Deficits, Debt, and the Fiscal Cliff

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# National Debt, 1980 to 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Debt Amount</th>
<th>Gross Debt Growth</th>
<th>Debt Held by Public Amount</th>
<th>Debt Held by Public Growth</th>
<th>Nominal GDP</th>
<th>Gross Debt as a % of Nominal GDP</th>
<th>Debt Held by Public as a % of Nominal GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>909</td>
<td></td>
<td>712</td>
<td></td>
<td>2,724</td>
<td>33%</td>
<td>26%</td>
</tr>
<tr>
<td>1988</td>
<td>2,601</td>
<td>186%</td>
<td>2,052</td>
<td>188%</td>
<td>5,009</td>
<td>52%</td>
<td>41%</td>
</tr>
<tr>
<td>1992</td>
<td>4,002</td>
<td>54%</td>
<td>3,000</td>
<td>46%</td>
<td>6,242</td>
<td>64%</td>
<td>48%</td>
</tr>
<tr>
<td>2000</td>
<td>5,629</td>
<td>41%</td>
<td>3,410</td>
<td>14%</td>
<td>9,821</td>
<td>57%</td>
<td>35%</td>
</tr>
<tr>
<td>2008</td>
<td>9,986</td>
<td>77%</td>
<td>5,803</td>
<td>70%</td>
<td>14,334</td>
<td>70%</td>
<td>40%</td>
</tr>
<tr>
<td>2012</td>
<td>16,351</td>
<td>64%</td>
<td>11,578</td>
<td>100%</td>
<td>15,602</td>
<td>105%</td>
<td>74%</td>
</tr>
</tbody>
</table>

All dollar amounts are in billions.
National Debt Held by Public, 1980 to 2012

Billions $
National Debt as a % of GDP

National Debt Held by Public / Nominal GDP (Assumes 2.5% Growth Rate of NGDP for 2013 – 2020).
Federal Outlays (Red) and Revenues (Black) as a % of GDP
Federal Outlays (Red) and Revenues (Black) as a % of GDP

With Projections from Obama’s 2012 Budget
Federal Outlays (Red) and Revenues (Black) as a % of GDP
With Projections from Obama’s 2012 Budget (dotted lines) and Ryan’s Budget Plan (grey lines)
National Debt as a % of GDP
With Projections from Obama’s 2012 Budget (dotted lines) and Ryan’s Budget Plan (grey lines)

National Debt Held by Public / Nominal GDP (Assumes 5.7% Growth Rate of NGDP for 2013 – 2020).
National Debt as a % of GDP

With Projections from Obama’s 2012 Budget (dotted lines) and Ryan’s Budget Plan (grey lines)

National Debt Held by Public / Nominal GDP (Assumes 2.5% Growth Rate of NGDP for 2013 – 2020).
What’s this I hear about a fiscal cliff?

- Shorthand for a group of policy changes that will come together around Jan. 1 – expiration of Bush-era tax cuts, automatic spending cuts of $109 billion (“Sequestration”), alternative minimum tax starts kicking in ...

- Conventional wisdom assumes that Congress will do something constructive in a lame-duck session.

- Given how many things may go wrong during November and December, a Goldman Sachs research note gives a 1 in 3 chance that Congress will fail to pass even short-term measures to avoid a cliff.

In terms of how our debt evolves as a percentage of GDP, avoiding the cliff might be crucial – do we get back to 5% or 6% growth, remain in the 2% to 3% doldrums, or worse?
The Long Road Back (From a “Balance Sheet” Recession)

- We’re experiencing a very slow recovery from a “balance sheet recession”

- The “fiscal cliff” would amount to a shift to austerity – but having the public sector deleverage while the private sector continue its deleveraging process could be detrimental to economic performance.

- “… in a depressed economy like the present, if a long deep recession casts even a small shadow on future potential output, with interest rates in the range at which the U.S. has been able to borrow, there is a substantial likelihood that expansionary fiscal policy right now would be self-financing, and an overwhelming likelihood that it would pass a benefit-cost test.