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"The Economics of Citizens' Limited Influence on Government Fiscal Operations"

Introduction

This brief report is mainly statistical. We present the following estimates: US Government deficits and debt; US Government debt holders; and interest and economic growth rates that cast light on the sustainability of US Government debt. We conclude with a reminder that, while citizens are the lifeblood of the nation, they have little sway over government fiscal operations. Nevertheless, they should be prepared to respond should a fiscal crisis unfolds.

Deficits and Debt

Table 1 presents US Government deficit (Net Borrowing) and debt (Total Liabilities) statistics for 2019-2022. As you known, this period encompasses unique and unexpected developments associated with the COVID-19 Pandemic. Typically, deficits and debt are positively correlated; such a correlation is apparent in the statistics shown.

Table 1.—US Government Deficit and Debt, 2019-2020
(Levels and Changes in $'s Billions)

Line No.	Years	(A) USG Net Borrowing*	(B) Changes for Column A	(C) USG Total Liabilities**	(D) Changes for Column C
1	2019	1,110		21,574	
2	2020	3,306	2,196	26,587	5,013
3	2021	2,725	-581	28,062	1,475
4	2022	1,295	-1,430	29,433	1,371

Sources: Tables F.106 (*) and L.106 (**) from the *Z.1 Financial Accounts of the United States*, (September 2022 and 2023).

The table shows a sizeable increase in Net Borrowing (the deficit) for 2020 and the related upsurge in Total Liabilities (the debt). Subsequent decreases in the deficit are reflected in decelerations in the pace of liability incurrence during 2021 and 2022.

USG Creditors

Table 2 (next page) presents insights concerning holders of US Government debt.

Table 2.—Holders (Creditors) of US Government Debt*
($'s Billions)

Line No.	Years	(A) USG Total Liabilities⁺	(B) USG Liabilities in Treasuries⁺	(C) Foreign Holdings of USG Treasuries	(D) Financial Corporations Holdings of USG Treasuries	(E) Nonfinancial Corporations and Noncorporations Holdings of USG Treasuries	(F) Households and Nonprofit Institutions Holdings of USG Treasuries	(G) State and Local Governments Holdings of USG Treasuries
1	2019	21,574	19,340	6,918	9,872	136	1,621	793
2	2020	26,587	24,616	7,292	14,735	146	1,331	1,112
3	2021	28,062	25,662	7,740	15,719	151	611	1,441
4	2022	29,433	24,610	7,319	13,932	162	1,634	1,563

Sources: (*) Table L.210 from the *Z.1 Financial Accounts of the United States*, (September 2022 and 2023).
⁺-- The difference between columns A and B is accounted for by USG debt in the form of Special Drawing Rights, Loans, Trade Payables, and Miscellaneous items including pension-related liabilities. Column A is from Table L.106 of the *Z.1* publications.

Table 2 shows that, except for foreign holdings of USG liabilities (debt) in the form of Treasuries (i.e., debt securities, column C) and the portion of Treasuries held by the Monetary Authority (less than one-half of the Treasuries held by financial corporations (column D) during the period), remaining debt is mainly attributable to households and nonprofit institutions. In other words, non-Monetary Authority financial corporations, nonfinancial corporations, and state and local governments are only able to extend credit to the US Government because of households' deposits, equity investments, premium payments, pension contributions, and tax and nontax payments. Nevertheless, for purposes of this brief report, the important take away is that, after accounting for the portion of Treasuries held by foreign creditors, the households and nonprofit institutions sector (column F) serves as a relatively small creditor for the US Government. The most important creditor highlighted in Table 2 is the financial corporations sector, which manages its own financial accounts and largely those of nonfinancial corporations, households, and state and local governments.

Debt Sustainability

The "science" of debt sustainability analysis is multifaceted and complex, and we will not delve deeply into it here. Nevertheless, a couple of indicators can signal potential fiscal difficulties ahead. First, when interest rates on debt exceed economic growth rates for extended periods, then debt amortization and debt service payments can expand and necessitate otherwise undesirable fiscal measures. Second, when a debtor chooses to incur new debt to amortize or service past and newly occurring debt, then a debt spiral may be unfolding.

With respect to the first indicator, Table 3 provides nominal interest and economic growth rates for comparison, which show only one year during which interest rates exceed economic growth rates (2020).

Table 3.—Nominal Interest and Gross Domestic Product Growth Rates, 2019-2022

Line No	Categories	2019	2020	2021	2022
1	Nominal Interest Rates (5-year Treasuries)*	2.0%	0.5%	0.9%	3.0%
2	Nominal Gross Domestic Product Growth Rates⁺	4.2%	-0.9%	10.7%	9.1%
3	Difference (1-2)	-2.2%	1.4%	-9.8%	-6.1%

Sources: St. Louis Federal Reserve Board FRED (*); Bureau of Economic Analysis (+).

Given current interest rates, which are at relatively high levels and are expected to remain so in the near term, there is the possibility that economic growth could slow; thereby creating the unfavorable condition where interest rates exceed economic growth as in 2020.

As for the second and already mentioned debt sustainability indicator, consult Table 1. It shows that for 2020 and 2022, period-to-period changes in liabilities (column D) exceed deficits (column A). This infers that new liabilities beyond those required to satisfy deficits (Net Borrowing) are being incurred and may hint at the type of debt spiral already mentioned.[1]

Limited Citizen Influence

This brief report explains why citizens—individually and collectively—have little sway over US Government operations—especially fiscal operations. Just last week, the nation experienced high political drama and a near legislative shutdown mainly over budget concerns. Many in the nation are concerned about current spending levels and the need for increased fiscal prudence. Yet, spending increases continue without concomitant revenue raising measures, and fiscal deficits and debt continue to rise—although at a somewhat decelerated pace.

As an explanation for this outcome, we use the human body for an analogy. Imagine that citizens/taxpayers/voters/workers produce most of the lifeblood (money) for the body, and that body organs are industries with the brain serving as the governing organ. Current outcomes are characterized by oligarchs and plutocrats, who control blood flow to organs. Voters' roles have been reduced to electing lever-pullers, who follow these oligarchs' and plutocrats' directives and open or close arteries to permit or withhold blood flow. It is unconscionable that the oligarchs and plutocrats have the power to control blood flow to organs (industries)—especially to the brain.

The nation is operating on a knife's edge with limited room to maneuver in the event of a crisis. A near financial meltdown is part of the nation's recent history. Also, we are approaching the centennial of the 1929 Stock Market Crash and the related 1930s Great Depression. We should not disregard the possibility that the nation's next financial disruption could emanate from a fiscal crisis.

Citizens should be prepared for a potential fiscal failure. Black Americans, especially, can least afford to be unprepared for a fiscal crisis. We can prepare for such a crisis by unifying and beginning to implement the ***Long-Term Strategic Plan for Black America***. We may have neither influence over government operations nor the power to halt a fiscal crisis. However, we should certainly do all that we can to be prepared should such a crisis arise.

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[1] Also see B. Robinson (2023), "Life Lines Cut," BlackEconomics.org (February), which includes references to the US Government Accountability Office citing the US Government's fiscal state as unsustainable.