

# THE WISCONSIN TAXPAYER

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## States Race for Federal Money

### Wisconsin Continues to Lag

*In 2013, federal spending in Wisconsin was slightly more than the amount state residents and business paid in federal taxes. However, on a per capita basis, federal spending here trailed the U.S. average by nearly 17%. The Badger State ranked 47th among the 50 states. Social Security and Medicare payments to the elderly are the largest component of federal spending. However, lack of federal aid to state and local governments here is one of the reasons Wisconsin's total taxes were 12th highest in 2012.*

A large Wisconsin company recently reported a significant drop in earnings due to reduced demand for some of its products. Another state firm is developing a more convenient and less painful way to extract blood samples. And the number of retirees, which rose here almost 16% during 2008-13, is expected to double over the next 20 years.

Although seemingly unrelated, these developments have a common thread: All depend on federal spending. The company earnings decline was due to falling sales of U.S. military vehicles. Developing the "blood extractor" is partially funded with grants from the National Institutes of Health. And, of course, a significant portion of retirement

income is federal Social Security payments.

Federal spending in Wisconsin goes well beyond these three examples and also includes:

- health insurance for senior citizens (Medicare) and low-income residents (Medicaid);
- student financial aid;
- highway and school aids; and
- wages for federal employees.

Until 2010, the U.S. Census Bureau tracked federal spending in the states in its *Consolidated Federal Funds Report*. Recently, Pew Charitable Trusts replicated these calculations for fiscal 2013, providing a more current snapshot of the distribution of federal spending.

#### TOTAL SPENDING

In 2013, the federal government spent more than \$3.1 trillion, or almost 21% of national gross domestic product (GDP). Wisconsin individuals, businesses, organizations, and governments received \$47.7 billion, or 1.5% of the total. Per capita, Wisconsin received \$8,339, or 16.9% less than the national average (\$10,033).

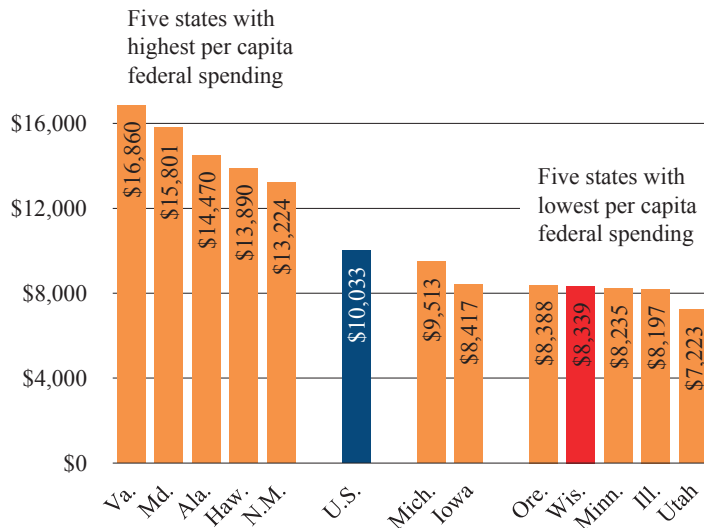
#### STATE COMPARISONS

The amount of federal spending occurring in a particular state de-

#### Also in this issue:

Capital Investment Compared (page 7) • School Spending Growth Lags • Property Taxes • Graduation Rates Rise • Federal Debt

**Figure 1: Wisconsin Low in Receipt of Federal Money**  
Per Capita Federal Spending in Selected States, 2013



depends on a variety of factors, including demography, industry mix, and presence of major universities. Because some states are more populous than others, federal spending relative to both population and gross state product (GSP) is examined here.

### Per Capita

On a per capita basis, Wisconsin receives fewer federal dollars than most states. At \$8,339 per resident, Wisconsin ranked 47th among the 50 states in 2013 (see Figure 1). Only Utah (\$7,223), Illinois (\$8,197), and Minnesota (\$8,235) received less federal money. In neighboring Michigan (\$9,513, 31st) and Iowa (\$8,417, 43rd), per capita federal spending was higher than here, but still less than the U.S. average.

Although not a state, Washington D.C. (\$75,440 per capita) benefited the most from federal spending. Bordering the nation's capital also has benefits: Neighboring Virginia (\$16,860) and Maryland (\$15,801) received more per capita than all other states.

### Relative to GSP

A slightly different picture emerges when federal spending is compared to the total output of a state's economy (gross state product or GSP). This measure should not be interpreted as the direct impact of federal spending on the state economy, rather it serves as another way to compare large states with small ones.

In Wisconsin, federal spending was 17.1% of GSP, 33rd highest among the states. Nationally, federal spending in the states (excluding some spending, such as interest on the national debt and aid payments to foreign countries) averaged 19.0% of total output. In

six states—Alabama, Maine, Mississippi, New Mexico, Virginia, and West Virginia—federal spending was more than 29% of GSP. In another seven, including neighboring Illinois and Minnesota, it was less than 15% of state output, even lower than in Wisconsin.

### TRENDS

Wisconsin has a long history of receiving less federal money than the average state. In fact, the Badger State typically ranks at or near the bottom in per capita federal spending. During the 16 years from 1993 through 2008, Wisconsin ranked 48th in six years, 49th in seven, and 50th in three. On average, per capita spending here was 23% less than the national average during that period (see Figure 2 on page 3).

### Federal Stimulus

The 2009-10 federal stimulus (American Recovery and Reinvestment Act or ARRA) changed that temporarily. Wisconsin benefited more than most states from stimulus spending. In 2009, per capita federal spending rose 13.5% nationally but 30.2% in Wisconsin. Only Connecticut (35.7%) had a larger increase. Still, Wisconsin's rank for per capita federal spending only rose from 48th in 2008 to 35th in 2009.

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Since stimulus spending continued into 2010, the total impact is better measured by comparing 2009-10 combined spending with 2007-08 figures. Wisconsin's 35.7% jump was second only to Connecticut's (51.6%) and nearly twice the U.S. average (18.9%).

### Return to Normal?

As the federal stimulus wound down, Wisconsin returned to ranks of states not competing well for federal funds. Although figures for 2011 and 2012 are not available, the Badger State ranked 47th in per capita spending in 2013.

### From Donor to Receiver State

One implication of Wisconsin's long history of receiving relatively little in federal spending is that it has generally been a donor state. That is, residents and businesses combined paid more in federal taxes than the state received in federal spending. During 2003-08, Wisconsin garnered between 83¢ and 91¢ of federal spending for each \$1 of federal taxes its residents paid (see Figure 3).

Wisconsin's donor-state status changed in 2009. Nationally, federal tax collections fell 14.5% due to recession, while federal spending rose 14.6% due in part to stimulus spending. Changes here were more stark. Federal tax payments from Wisconsinites dropped 15.2% in 2009, while total federal spending in the state climbed 30.9%.

Consequently, Wisconsin captured \$1.36 in federal expenditures for every \$1 in taxes paid in 2009, and that rose to \$1.44 in 2010. Wisconsin's return on taxes fell to \$1.03 in 2013. A total of \$46.5 billion in federal taxes was collected from Wisconsinites in 2013, while federal spending in the state totaled \$47.7 billion.

### SPENDING BY TYPE

Both Pew and the Census Bureau classify federal spending into five broad categories:

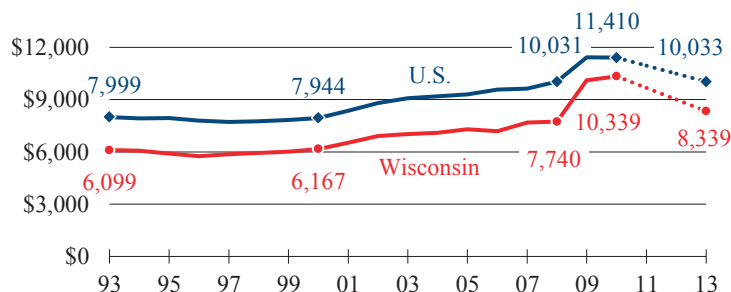
- direct payments for retirement and disability;
- direct payments for other programs;
- procurement (federal purchasing);
- salaries/wages for federal employees; and
- grants.

On a per capita basis, Wisconsin ranked in the bottom half of states in each category.

### Direct Payments: Retirement and Disability

Payments for retirement and disability account for the largest share of federal spending in Wisconsin,

**Figure 2: Wisconsin Historically Below Average**  
Per Capita Federal Spending, Wisconsin and U.S., 1993-2013



41.0% in 2013. Per capita, payments to Wisconsin residents (\$3,419) were similar to the U.S. average (\$3,381) and ranked 27th among the states.

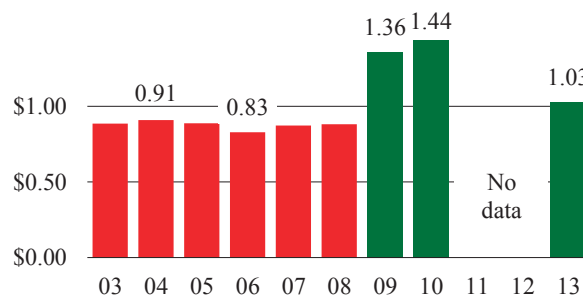
**Social Security.** Pew does not detail spending within each broad category, but the Census Bureau does for 2010. In that year, Social Security retirement and survivor benefits (\$12.0 billion, see Figure 4 on page 4) accounted for 71% of these direct payments and about 22% of all federal receipts in Wisconsin. In 2010, the average monthly Social Security retirement benefit here was \$1,263; in 2013, it was \$1,330.

As “baby boomers” retire over the next 20 years, Social Security payments will likely represent an increasing percentage of federal spending both here and nationally. However, the impact will be felt to a greater degree in Wisconsin than elsewhere.

Wisconsin retirees receiving Social Security benefits were 13.6% of the population in 2013, the 11th highest percentage of the states. Nationally, only 12.0% of the population received Social Security. Over the next 30 years, Wisconsin's 65-or-older population is expected to double, approaching 25% of the population. As a result, Social Security benefits will become a relatively large part of total state income.

**Other Programs.** Other retirement and disability programs provided Wisconsinites with \$4.9 billion

**Figure 3: Wisconsin Mostly Net Donor**  
Federal Spending in Wis. Per \$1 of Taxes Paid, 2003-13



of income in 2010. Of that, \$2.2 billion was federal disability payments, which have been rising rapidly. While total federal spending in the states rose 64% during 2000-10, disability payments more than doubled, climbing 102% nationally and 118% in Wisconsin.

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**Nationally, federal food stamp spending rose 332% during 2000-10. In Wisconsin, it rose more than 670% from just under \$130 million to \$1.0 billion.**

Smaller amounts were spent on federal employee retirement benefits (\$1.0 billion), veterans benefits (\$664 million), and various other income supplements (\$1.0 billion).

**Other Direct Payments**

In 2013, direct federal payments for purposes other than retirement or disability (\$14.2 billion, 29.7% of the total) were the second largest part of federal spending here. The payments include Medicare (federally funded health insurance for the elderly), federal unemployment insurance, supplemental nutrition assistance (SNAP, or food stamps), housing and agricultural assistance, and student financial aid. On a per capita basis, Wisconsin received about 12% less in these other direct payments than nationally (\$2,477 vs. \$2,772).

*Medicare.* Medicare spending includes traditional hospital insurance, supplementary medical insurance, and prescription drug coverage. Combined, these totaled \$7.5 billion in Wisconsin during 2010 (see Figure 4). Medicare spending was just under 14% of all federal spending here. Combined, Medicare

and Social Security payments to the elderly totaled \$19.5 billion, or 35.5% of all federal expenditures in Wisconsin.

*Other Programs.* Federal spending on three other direct payment programs were at least \$1 billion in Wisconsin during 2010: student financial aid (\$1.6 billion), unemployment (\$1.5 billion), and SNAP (\$1.0 billion).

Of the three, SNAP increased the most during 2000-10. Nationally, food stamp (SNAP) spending increased 332% during those years. In Wisconsin, spending rose more than 670%, from just under \$130 million to \$1.0 billion. Program participation also rose rapidly. The percentage of state households receiving Food Stamps rose from 3.8% in 2000 to 11.0% in 2010, and to 13.3% in 2013. Nationally, participation rates were 6.2%, 11.9%, and 13.5%, respectively.

**Procurement**

In addition to paying individuals directly, the federal government also purchases goods and services from companies throughout the U.S. In 2013, \$3.2 billion of those purchases were from Wisconsin firms. At \$563 per capita, federal procurement here was less than half the U.S. average (\$1,298) and 36th highest among the states.

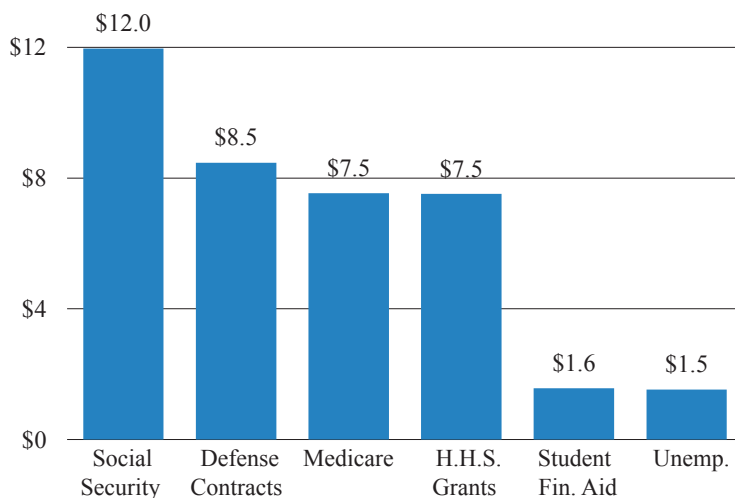
*By Federal Agency.* In 2010, federal purchases in Wisconsin (\$9.8 billion) were more than three times greater than in 2013. Nearly all (86.4%) were made by the Department of Defense (DOD). Nationally, DOD purchases were 64.1% of all federal procurement.

One company, Oshkosh Corporation, accounted for more than \$7 billion of Wisconsin's 2010 procurement dollars and was the nation's eighth-largest federal contractor. Oshkosh's experience highlights the ups and downs that come with federal funds.

Federal purchases, particularly from DOD, can be unreliable from year to year. In 2008, the defense department purchased \$1.9 billion of goods from Oshkosh Corporation. The following two years, purchases jumped to \$6.4 billion and \$7.2 billion, respectively. The surge in federal contracts during 2009-10 helped add hundreds of jobs to the local economy.

However, federal purchases have since declined, totalling just \$553 million in 2014. Fewer dollars in federal contracts resulted in the loss of more than 1,000 jobs.

**Figure 4: Largest Federal Payments to Wisconsin**  
In \$ Billions, 2010





## Federal Salaries and Wages

While Wisconsin lags the nation significantly in federal procurement, the gap is even wider in federal salaries and wages. At \$363 per capita (\$2.1 billion total), total salaries and wages paid to federal employees in Wisconsin were 61.4% below the national norm (\$969), and last among the states. These figures do not include employee benefits, which are included in the “other direct payments” category.

In 2010, most federal wages and salaries, both here and nationally, were either for postal workers (39.2% in Wisconsin) or military personnel (38.4%). While per capita amounts for Wisconsin postal workers (\$202) were about the same as elsewhere (\$197), amounts for military personnel were significantly less (\$198 in Wisconsin vs. \$578 nationally). The reason for the difference in per capita military pay is the lack of large military installations here; fewer military personnel yields less in salaries and wages.

## Grants

The final federal spending category is federal grants to governments, organizations, and individuals. These totaled \$8.6 billion in Wisconsin in 2013, the third largest federal spending category. However, grant totals were down from \$12.0 billion in 2010, as federal stimulus spending wound down.

In Wisconsin, total federal grants were \$1,506 per capita in 2013, 6.7% below the national average (\$1,614) and 30th among the states.

The grant category is dominated by Medicaid payments to the states, which totaled more than \$4.3 billion in Wisconsin during 2013. Medicaid is a joint federal-state health insurance program for low-income residents. The federal portion of Medicaid funding is paid by the Department of Health and Human Services (HHS) to states in the form of grants. Grants for

other programs are paid by other federal departments, including the departments of agriculture, education, energy, housing and urban development, and labor.

Detail from 2010 show HHS grants in Wisconsin totaled \$7.5 billion, or 63% of all grants here. At \$1,325 per capita, HHS grants here were nearly the same as the national average (\$1,328, see Table 1).

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**One reason for Wisconsin’s above-average taxes is its relatively small amounts of federal aid. In 2012, Wisconsin’s state and local governments received \$1,667 per capita in federal aid, 11.1% less than the U.S. average.**

Transportation grants, mostly for highway construction, totaled \$1.1 billion. On a per capita basis, Wisconsin received 5% less than the national average (\$199 vs. \$210).

Federal dollars per capita from the U.S. Department of Education were 20% less here (\$152) than nationally (\$190). The grants totaled \$860.1 million. Per capita grants from the Department of Energy were higher here than elsewhere, but the state lagged in its receipt of money from the departments of agriculture and housing and urban development, and from other departments.

## GOVERNMENT BUDGETS

While federal funds for direct payments, procurement, and wages are paid directly to individuals or businesses, most federal grants are paid to state and local governments. Federal dollars funded about 28% of Wisconsin state government spending during the 2013-15 biennium.

## Below Average Aid

As with other federal expenditures, aid to state and local governments in Wisconsin has historically been below average. In 2012, state and local governments combined received \$9.52 billion in federal money; state government received \$8.86 billion of the total. On a per capita basis, Wisconsin’s \$1,667 in state-local funding from Washington was 11.1% less than the national average (\$1,876) and 39th highest among the states. Figure 5 shows Wisconsin’s history of below-average federal aid.

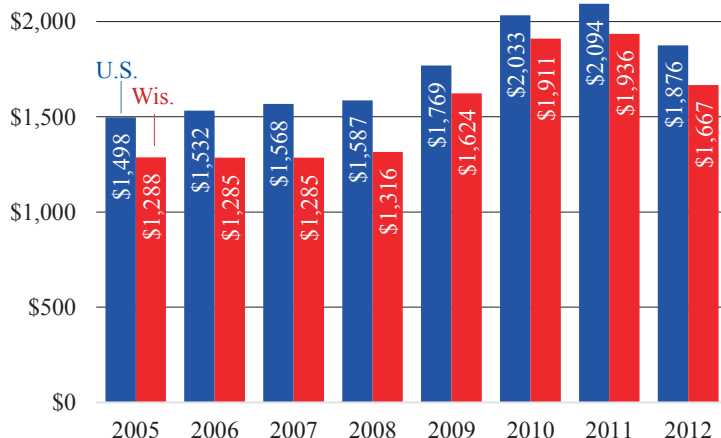
## Federal Aid, Government Spending, and Taxes

Federal aid has a variety of effects on state-local budgets, including increasing spending and taxes. A simple example follows.

**Table 1: Federal Grants to Wisconsin**  
\$ Millions and Per Capita, 2010

Fed. Dept.	Wisc. Total (\$ Millions)	Per Capita		
		Wisc.	U.S.	Diff.
H.H.S.	\$7,512.9	\$1,325	\$1,328	-0.2%
Transp.	\$1,129.8	\$199	\$210	-5.0%
Education	\$860.1	\$152	\$190	-20.4%
Agriculture	\$629.9	\$111	\$118	-5.7%
Energy	\$541.2	\$95	\$56	70.1%
H.U.D.	\$460.6	\$81	\$119	-31.6%
Other	\$857.5	\$151	\$207	-26.8%
Total	\$11,992.0	\$2,115	\$2,228	-5.0%

**Figure 5: Federal Aid to State-Local Governments**  
Wisconsin vs. U.S., Per Capita, 2005-12



Suppose U.S. lawmakers create a program to fund 100,000 new teachers nationwide. The program: 1) pays all salaries and benefits, 2) requires districts to show that these teachers would not have been hired without the program, and 3) is permanent. The federal aid would raise school spending (local schools are spending federal aid on new teachers) but not local taxes, since the aid fully covers wages and benefits.

However, if the program were temporary, it could raise taxes when schools fund the new positions permanently with local taxes. Alternatively, if the federal government promised to pay only a portion of the new teacher compensation, local schools would have to raise taxes to pay their share.

*Federal Aid and Wisconsin Taxes.* The question for Wisconsin is: Does the state's relative lack of federal aid result in higher taxes here? Census Bureau figures show Wisconsin historically has been a relatively high-tax state. State-local taxes here claimed 11.5% of personal income in 2012, 12th highest of the states. Since 1993, Wisconsin ranked as high as third (1993 and 1994) and as low as 17th (2007) on this measure.

Many factors affect a state's tax ranking, but three stand out: state-local spending, federal aid, and relative reliance on fees and charges. Statistical analysis can account for the three simultaneously, and shows that: 1) a near one-for-one relationship exists between spending and taxes and 2) each dollar of federal aid is associated with about a 75¢ reduction in state-local taxes.

*Spending.* Although above-average spending used to contribute to Wisconsin's higher taxes, it no

longer does. During 1993-99, per capita state-local spending here averaged 4.0% more than the national average. However, during 2004-12, it averaged 1.3% less than the U.S. average. It was nearly identical to the national norm in 2012.

*Federal Aid.* Along with Wisconsin, two states illustrate the impact federal assistance can have on state-local taxes. Total state-local government revenues per capita were nearly the same in Pennsylvania, West Virginia, and Wisconsin in 2012 (see Table 2, first line). However, the two states to our east received more federal funds.

Pennsylvania received \$175 more per capita from the federal government than Wisconsin, and its state-local taxes were \$163 per capita (3.5%) lower. West Virginia claimed \$768 per capita more in federal aid than Wisconsin, and its taxes were \$833 per capita (18.0%) lower.

**Table 2: Fewer Fed Dollars Lead to Higher Taxes**  
Per Capita Spending and Revenues, Wis. and U.S., 2012

	Wis.	Penn.	W. Va.	Diff. From Wis.	
				Penn.	W. Va.
Gen'l Revenues	\$8,169	\$8,122	\$8,285	-\$47	\$116
From Fed	1,667	1,841	2,435	175	768
Fees/Charges	1,276	1,282	1,233	7	-43
Miscellaneous	587	522	811	-65	223
Taxes	4,639	4,476	3,806	-163	-833

This example confirms common sense. Other than borrowing, state and local governments can fund services with either the taxes they levy or the fees they charge. Or, they can use federal aid to replace some of the monies generated at home. As Pennsylvania and West Virginia illustrate, all other things being equal, receiving more federal funds enables states to ask for less in taxes and fees from their own residents.

Relying on federal aid can have drawbacks, though. With large federal deficits (see page eight), continued funding of some programs is uncertain. If federal aids were reduced, local taxes would have to rise to continue those programs.

In sum, Wisconsin has been on the losing end of the federal aid proposition, and has long been what analysts call a "donor state." □

#### DATA SOURCES:

Pew Trusts; U.S. Bureau of Economic Analysis; U.S. Census Bureau; U.S. Department of Agriculture; U.S. Social Security Administration; Wisconsin Legislative Fiscal Bureau.

# CAPITAL INVESTMENT COMPARED

Capital investment is an important part of both state and local government budgets. Roads, bridges, sewers, and sidewalks need to be maintained and sometimes expanded. Old buildings need to be replaced or upgraded.

However, just as homes are often purchased with mortgages, capital investment is typically funded through borrowing, and public officials prefer to keep debt levels manageable. Detailed figures from the U.S. Census Bureau permit a comparison of capital spending in Wisconsin and other states during 2004-2012.

During that period, Wisconsin's state and local governments spent \$38.2 billion on capital improvements. While a significant amount, that lags most states when compared to total state output (GSP) or population. At 1.8% of GSP, Wisconsin ranked 38th nationally and trailed all neighboring states, except Michigan. At \$6,809 per capita, it ranked 37th and again trailed all neighbors, save Michigan.

## Roads and Highways

Capital spending for roads and highways are typically the largest state-local investment. In Wisconsin, it totaled \$2,752 per capita during 2004-12 versus \$2,153 for the nation. The Badger State ranked 16th highest among the states. Neighboring Minnesota (\$3,060) and Iowa (\$2,755) spent more than Wisconsin; Illinois (\$2,300) and Michigan (\$1,183, ranked 50th) spent less.

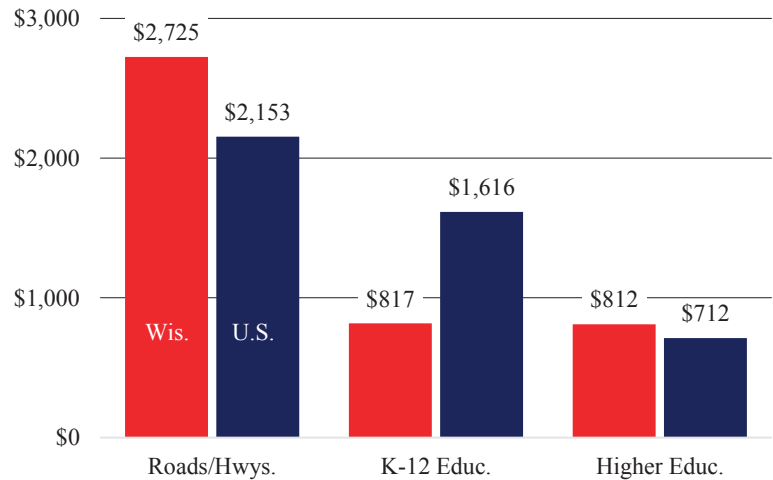
Capital spending for roads and highways is done more at the local level here than elsewhere. During the period studied, local capital outlays for roads and highways comprised 44% of the total in Wisconsin, compared to just 27% nationally.

## K-12 Education

One reason Wisconsin lagged the nation in overall capital investment during 2004-12 is its below-average spending on K-12 school buildings. Expenditures here were \$817 per capita, or about half the national average (\$1,616) and 48th among the states.

Two factors explain Wisconsin's low rank. First, Wisconsin underwent a school building boom during 1993-2000, when per capita K-12 capital expenditures were about 18% above the U.S. average.

**Figure 1: Capital Investment Varies**  
Per Capita Capital Spending in Selected Areas, Wis. vs. U.S., 2004-12



Second, K-12 enrollments statewide peaked in 2003 and have been declining since, lessening the need for new buildings. By contrast, public school enrollments nationally continue to grow.

## Higher Education

Capital spending (\$812 per capita) by the UW System and the Wisconsin Technical College System was 14% above the U.S. average (\$712).

With 13 university and 13 two-year campuses, the UW System is one of the largest public university systems in the nation. The state also has 16 technical colleges. The numerous public higher education facilities here explains part of the state's above average spending.

## Other

State and local governments invest in many other capital projects. During 2004-12, Wisconsin invested significantly more (\$359 per capita vs. \$164) in the natural resource area. However, investment in sewers (\$410 vs. \$551), parks and recreation facilities (\$189 vs. \$287), and solid waste facilities (\$25 vs. \$65) all lagged. □

## DATA SOURCES:

National Center for Education Statistics; U.S. Bureau of Economic Analysis; U.S. Census Bureau; Wisconsin Department of Public Instruction.



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### WISTAX NOTES

■ **School Spending Growth Lags.** Wisconsin's public schools spent \$11,073 per student in 2013, 21st highest among the states, according to figures from the U.S. Census Bureau. The rank was unchanged from 2012, when \$11,042 was spent.

The 2012-13 increase was only 0.3%, slightly less than the national average (0.9%) and 36th highest of the states. Per student spending declined in 14 states.

Historically, Wisconsin spends more per student than most other states, ranking as high as ninth in 1998. State-imposed revenue limits slowed the growth in school spending here, leading to a corresponding drop in Wisconsin's national rank. In 2012, the state reduced per student revenue limits 5.5%, but offset the cut with added flexibility in employee benefits.

■ **Property Taxes.** Wisconsin property taxes represented 1.96% of total owner-occupied housing value in the state in 2013. That was fifth highest in the country and 0.76 percentage points above the national average (1.20%). Wisconsin's rate was higher than all surrounding states, except Illinois (2.32%), which ranked 2nd, according to the Tax Foundation.

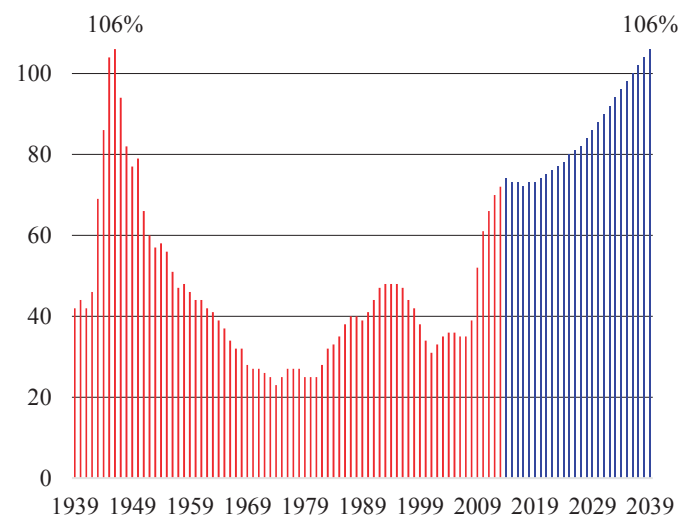
■ **Graduation Rates Rise.** In 2014, Wisconsin's four-year high school graduation rate was 88.6%, up 0.6 percentage points from 2013. Rates varied widely by district. In Grantsburg, Milwaukee, and Siren, less than 70% of high school students graduated in four years. Thirty-three districts had 100% graduation rates.

■ **Federal Debt.** Large budget deficits have caused accumulated federal debt to grow sharply in the past decade, according to the Congressional Budget Office's (CBO) most

recent data. In 2008, federal debt held by the public stood at 39% of gross domestic product. CBO estimates that it reached 74% of GDP by the end of fiscal 2014.

Debt has exceeded 70% of GDP in only one other period: from 1944 through 1950 during and after World War II (see chart). CBO estimates that debt will reach 106% of GDP by 2039. That figure would match the previous peak of 106% in 1946.

**U.S. Debt Expected to Rise to World War II Peak**  
Debt Held by Public, % of GDP, Actual and Projected (1939-2039)



### In FOCUS . . . recently in our biweekly newsletter

- Proposed state building program: Less debt now or more cost later? (#6-15)
- "It's May, it's May, the month of yes you may" — Alan Jay Lerner (#7-15)