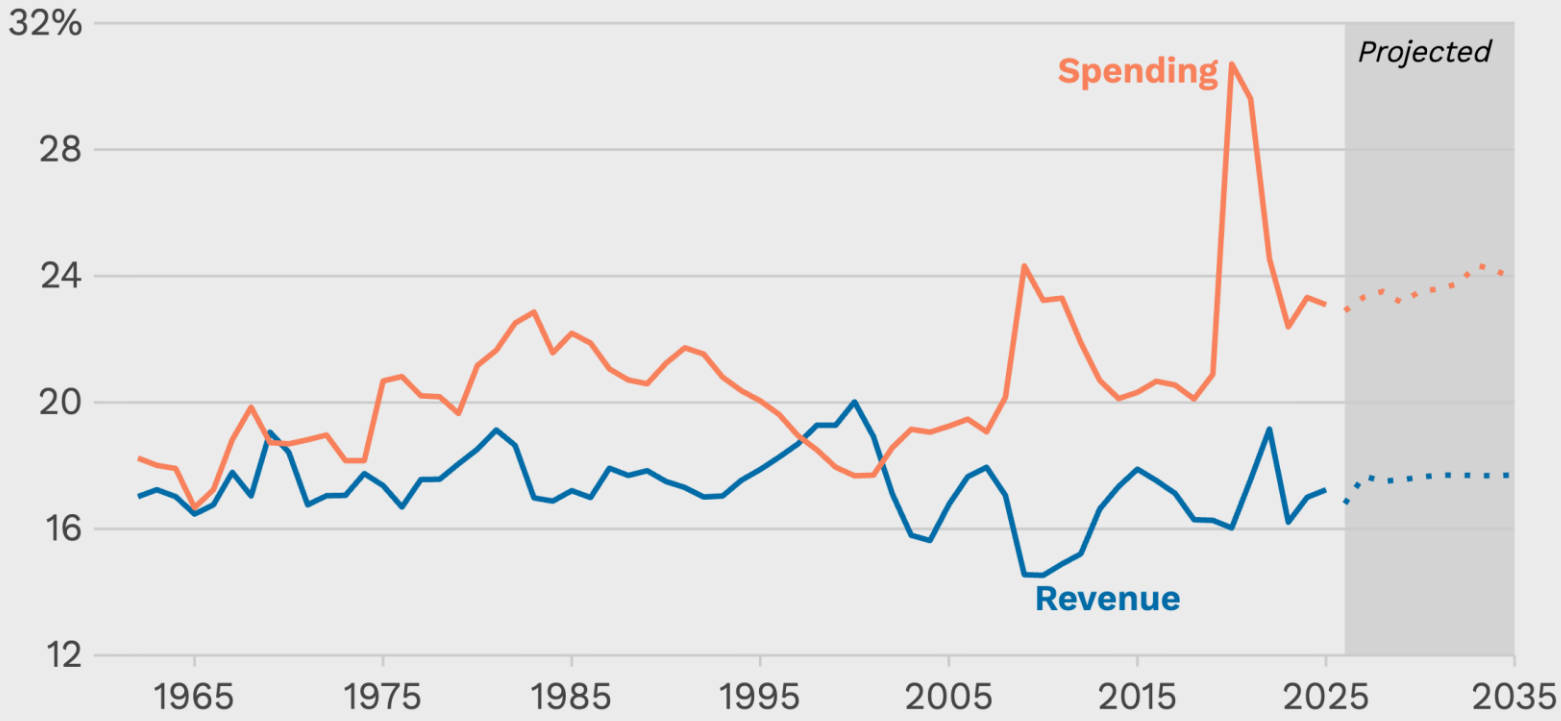
The budget has a large, structural gap

The overall federal budget gap between spending and revenues

U.S. government outlays and revenues as a share of GDP, 1962–2035



Source: Congressional Budget Office, Historical Budget Data and Budget Projections (February 2026).
Note: Fiscal 2026 is estimated from eleven months of Monthly Treasury Statement actuals and an estimated September, over fiscal-year GDP.

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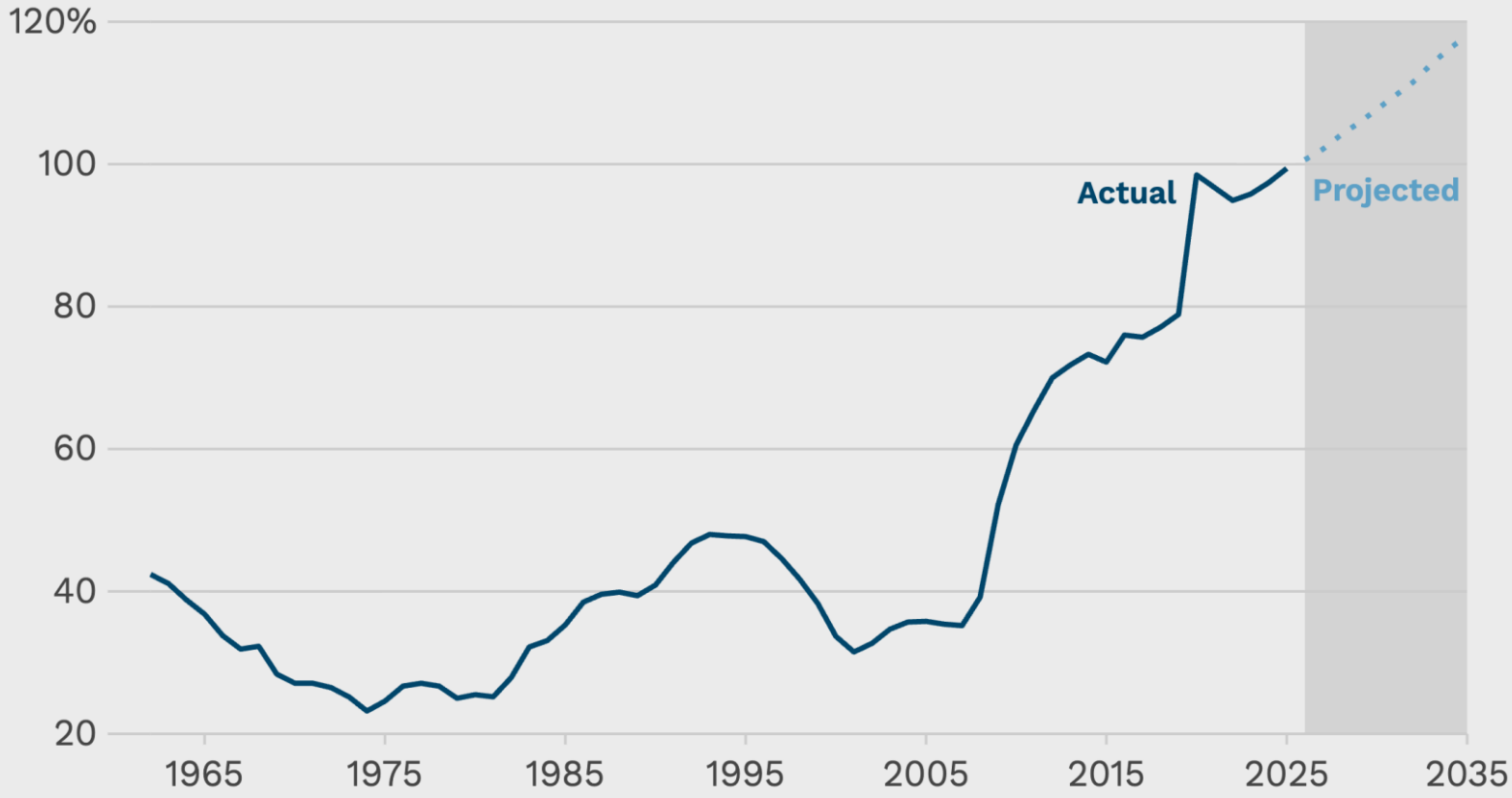
Why it matters: the debt keeps growing

Federal debt keeps rising

Federal debt held by the public as a share of GDP, 1962-2035



Source: Congressional Budget Office, Historical Budget Data and Budget Projections (Feb. 2026).
Note: Projected years (2026-2035) are CBO baseline projections.

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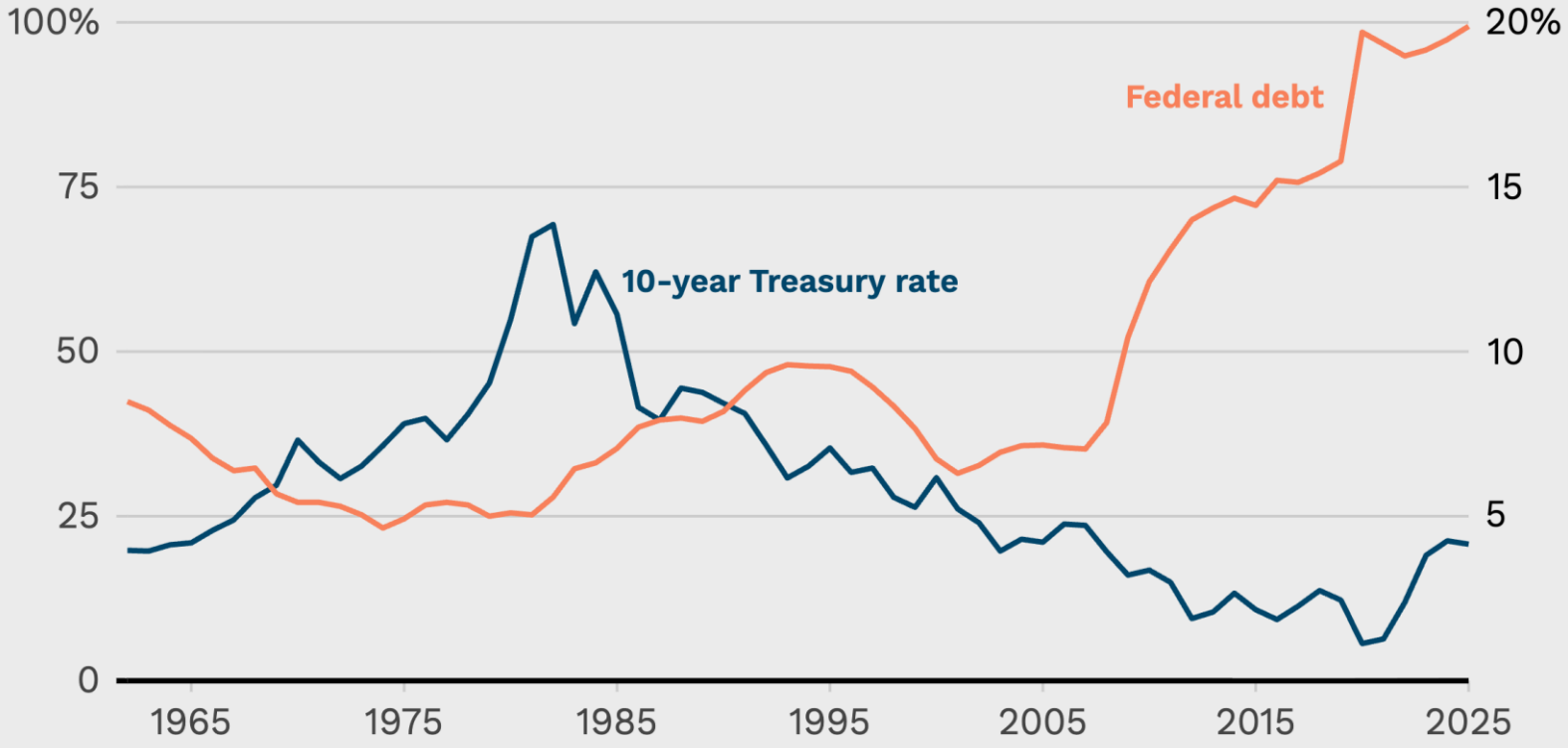
More debt hasn't meant higher interest rates

More debt has not meant higher interest rates

Federal debt held by the public as a share of GDP and the 10-year Treasury rate, 1962-2025



Source: Congressional Budget Office (debt) and Board of Governors of the Federal Reserve System (10-year Treasury constant maturity rate, annual average).
Note: Debt is on the left vertical axis. Treasury rate is on the right vertical axis.

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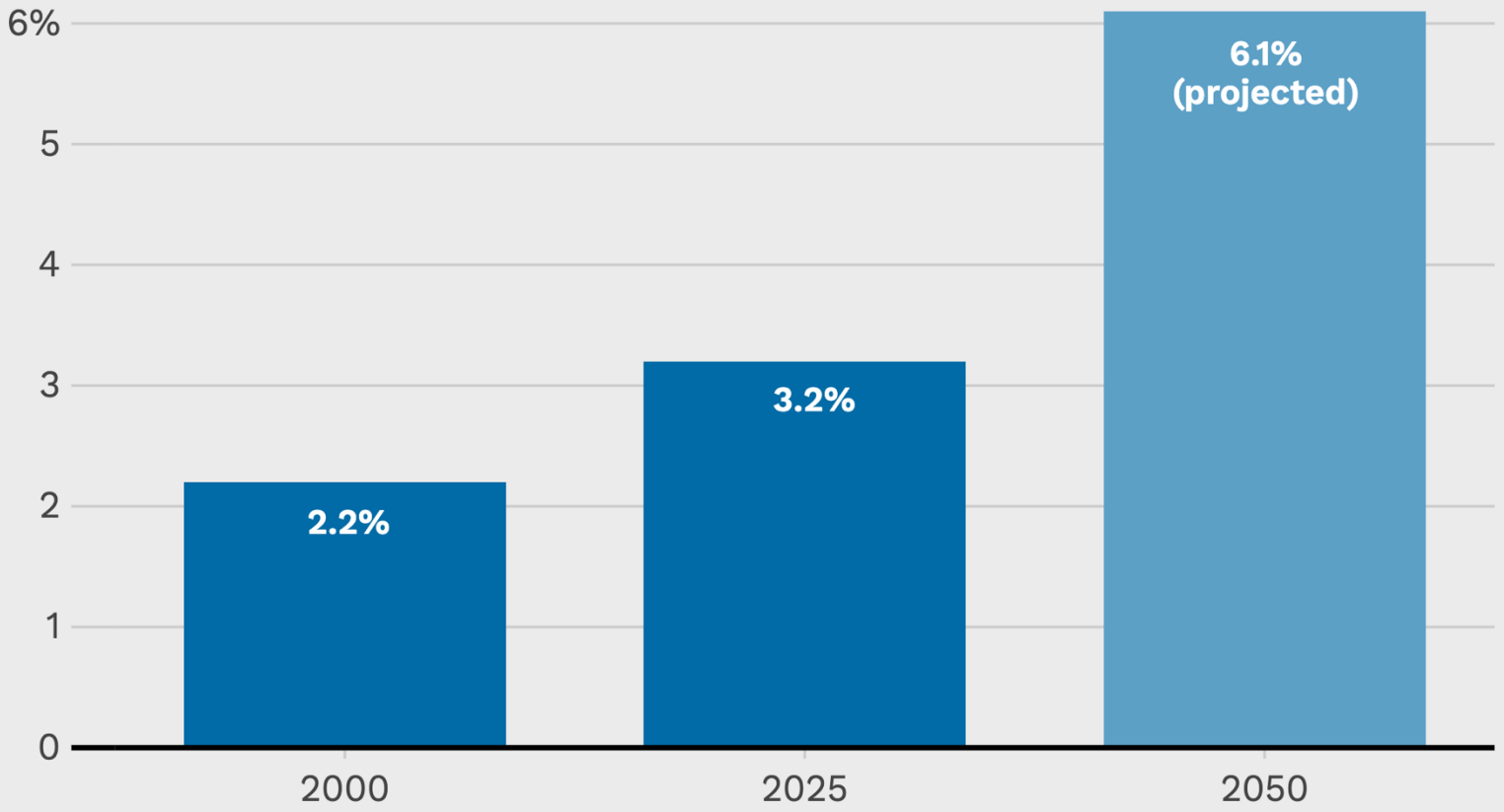
More debt means more spending on interest

More debt means more spending on interest

Net interest as a share of GDP, 2000, 2025, and 2050 (projected)



Source: Congressional Budget Office, Historical Budget Data (February 2026) and The Long-Term Budget Outlook: 2026 to 2056 (February 2026), extended baseline.

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A clash of worldviews, not math

Is spending too high, or is revenue too low? The numbers alone can't tell you.

View 1: A budget anchored in history. Spending and taxes should stay near their post-WWII levels.

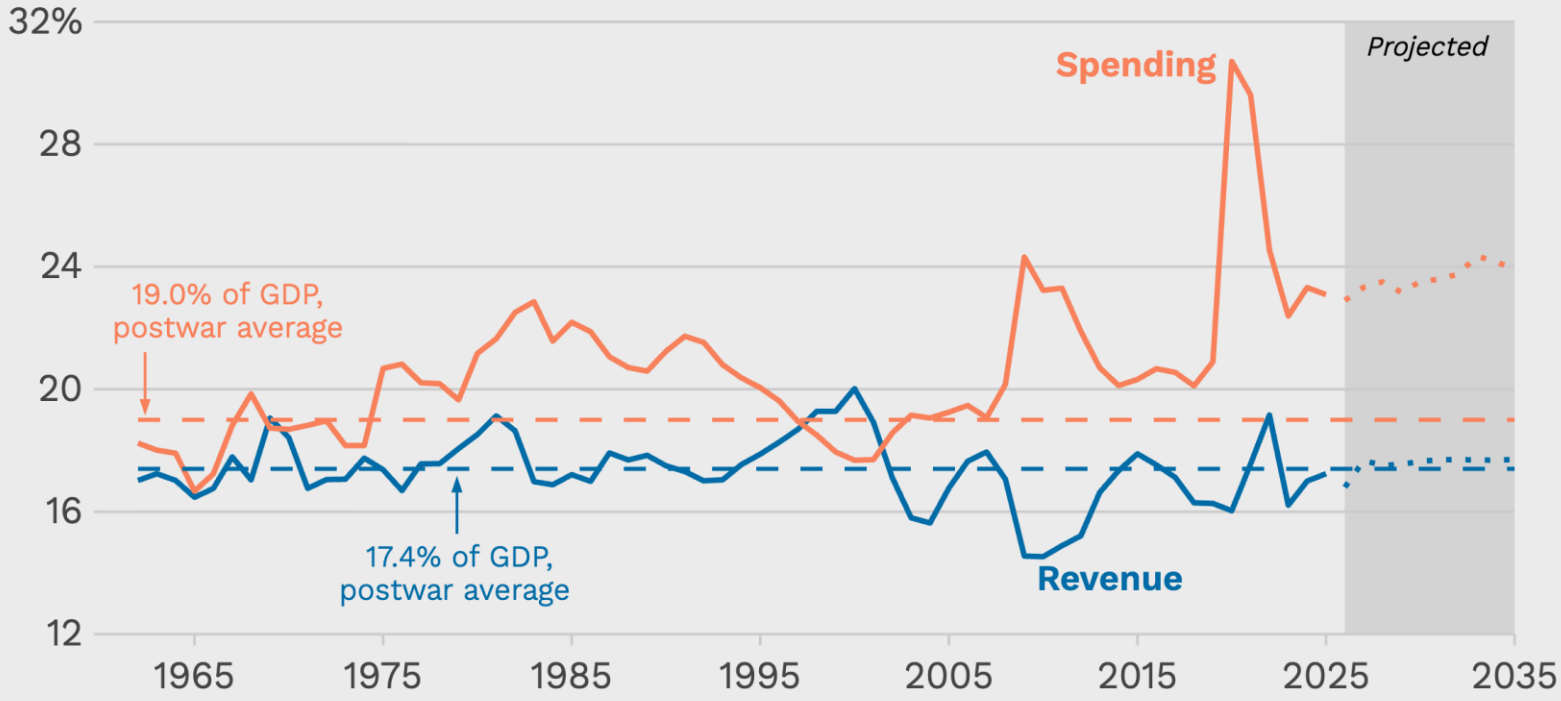
View 2: A budget that moves. Spending and taxes are policy choices that can change with the country's needs.



View 1: Spending really is above its historical average

Federal spending is clearly above its post-WWII average

U.S. government outlays and revenues against their post WWII averages



Source: Congressional Budget Office, Historical Budget Data and Budget Projections (February 2026).
Note: Fiscal 2026 is estimated from eleven months of Monthly Treasury Statement actuals and an estimated September, over fiscal-year GDP. Average lines are FY1946–2000, computed from OMB Historical Tables (FY2027 vintage).

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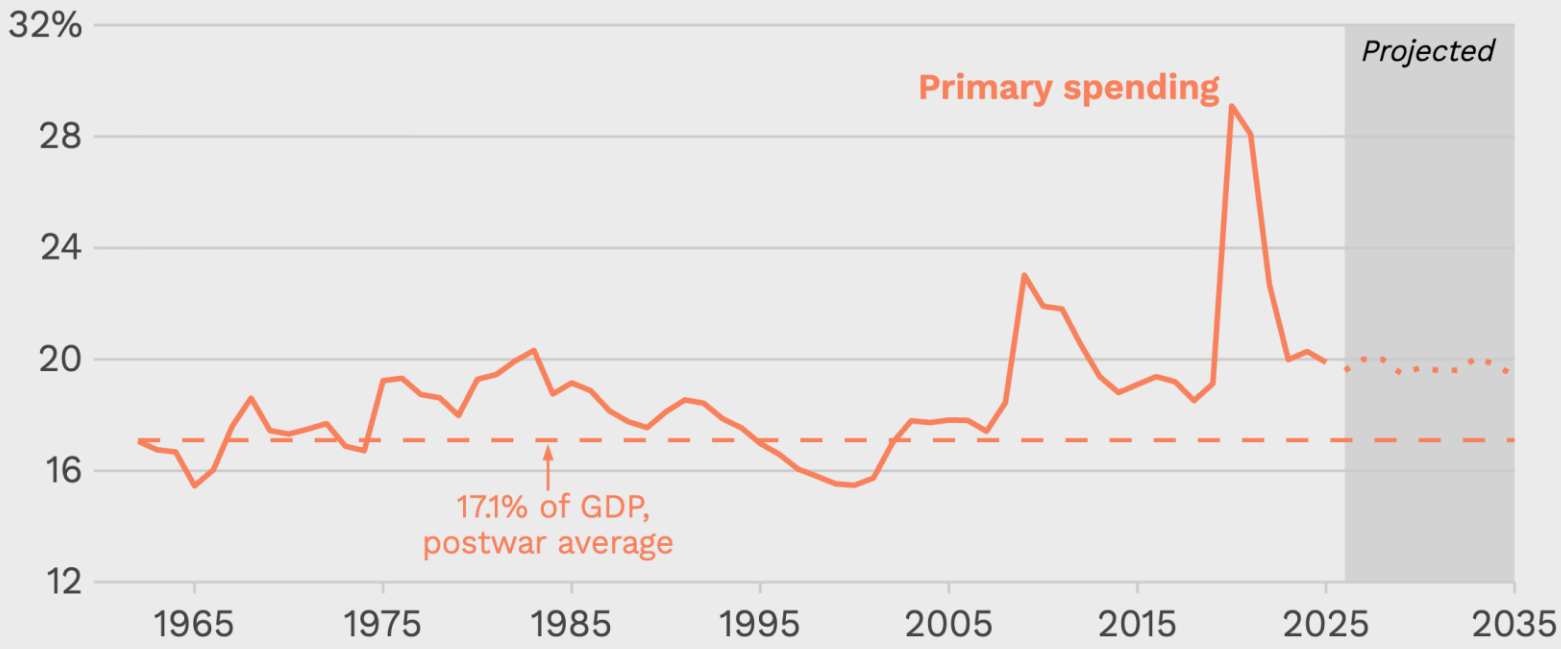
View 1: That's true even leaving out interest

Primary spending by the federal government is similarly above its post-WWII average

U.S. government primary spending against its postwar average, 1962–2035



Source: Congressional Budget Office, Historical Budget Data and Budget Projections (February 2026).
Note: Fiscal 2026 is estimated from eleven months of Monthly Treasury Statement actuals and an estimated September, over fiscal-year GDP. Primary spending is total outlays less net interest. Average lines are FY1946–2000, computed from OMB Historical Tables (FY2027 vintage).

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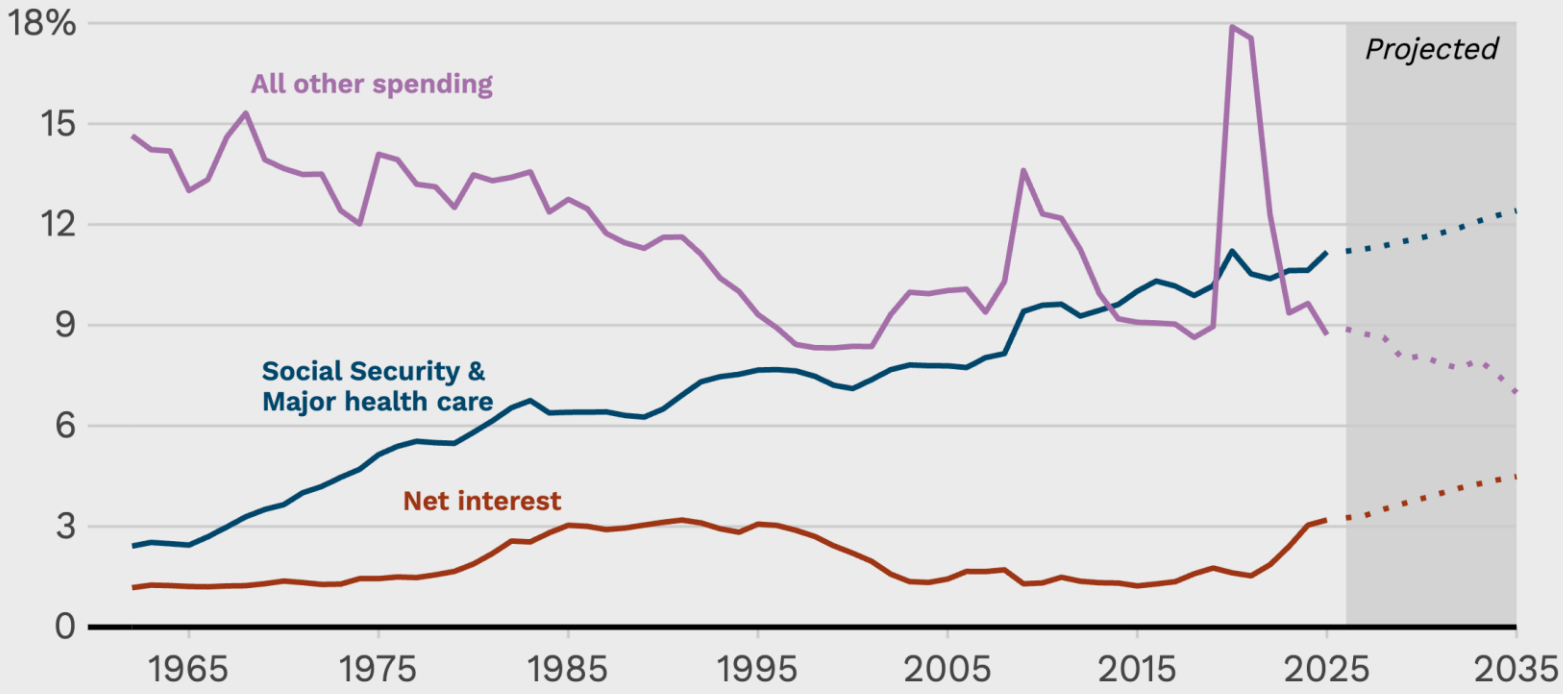
Social Security and health care drive the increase

Social Security and health care are the drivers of increased spending

Federal spending by category as a share of GDP, 1962–2035



Source: Congressional Budget Office, Historical Budget Data and Budget Projections (February 2026).
Note: "Major health care" includes Medicare, Medicaid, CHIP, and ACA subsidies, net of receipts. "All other" includes total outlays less the sum of Social Security, major healthcare, and net interest.

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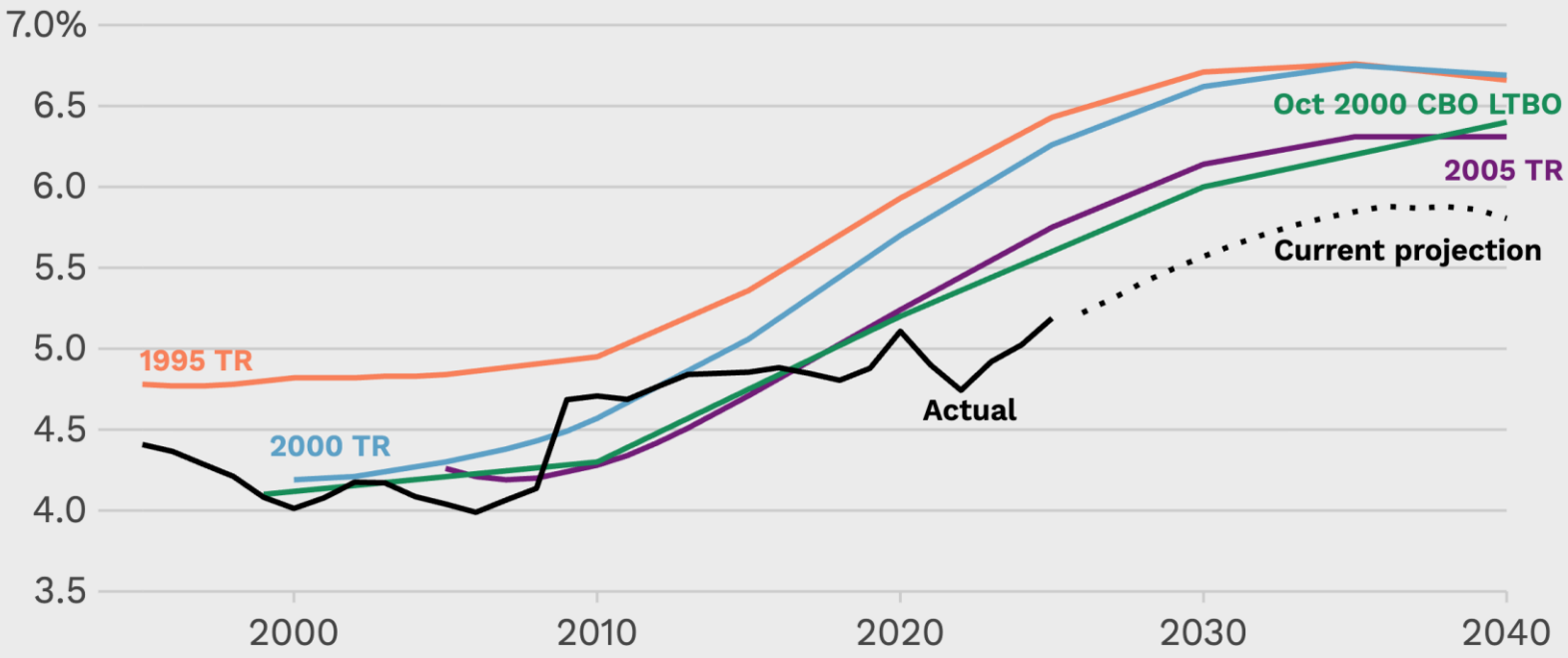
View 2: This increase was *NOT* a surprise

Increased federal spending on baby-boom retirees was widely anticipated

Social Security cost as a share of GDP: projections versus actuals, 1995–2040



Source: Social Security Board of Trustees Annual Reports, 1995, 2000 and 2005 (intermediate assumptions); CBO, The Long-Term Budget Outlook (October 2000). Actuals from Congressional Budget Office, Historical Budget Data and Budget Projections (February 2026). Current projection is CBO's extended baseline, The Long-Term Budget Outlook (February 2026). Actuals end in fiscal 2025.

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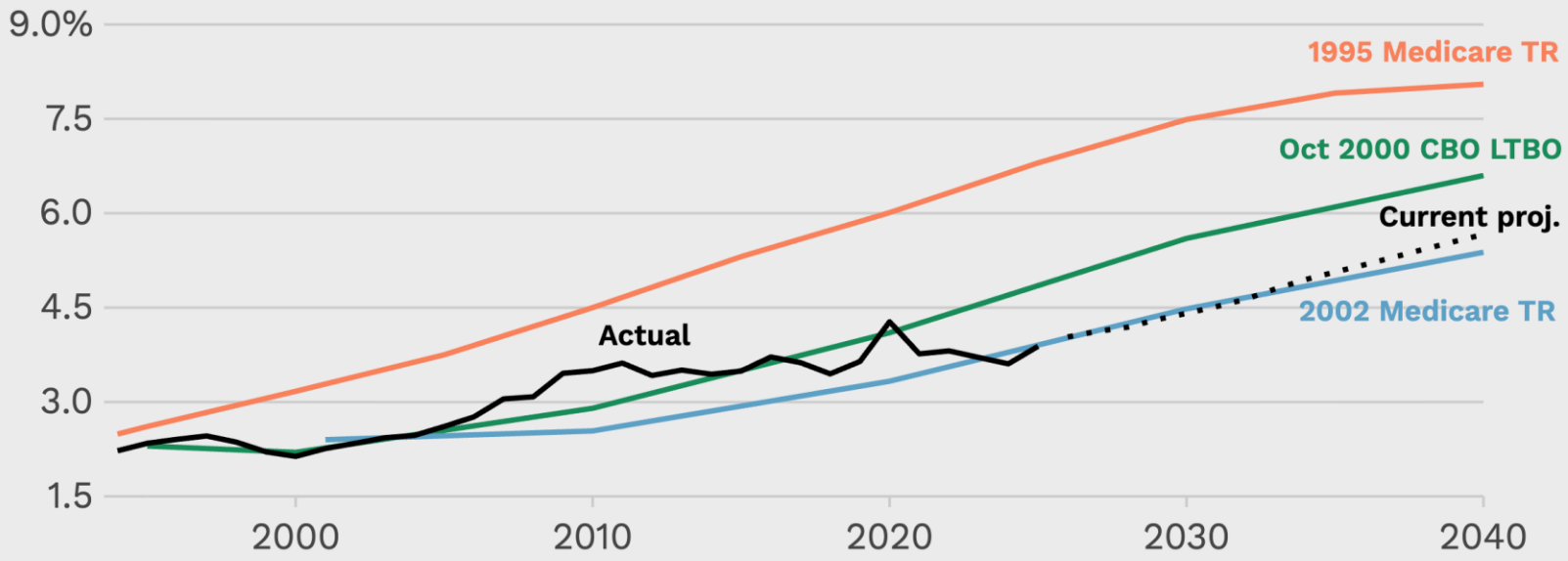
View 2: This increase was *NOT* a surprise

Increased federal spending on baby-boom retirees' health care also was widely anticipated

Medicare spending as a share of GDP: projections versus actuals, 1995–2040



Source: Medicare Trustees Reports, 1995 and 2002 (intermediate assumptions; the 2002 series is Table II.A3, on an incurred rather than cash basis); CBO, The Long-Term Budget Outlook (October 2000), on a NIPA basis. Actuals from Congressional Budget Office, Historical Budget Data and Budget Projections (February 2026), gross Medicare outlays. Current projection is CBO's extended baseline (February 2026), converted to a gross basis by adding back the published Medicare offsetting receipts. All Trustees series are gross: premiums are counted as trust fund income, not as an offset to spending. Actuals and the current projection include Part D; the projections predate it.

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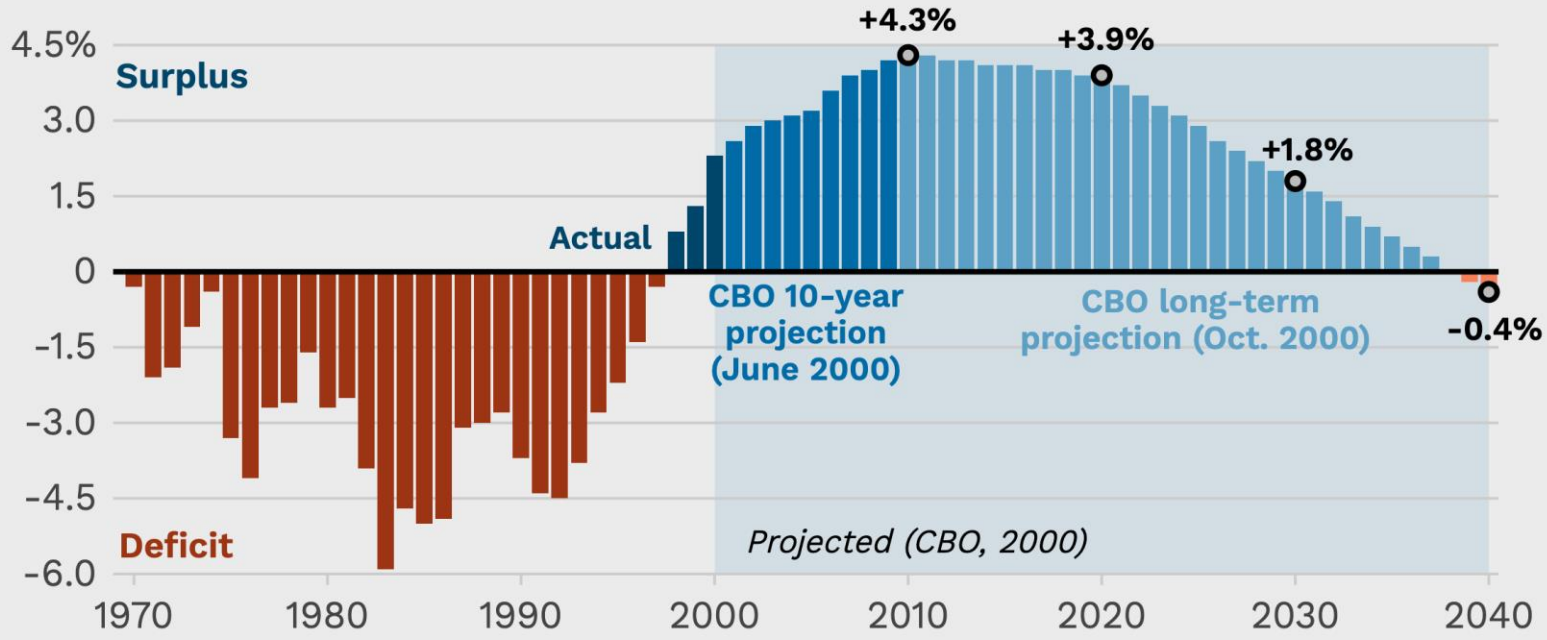
Even so, the budget outlook was stable

In 2000, CBO projected surpluses for decades, even with baby boomers retiring

Federal budget surplus or deficit as a share of GDP: actual 1970-2000 and CBO's 2000 projections, 2001-2040



Source: Actual: CBO, Historical Budget Data (February 2026). 2001-2009: CBO, The Budget and Economic Outlook: An Update (July 2000), Table 1-2 (fiscal years). 2010-2040: CBO, The Long-Term Budget Outlook (October 2000), Table 6, "save total surpluses" scenario (calendar years, national accounts basis).

Note: CBO published only 2010, 2020, 2030 and 2040 in the long-term outlook; years in between are straight-line interpolations.

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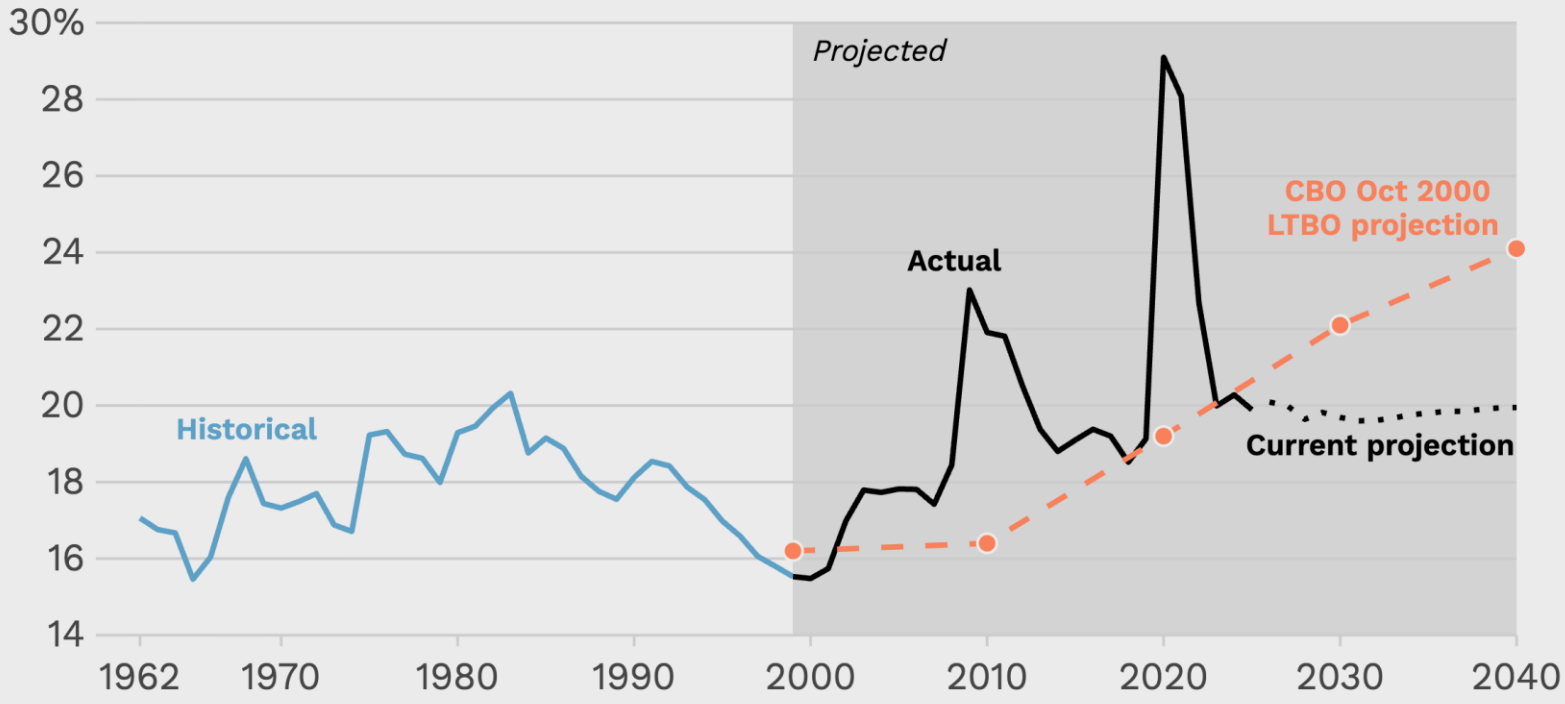
Spending is now *below* expectations

Total federal primary spending is now below expectations

Total U.S. government primary spending, actual and projected, against the October 2000 outlook



Source: CBO Historical Budget Data (Feb. 2026) for historical 1962–1998 and actual 1999–2025. CBO Long-Term Budget Outlook (Oct. 2000), "Save Off-Budget Surpluses" scenario, milestone years only (1999, 2010, 2030, 2040), NIPA accounting basis. CBO Long-Term Budget Outlook (Feb. 2026), extended baseline, 2026-2040.
Note: Primary spending includes total outlays less interest.

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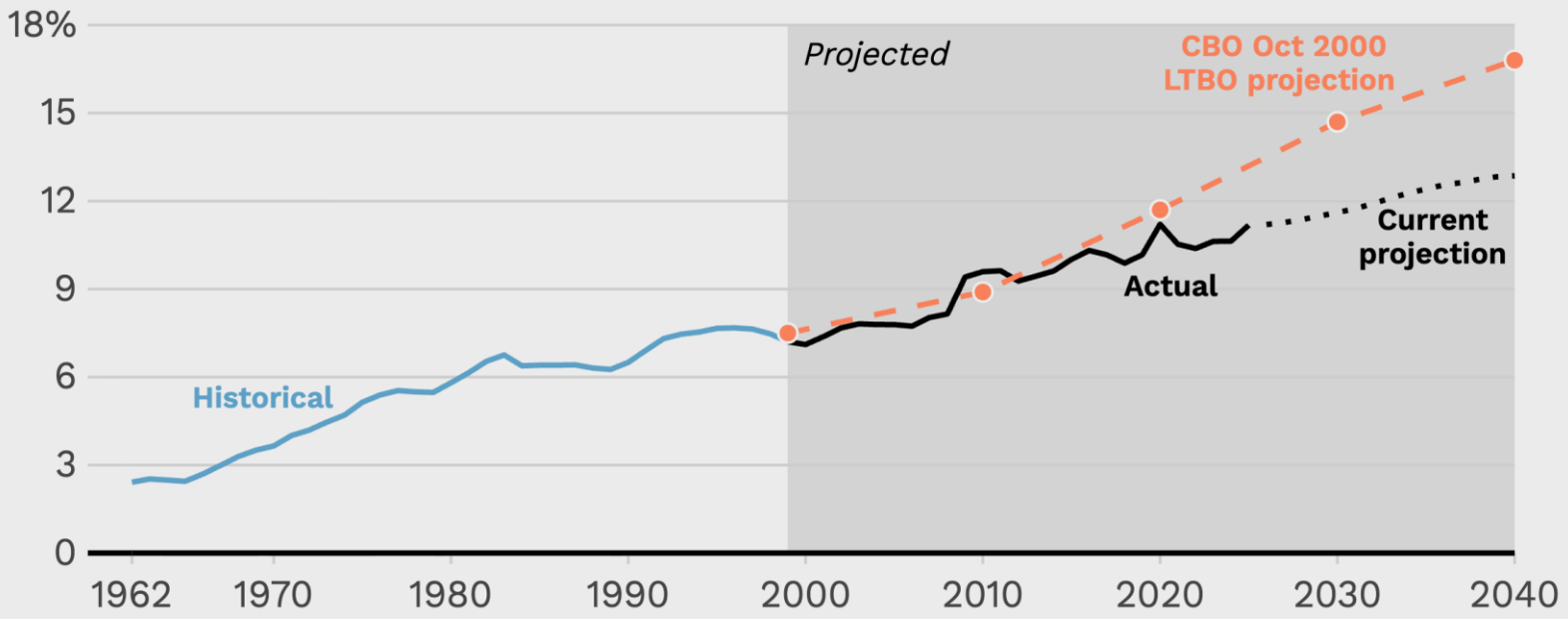
Especially for seniors' programs

Federal spending on Social Security and health care is well below expectations

Social Security, Medicare and Medicaid against the October 2000 outlook



Source: CBO Historical Budget Data (Feb. 2026) for historical 1962–1998 and actual 1999–2025. CBO Long-Term Budget Outlook (Oct. 2000), "Save Off-Budget Surpluses" scenario, milestone years only (1999, 2010, 2030, 2040), SS + Medicare + Medicaid combined. CBO Long-Term Budget Outlook (Feb. 2026), extended baseline, 2026-2040.
Note: Major health care includes Medicare, Medicaid, CHIP, ACA subsidies, net of offsetting receipts.

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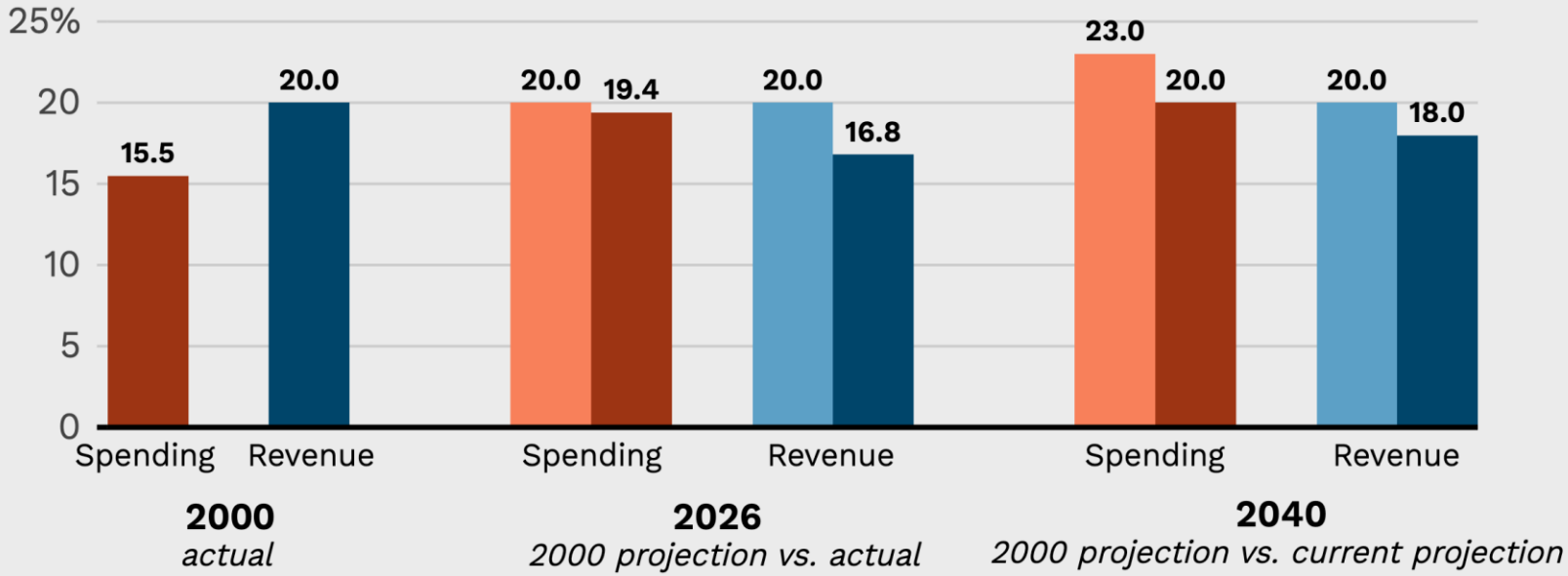
So, what changed? Revenue

Spending is at or below what CBO expected in 2000. Revenue is well below it.

Primary spending and revenue as a share of GDP, actual and current projections vs. CBO's October 2000 projections



Source: 2000: CBO, Historical Budget Data (February 2026). 2026: CBO, Monthly Budget Review: September 2026, divided by fiscal-year GDP (BEA). 2040 current: CBO, The Long-Term Budget Outlook: 2026 to 2056 (February 2026), extended baseline. 2000 projections: CBO, The Long-Term Budget Outlook (October 2000), Table 6, "save total surpluses" scenario.

Note: CBO's 2000 report gave only 2020, 2030, and 2040, so the 2026 projection is a straight-line interpolation between 2020 and 2030. Primary spending = total outlays less net interest. Lighter bars represent CBO's October 2000 projection.

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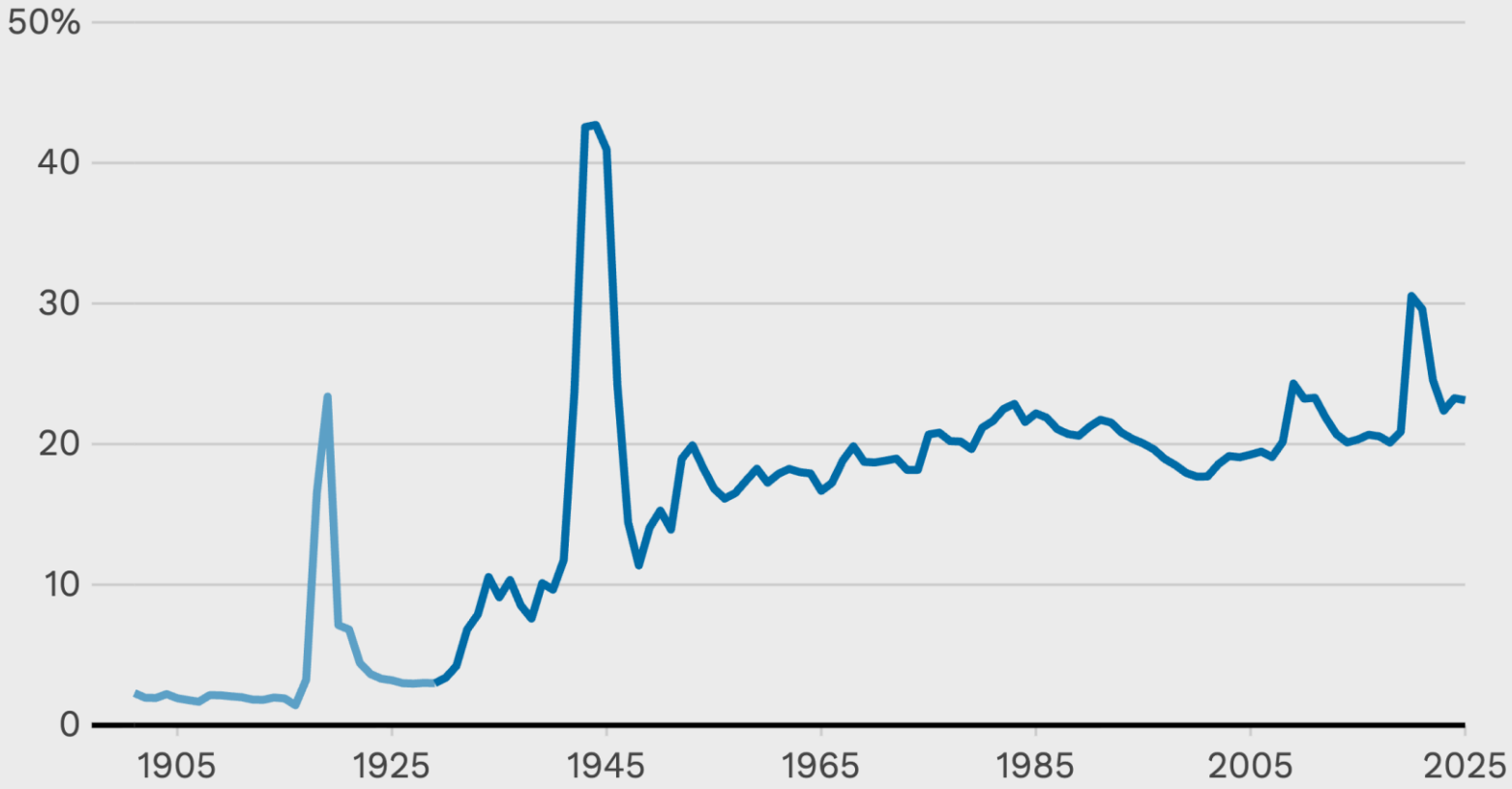
Spending has not been historically fixed at one level

Far from being fixed, federal spending changed with changing circumstances

U.S. government spending as a share of GDP, 1901–2025



Source: Office of Management and Budget, Historical Tables

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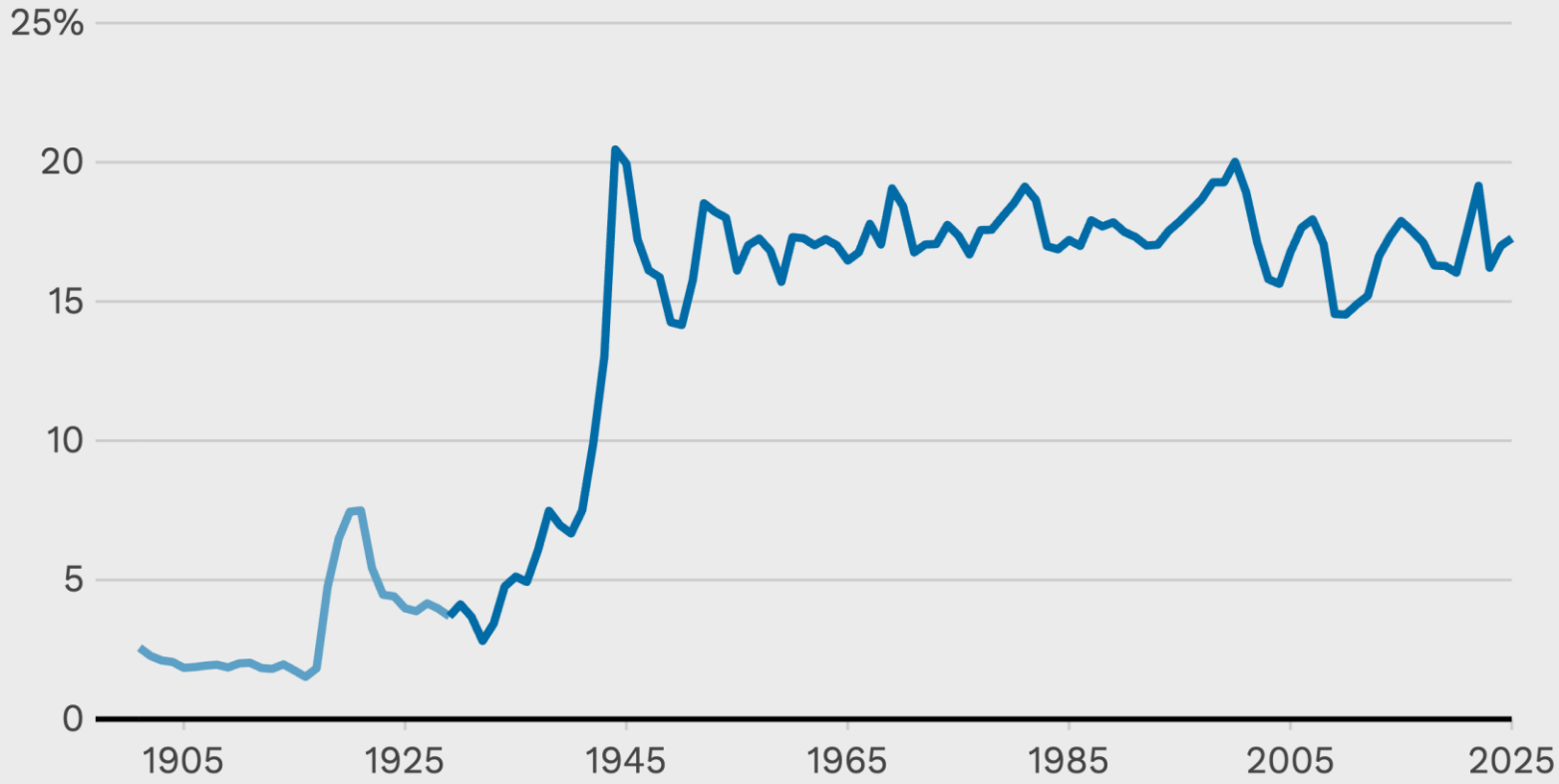
Neither has revenue levels

Federal revenues have historically changed significantly with changing circumstances and demands

U.S. government revenue as a share of GDP, 1901–2025



Source: Office of Management and Budget, Historical Tables. Pre-1930 GDP from Johnston and Williamson (MeasuringWorth).

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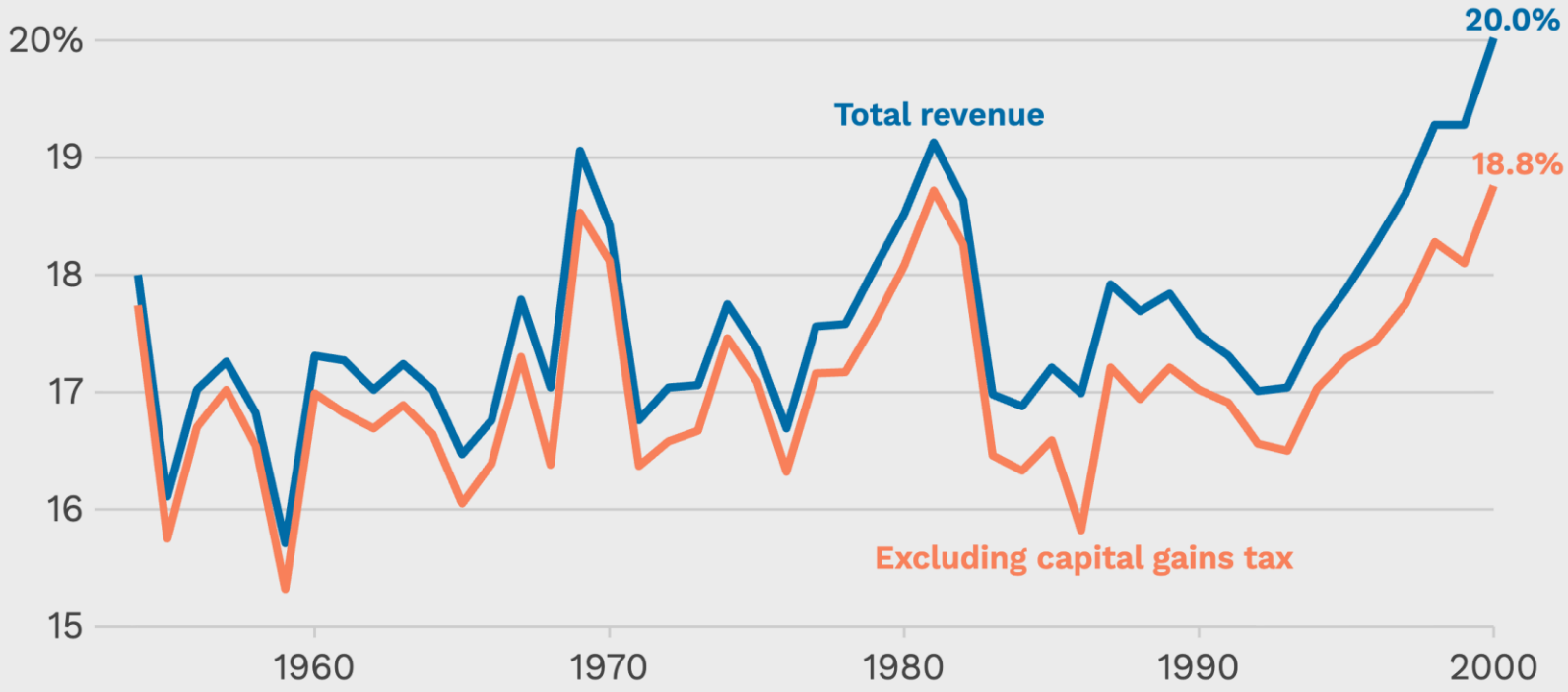
Revenue of 20% in 2000 wasn't a fluke

The federal tax code of 2000 generated high levels of revenue, even without capital gains realizations

U.S. government revenue with and without the tax paid on capital gains, 1954–2000



Source: Office of Management and Budget, Historical Tables. Pre-1930 GDP from Johnston and Williamson (MeasuringWorth). Capital gains tax: Treasury, Office of Tax Analysis, taxes paid on capital gains, tax years. Receipts are fiscal year and capital gains taxes are tax year, so the subtraction is approximate at the edges.

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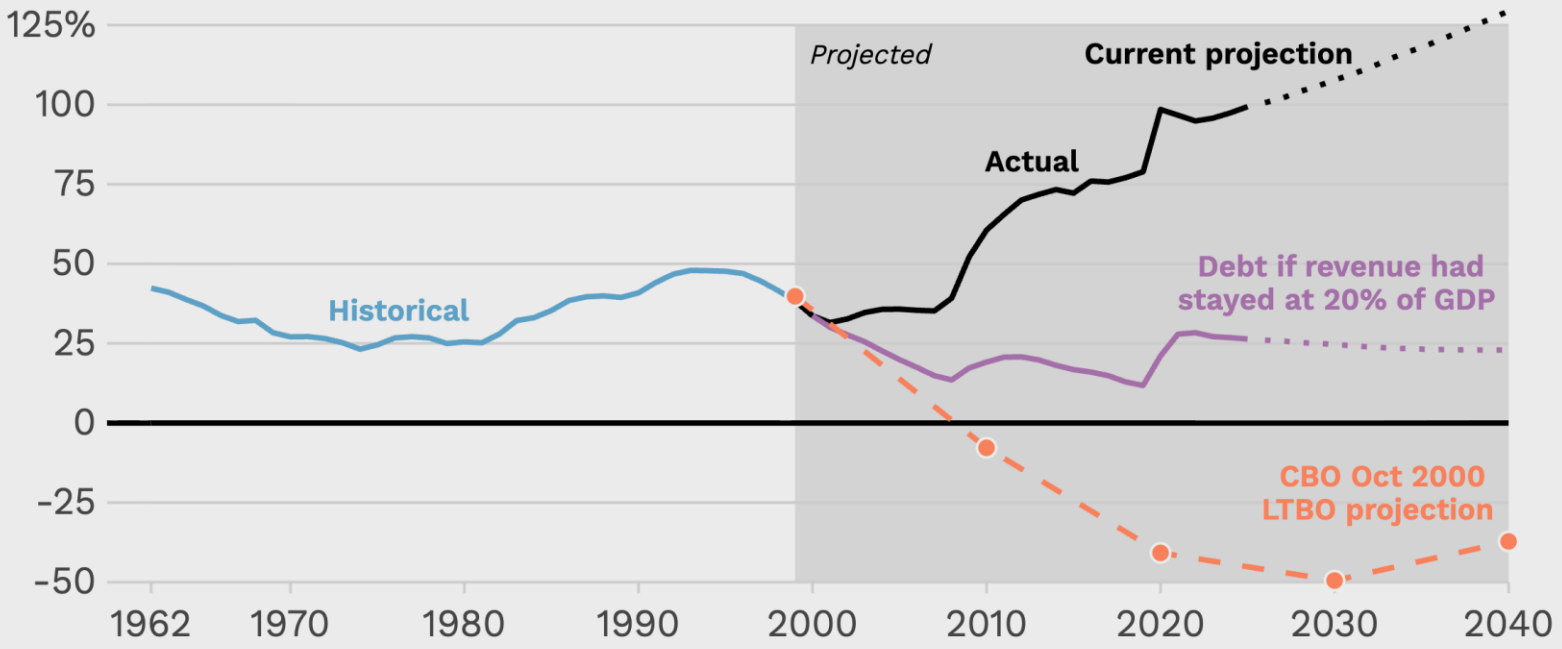
If revenue had held, the debt would be falling

Federal debt would be stable and declining if revenue hadn't fallen short

U.S. government debt held by the public, with revenue held at 20 percent of GDP



Source: CBO Historical Budget Data (Feb. 2026) for historical 1962–1998 and actual 1999–2025. CBO Long-Term Budget Outlook (Oct. 2000), "Save Off-Budget Surpluses" scenario, milestone years only (1999, 2010, 2030, 2040). CBO Long-Term Budget Outlook (Feb. 2026), 2026-2040.
Note: Negative debt includes nonfederal assets held by the government. Counterfactual holds federal revenue at 20 percent of GDP from 2000 forward on the actual primary spending path.

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The budget debate, translated

"We have a spending problem" means: We cut taxes repeatedly over the last 25 years, even though it meant higher deficits, because low taxes was our priority, not low deficits.

"Tax cuts are the problem" means: Making good on current commitments will mean returning to a higher-tax system, closer to what we had in the late 1990's when the forthcoming retirement of the Baby Boom generation was paid for.



Both views are valid starting points. Only one takes fiscal responsibility seriously.

The deeper argument at the heart of the federal budget debate

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The debt-to-wealth ratio

A missing lens on how much fiscal room the U.S. has, and where it sits



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David S. Mitchell & Austin Clemens

Common misleading statements about the debt

YOU'LL HEAR

"Our debt is at its highest level since World War II"

"The debt is as big as the entire U.S. economy"

"There isn't enough money at the top to tax to stabilize the debt"





Deficits fill the tub. Debt is what's in it.

FLOW ÷ FLOW

Spending, revenue & deficits ÷ GDP

Michael's lens: the yearly budget gap

STOCK ÷ FLOW

Debt ÷ GDP

The usual headline: the whole tub vs. one year's income

STOCK ÷ STOCK

Debt ÷ private wealth

Our lens: the tub vs. the nation's reservoir

One lens among several. Read it alongside Michael's charts and interest costs ÷ GDP.

Same debt, two very different pictures

96%

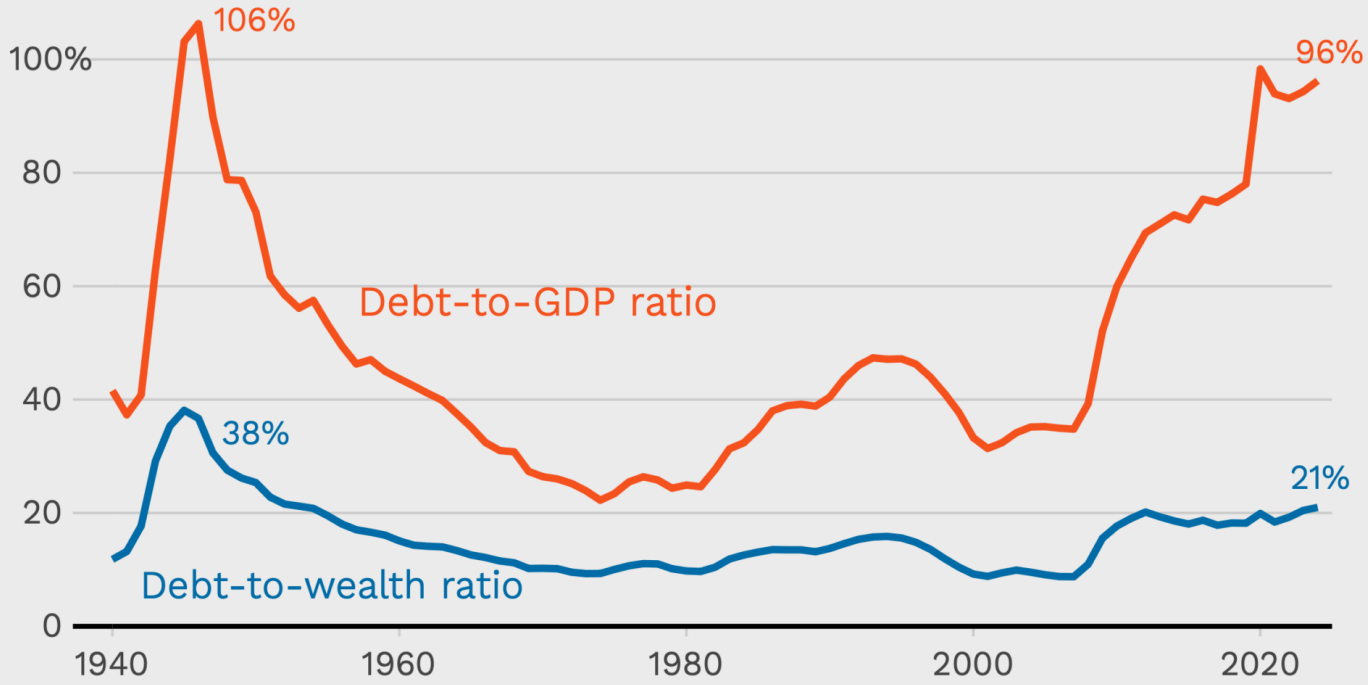
Debt-to-GDP, 2024: near its 1946 record of 106%

21%

Debt-to-wealth, 2024: just over half its 38% peak in 1945

U.S. debt looks alarming against GDP but far less so against wealth

U.S. federal debt held by the public as a share of GDP and as a share of total private wealth, 1940-2024



Source: Authors' calculations using data from OMB historical tables (U.S. debt), the U.S. Bureau of Economic Analysis (GDP), and WID.world (private wealth).

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Why? Wealth has grown far faster than GDP

2.7× → 4.6×

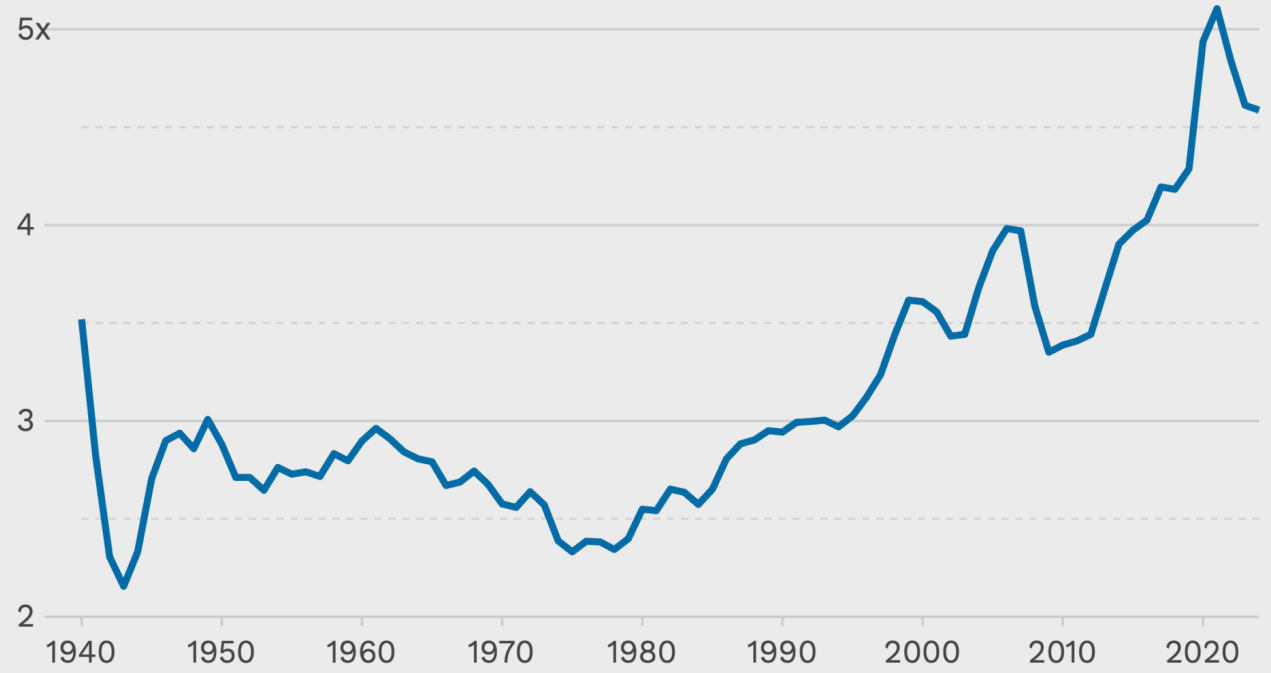
Private wealth ÷ GDP, 1940s vs. 2024

$1 : $5

Debt ($28T) to private wealth ($134T), 2024

Private wealth has grown far faster than the overall U.S. economy in recent decades

Total U.S. private wealth as a multiple of GDP, 1940-2024



Source: Authors' calculations using Realtime Inequality/WID (private wealth) and data from the Bureau of Economic Analysis (GDP).

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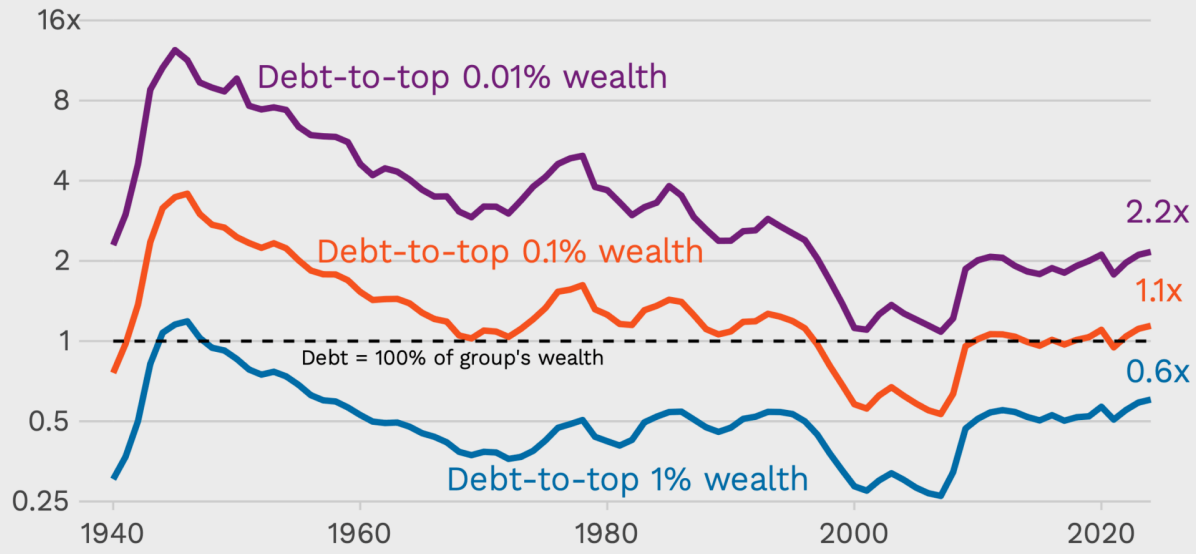
The money is at the top

Public debt, measured against the wealth of the richest households

Measured against the wealth of the very top, U.S. debt is historically modest

Federal debt held by the public relative to the wealth of the richest households, 1940-2024



Source: Authors' calculations using OMB historical tables (U.S. debt) and WID.world (wealth by percentile).

Note: Y-axis is on a log scale.

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Debt held by the public as a multiple of each group's wealth, 2024

0.6× — **Top 1% (> $4.6m/adult)**
Hold wealth nearly twice the size of the debt

1.1× — **Top 0.1% (> $12.4m)**
Hold wealth nearly the size of the debt

2.2× — **Top 0.01% (> $22.4m)**
Hold wealth nearly 50% of the size of the debt

The top's wealth isn't in homes or 401(k)s

~40%

of all U.S. wealth is real estate and pensions

<9%

of wealth at the very top of the distribution

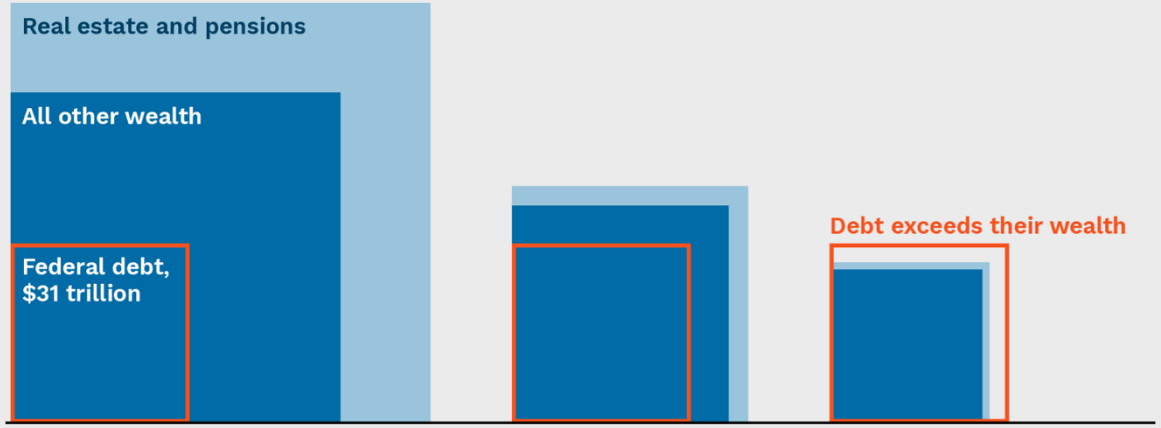
$33T

in new stock-market wealth since 2020, more than all public debt

Largely corporate stock: taxed only when sold, and gains are erased at death by stepped-up basis.

Excluding real estate and pensions barely shrinks the wealth of the richest households

Federal debt held by the public compared with household wealth, with and without real estate and pensions, Q1 2026



Source: Distributional Financial Accounts, Federal Reserve
Note: Square areas are proportional to dollar values. Real estate is net of mortgage debt; pensions are defined benefit and defined contribution entitlements.

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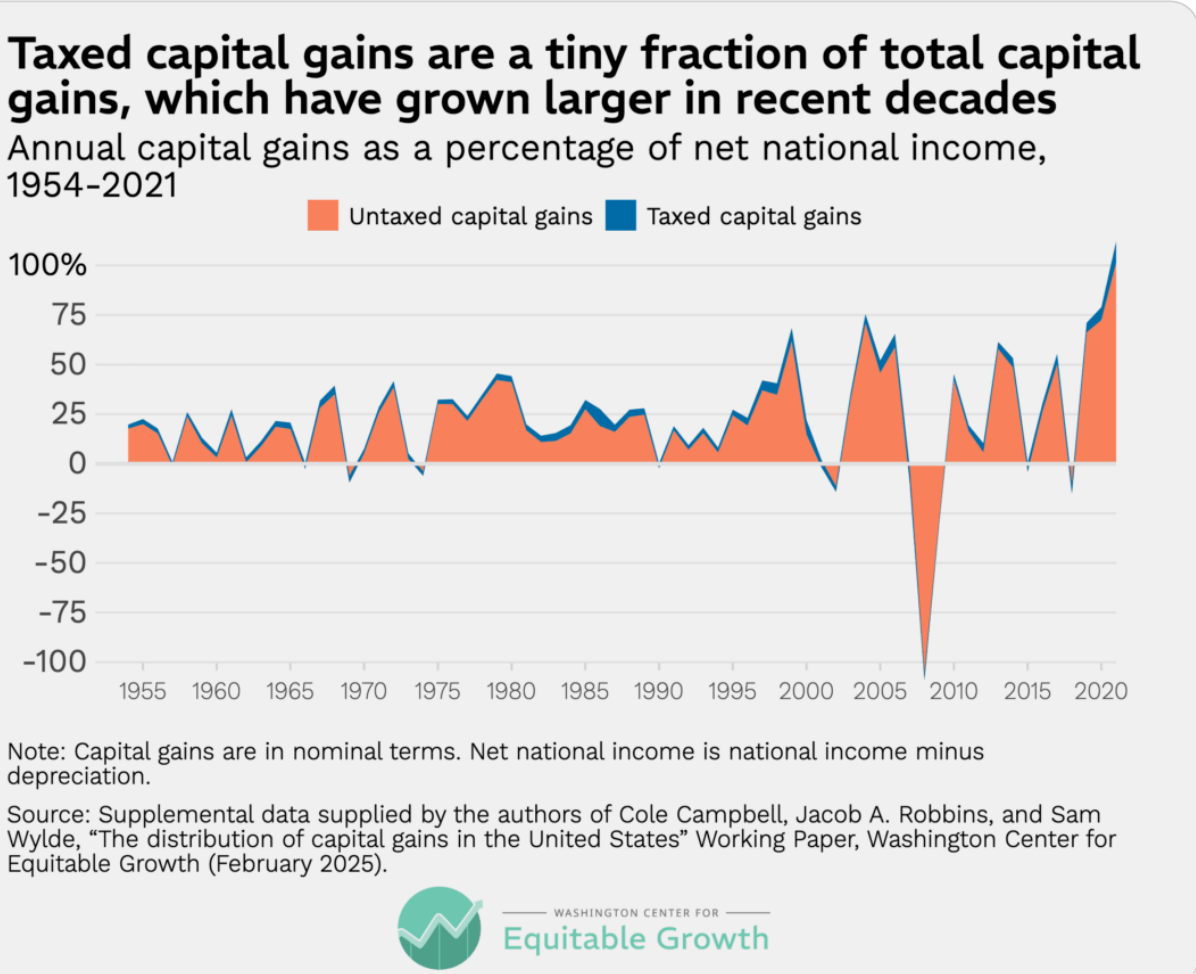
Reaching this wealth doesn't take a wealth tax

WHAT WE'RE NOT SAYING

- ✕ Paying off the debt isn't the goal
- ✕ Not a call to confiscate anyone's wealth

TOOLS THAT REACH THE TOP

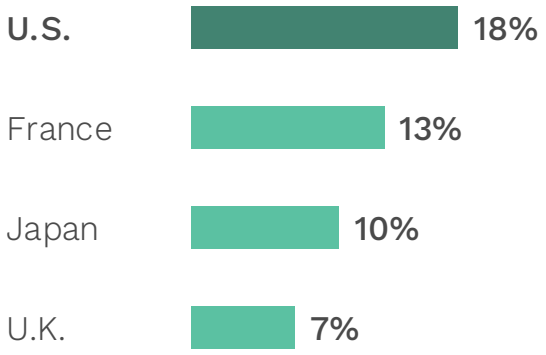
- Higher corporate income tax rates
- Tax capital gains more, including at death
- Stronger estate, gift, and inheritance taxes
- A wealth tax: one option among many



In 2021, capital gains topped 100% of net national income.

Only a thin sliver was taxed.

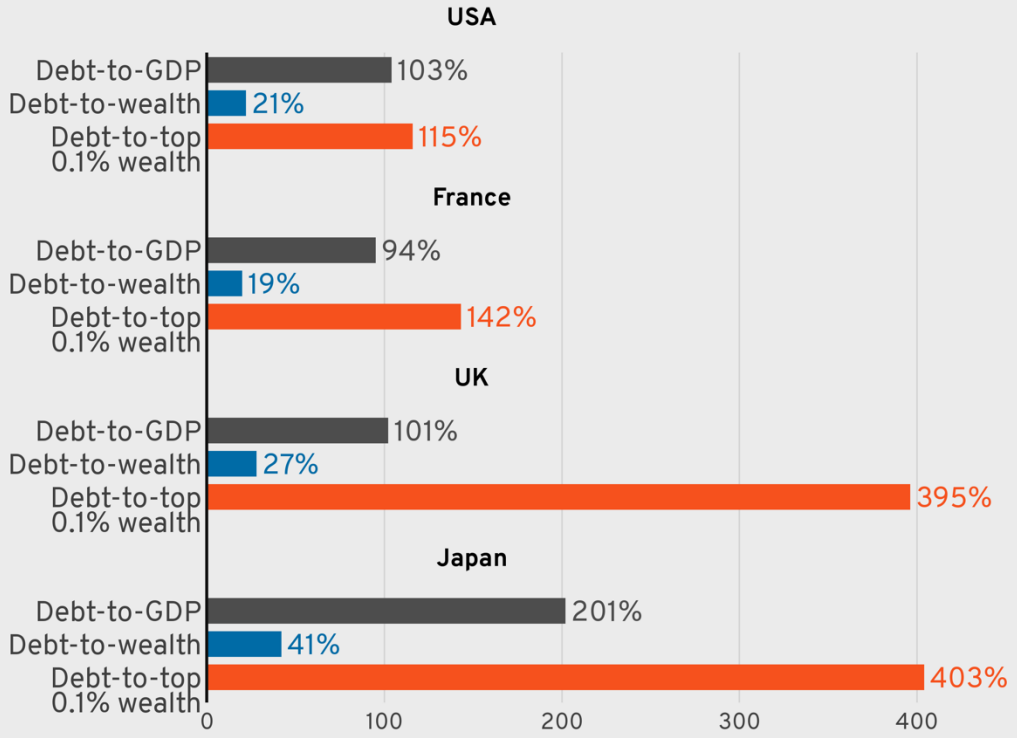
Abroad: mid-pack on debt-to-wealth, an outlier at the top



The U.K.'s debt relative to top-0.1% wealth is more than 3× the U.S. ratio

Because wealth concentration is higher in the U.S., the debt is smaller relative to the holdings of very high wealth households

Debt-to-GDP, debt-to-wealth, and debt-to-top-0.1%-wealth, by country, in 2024



Source: Authors' calculations using International Monetary Fund (debt and GDP) and WID.world (private wealth).

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Common misleading statements about the debt

YOU'LL HEAR	THE WEALTH LENS
"Our debt is at its highest level since World War II"	The country was much more highly levered in 1945 than it is today
"The debt is as big as the entire U.S. economy"	GDP is one year's income, not "the entire U.S. economy" – it misses capital gains and other sources of wealth
"There isn't enough money at the top to tax to stabilize the debt"	The top 1% hold wealth nearly twice the debt, mostly in lightly taxed stock. Many taxes can reach it.



The debt is large. The nation’s wealth is far larger.

How heavy the debt looks depends on what you weigh it against.





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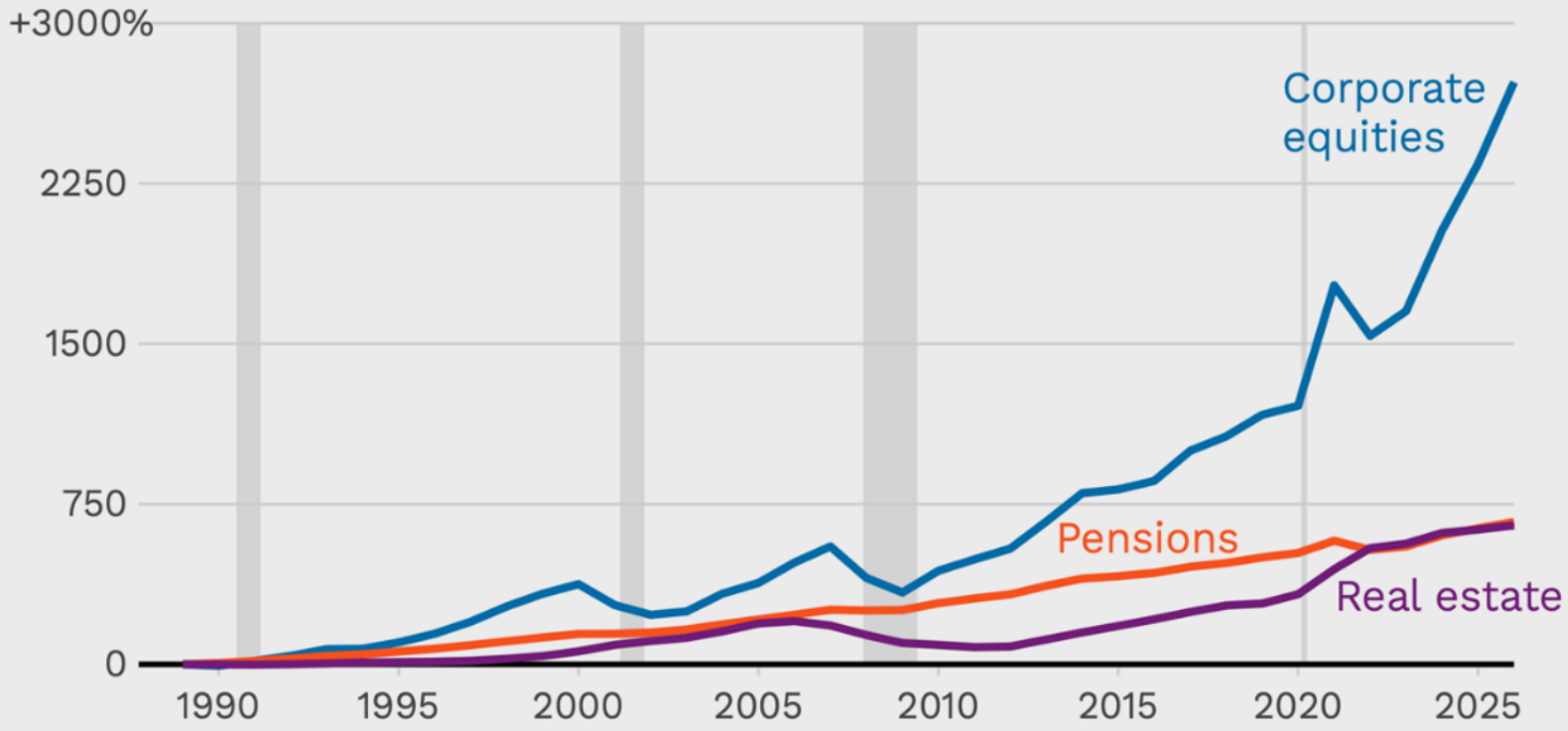
Since the end of the Great Recession, corporate equity wealth has grown far faster than other types of wealth

Cumulative nominal growth in equity, pension, and real estate wealth in the U.S., 1989-2026. Recessions are shaded.



Source: Distributional Financial Accounts, Federal Reserve

Note: Real estate wealth is real estate minus mortgage liabilities

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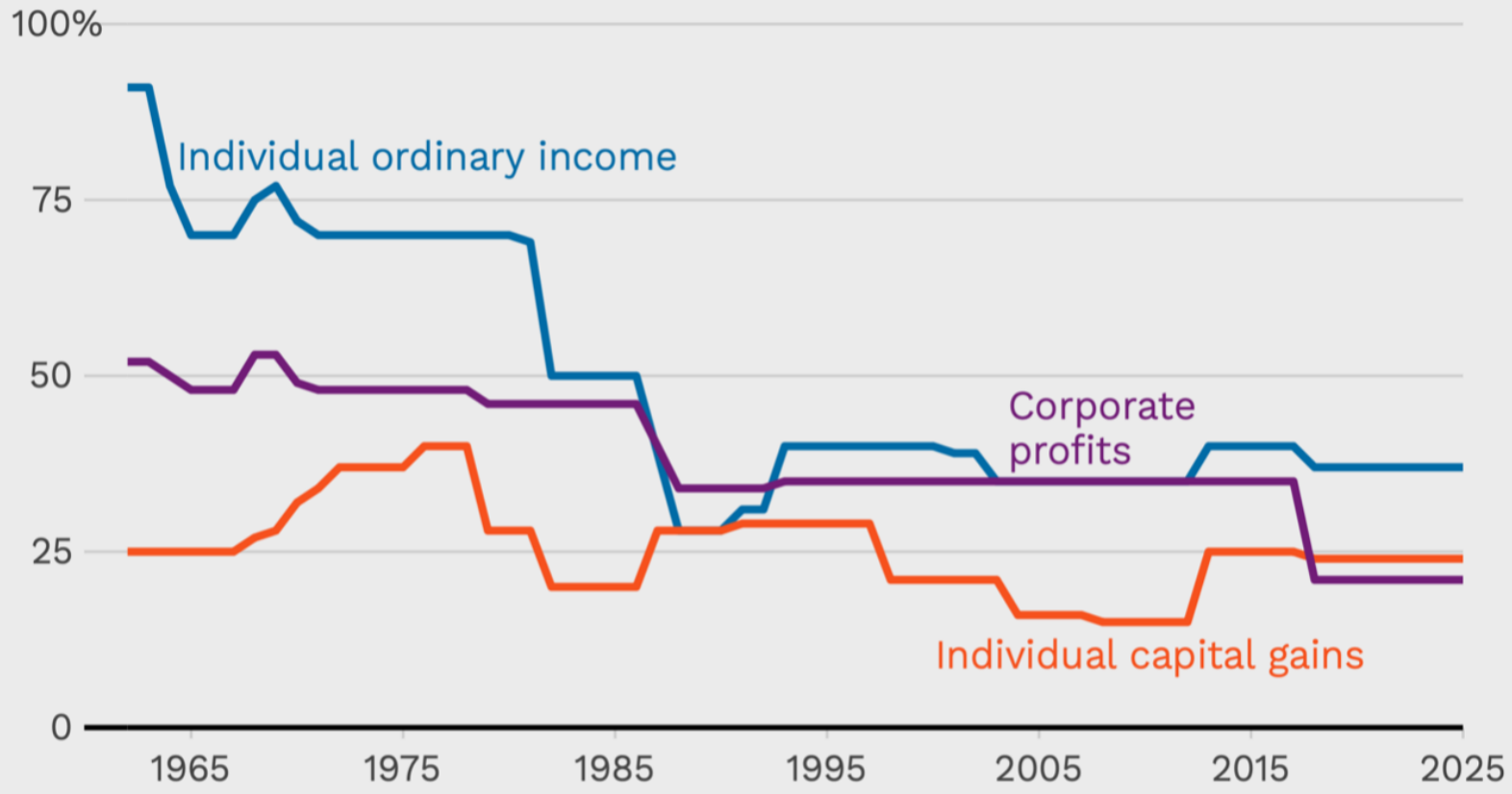
Top U.S. tax rates have been cut dramatically

Top marginal tax rate, by type of income, 1962-2025



Source: Tax Policy Center, "Historical Highest Marginal Income Tax Rates"; Tax Policy Center, "Corporate Top Tax Rate and Bracket"; Tax Foundation, "Historical US Federal Capital Gains Tax Rates & Collections, 1913-2025."

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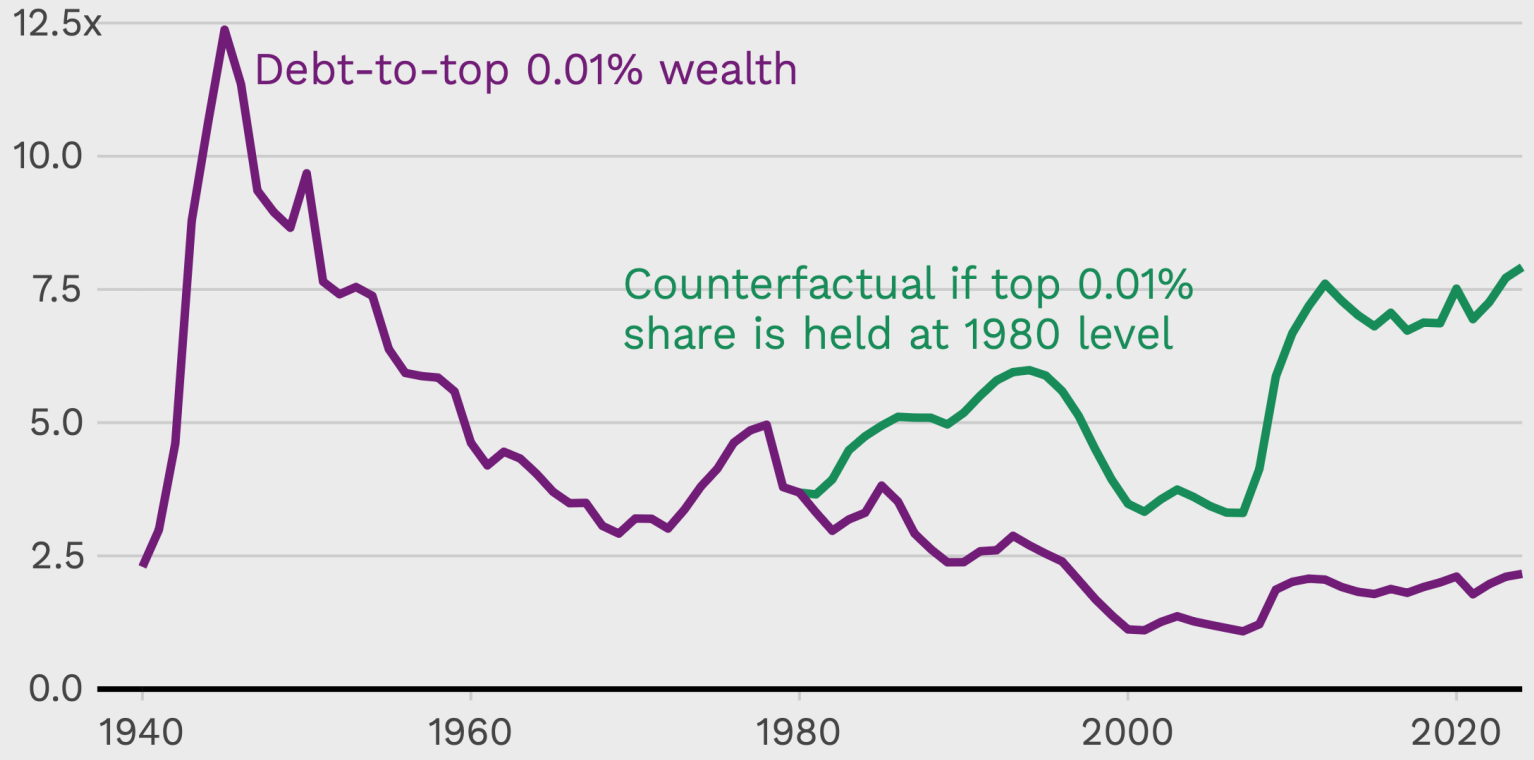
Explosion in post-1980 inequality largely explains low debt-to-top U.S. wealth ratios

Federal debt held by the public relative to top 0.01 percent wealth, with and without counterfactual, 1940-2024



Source: Authors' calculations using OMB historical tables (U.S. debt) and WID.world (wealth by percentile).

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