Join the Committee for a Responsible Federal Budget virtually for

R versus G and the National Debt

with Marc Goldwein

**Q&A will follow presentation*

Tuesday, October 31st at 2pm ET

Committee *for a* Responsible Federal Budget

What's the Deal with R and G?

Committee for a Responsible Federal Budget

R, G, and Debt Sustainability

Some Definitions

R *= Average interest rate on government debt*

G *= Average growth rate of U.S. economy (GDP)*

Debt Sustainability *= When national debt grows slower than gross domestic product (GDP) or expected to stop growing before getting too high*

Some Features of R and G

1. *R describes the growth of current debt, while G represents its erosion (relative to GDP)*
2. *When R<G, debt may be sustainable even when non-interest spending exceeds revenue*
3. *When R<G, one-time borrowing has little effect on long-term debt-to-GDP*
4. *For the last 15 years, R has been below G*

Some Features of R and G

	Primary Surplus	Primary Balance	Primary Deficit
R>G	Debt sustainable **if** *P-surplus ≥ (R-G)*debt*	Debt grows indefinitely (debt spiral)	Debt grows indefinitely (debt spiral)
R=G	Debt falls indefinitely (sustainable)	Debt remains stable (likely sustainable)	Debt grows indefinitely (likely unsustainable)
R<G	Debt becomes wealth: *P-surplus/(G-R)*	Debt/GDP trends to 0% (sustainable)	Debt trends to: *P-Deficit/(G-R)*

When R<G, Debt MAY Be Sustainable

IF: Interest rates are below the growth rate (R<G)

AND: Interest rates are stable over time

AND: Growth rate is stable over time

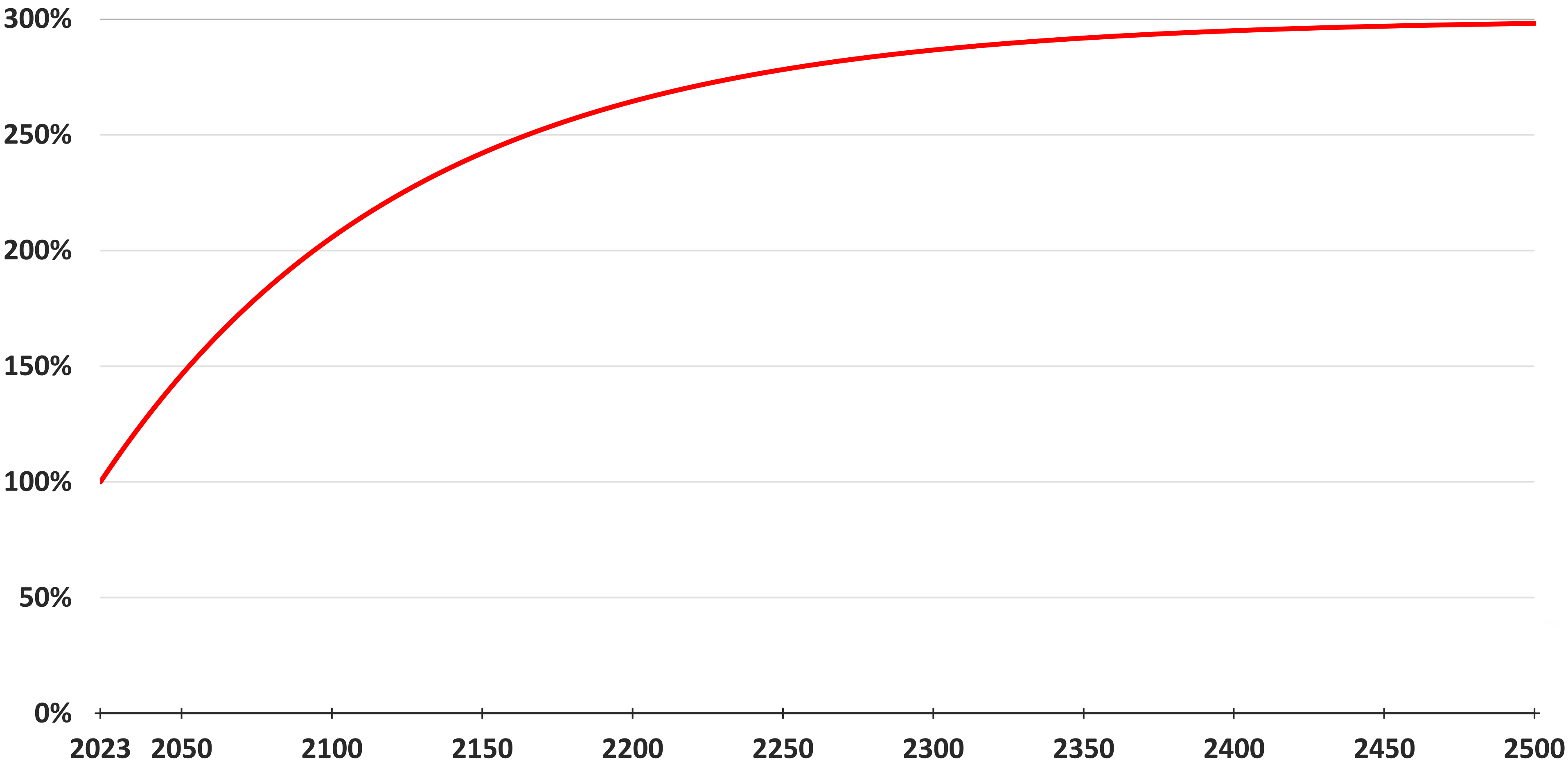
AND: Primary deficits stay constant % of GDP

THEN: Debt will stabilize at:

$$\frac{Primary\ Deficit}{(G - R)}$$

Debt Asymptotes w/ Stable P-Deficit & R<G

Debt-to-GDP w/ 3 percent of GDP primary deficit, 4% growth rate, 3% interest rate



Sources: Committee for a Responsible Federal budget.

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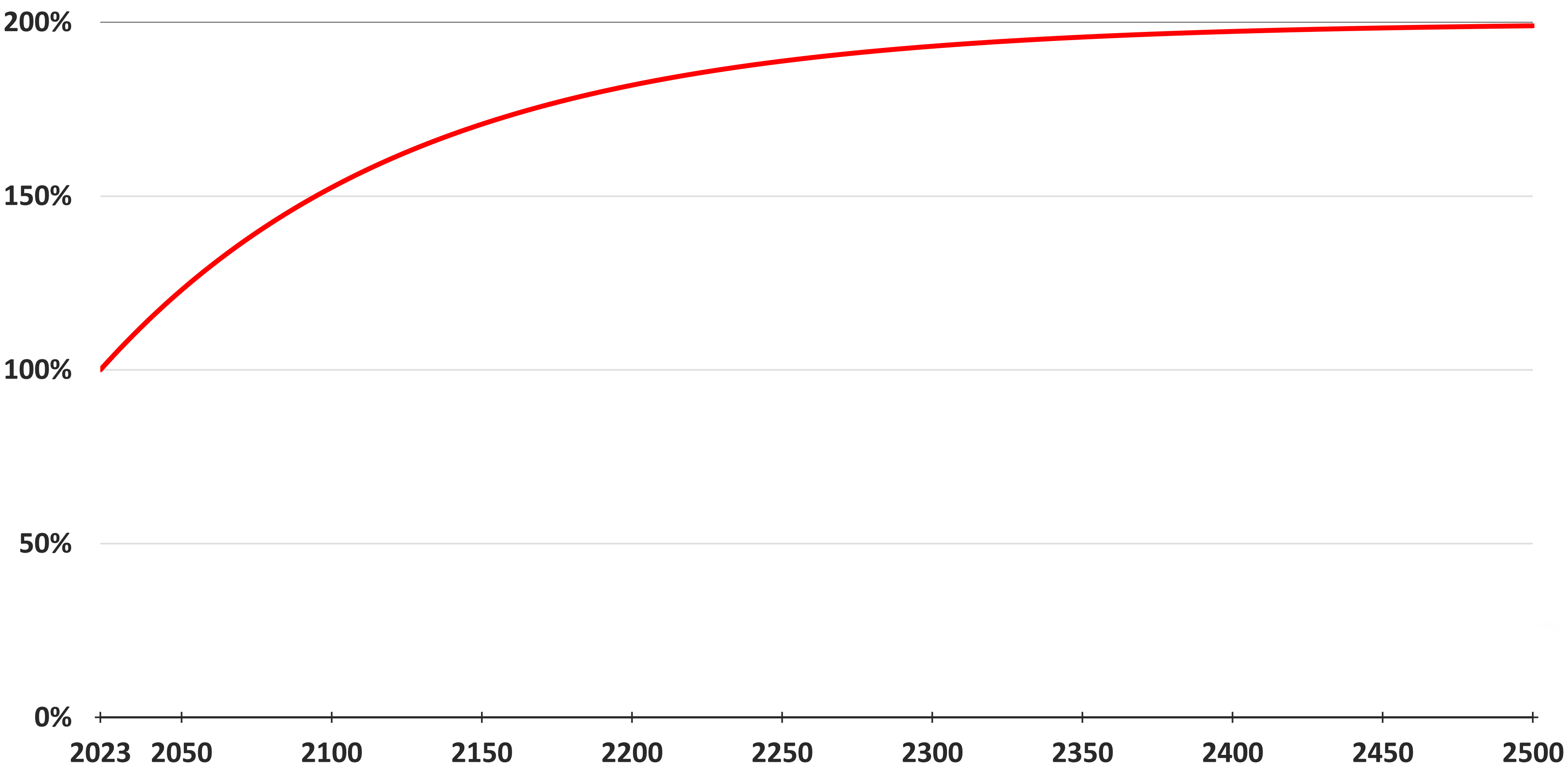
Debt Asymptotes w/ Stable P-Deficit & R<G

Debt-to-GDP w/ 2 percent of GDP primary deficit, 4% growth rate, and 3% interest rate



Sources: Committee for a Responsible Federal budget.

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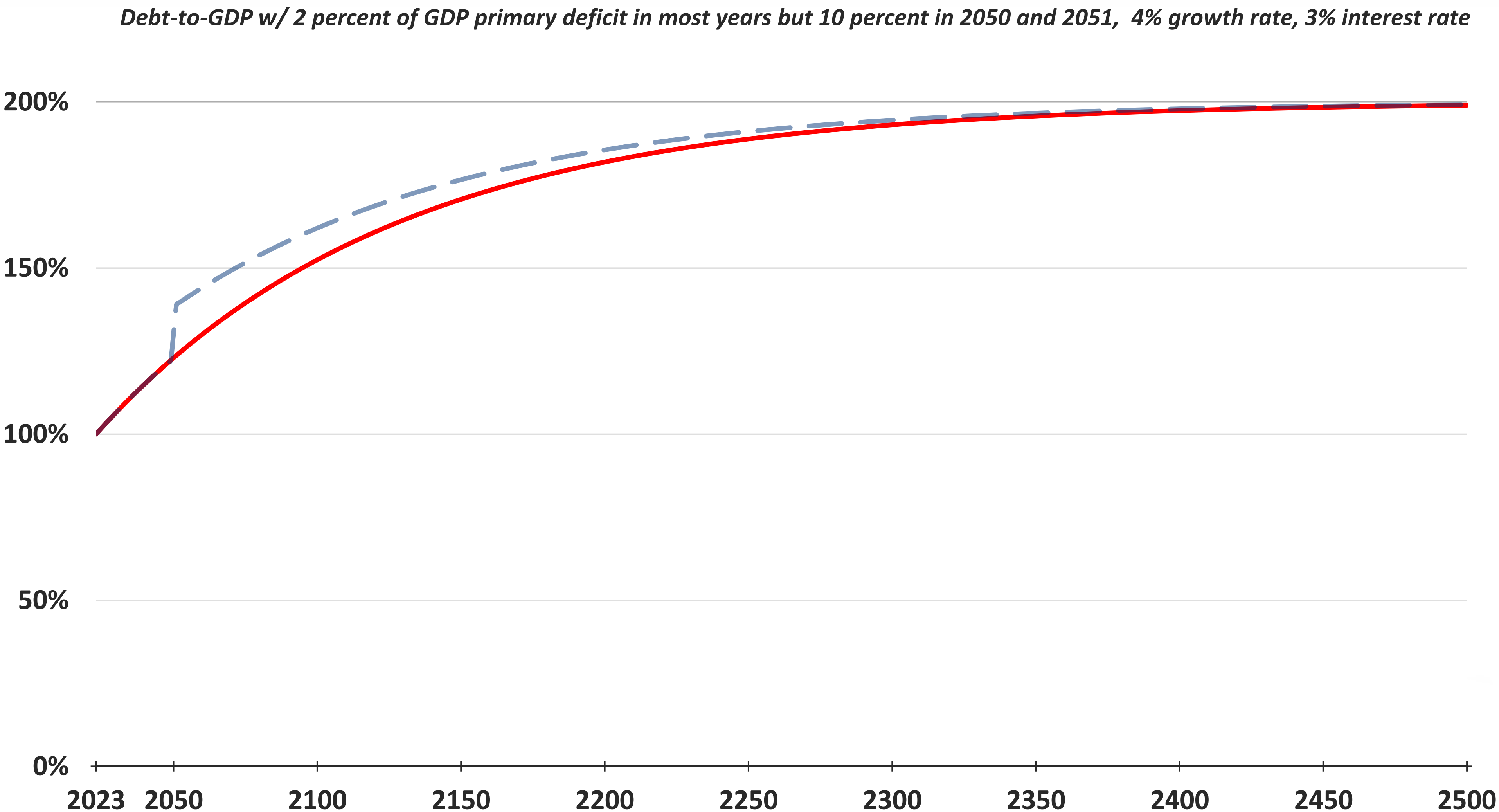
And One-Time Borrowing Doesn't Matter Much



Sources: Committee for a Responsible Federal budget.

Is Our Debt Sustainable?

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Debt Sustainability Requires Multiple Ingredients

Sustainable debt requires **several of:**

- ❑ Manageable debt levels
- ❑ Modest and stable (primary) deficits
- ❑ Favorable demographics
- ❑ Limited health care cost growth
- ❑ Robust revenue collection
- ❑ Responsive and responsible political system
- ❑ Interest rates below the growth rates (R<G)

Ingredients for Debt Sustainability

- ☐ **Manageable debt levels**
- ☐ Modest and stable (primary) deficits
- ☐ Favorable demographics
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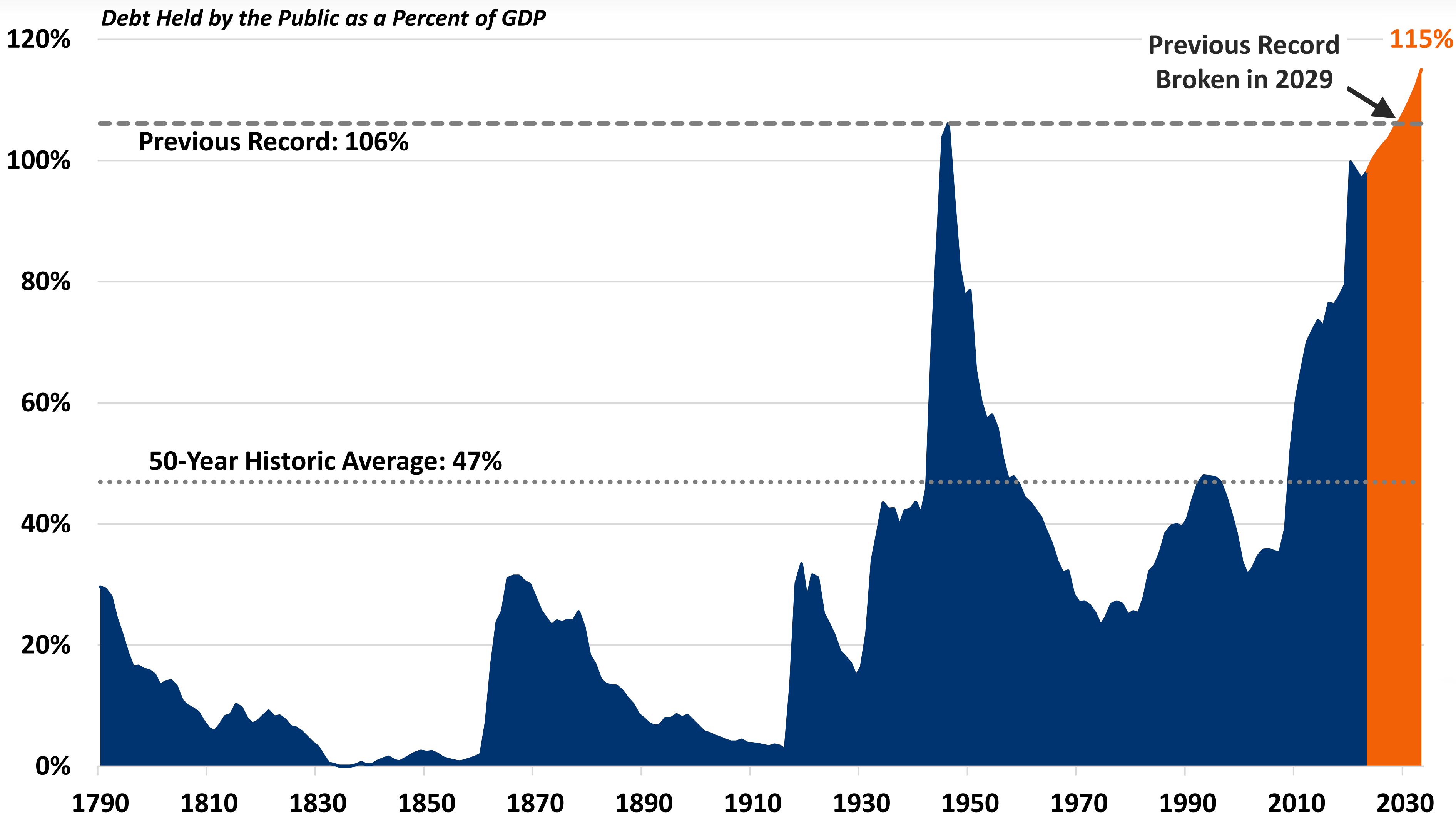
Debt Is Nearing Record Levels



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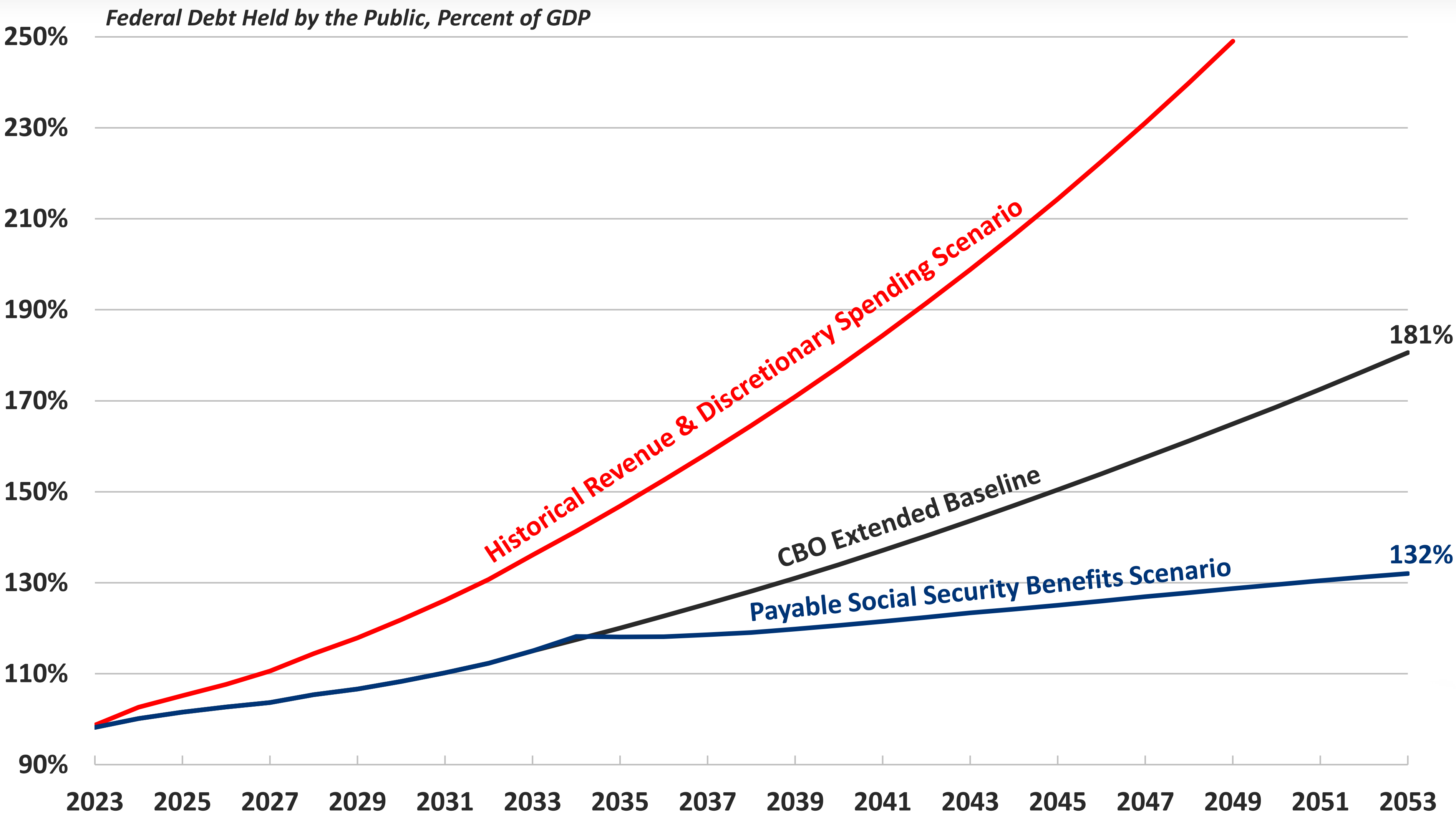
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

And Is Projected to Rise Rapidly



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Source: Congressional Budget Office.

Ingredients for Debt Sustainability

- ✓ ~~Manageable debt levels~~
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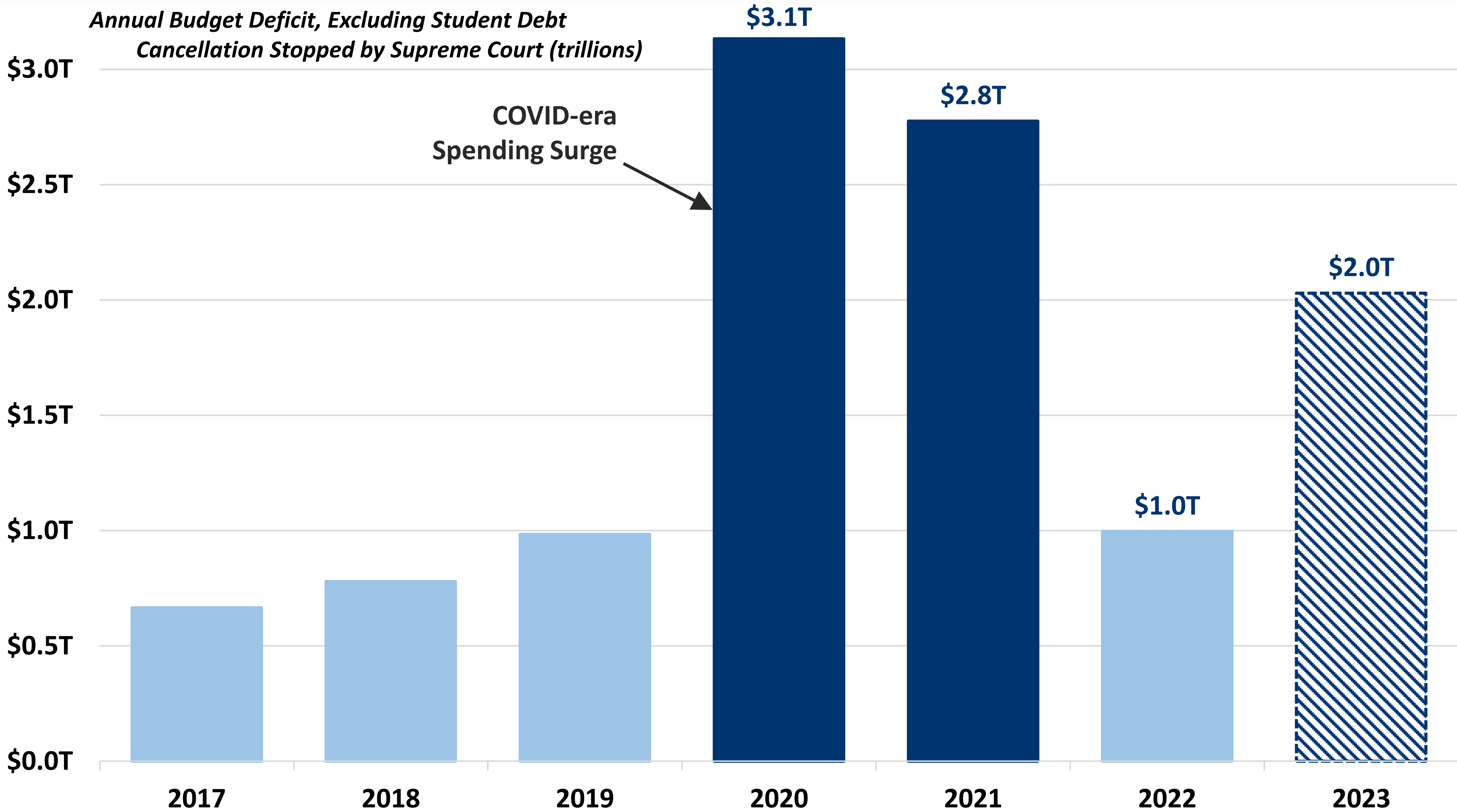
Deficits Just Doubled



Note: 2022 deficit excludes cost of student debt cancellation.
Source: Committee for a Responsible Federal Budget, Congressional Budget Office

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Ingredients for Debt Sustainability

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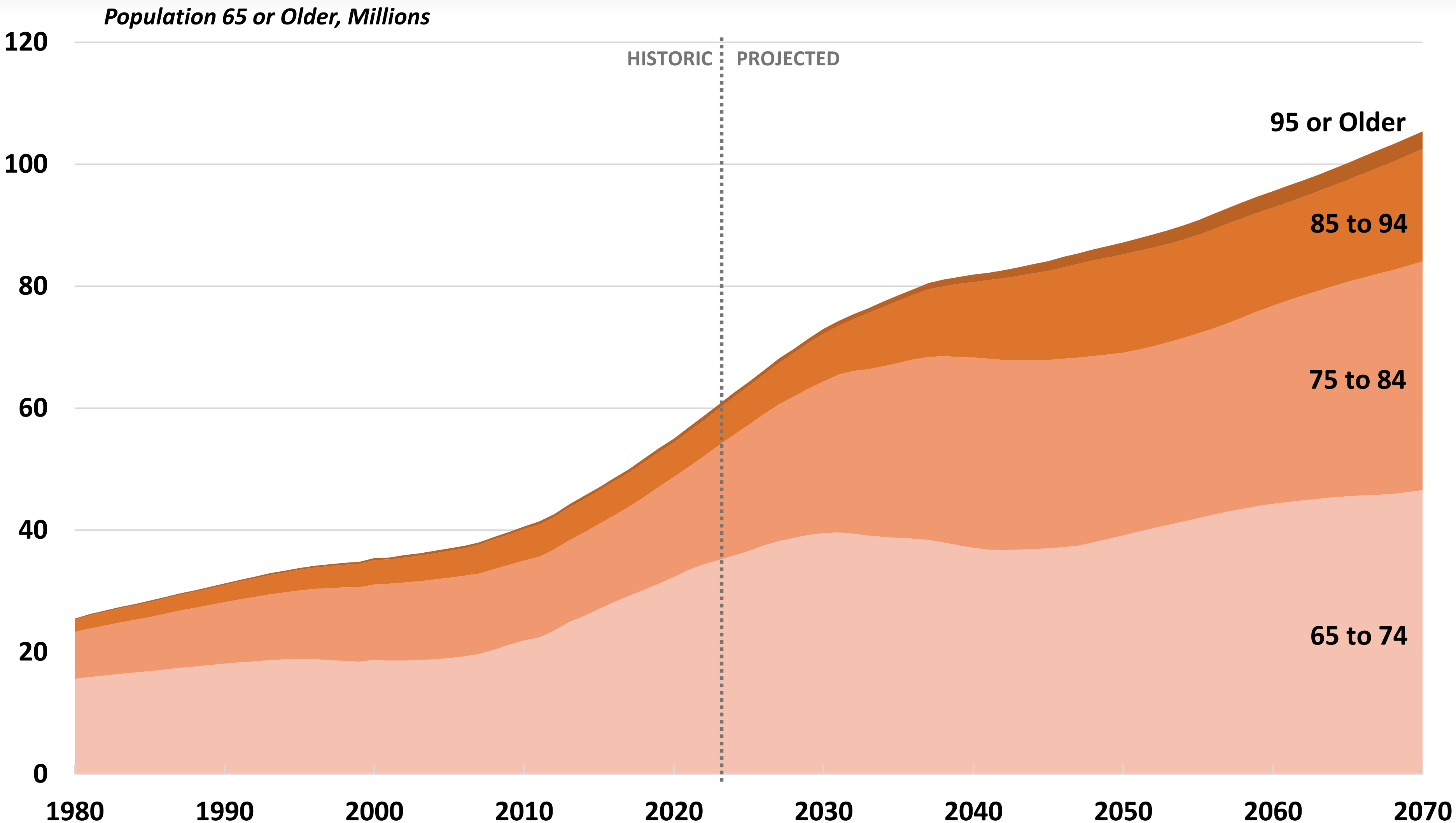
American is Getting Older



Source: Committee for a Responsible Federal Budget estimates based on Congressional Budget Office and U.S. Census Bureau data.

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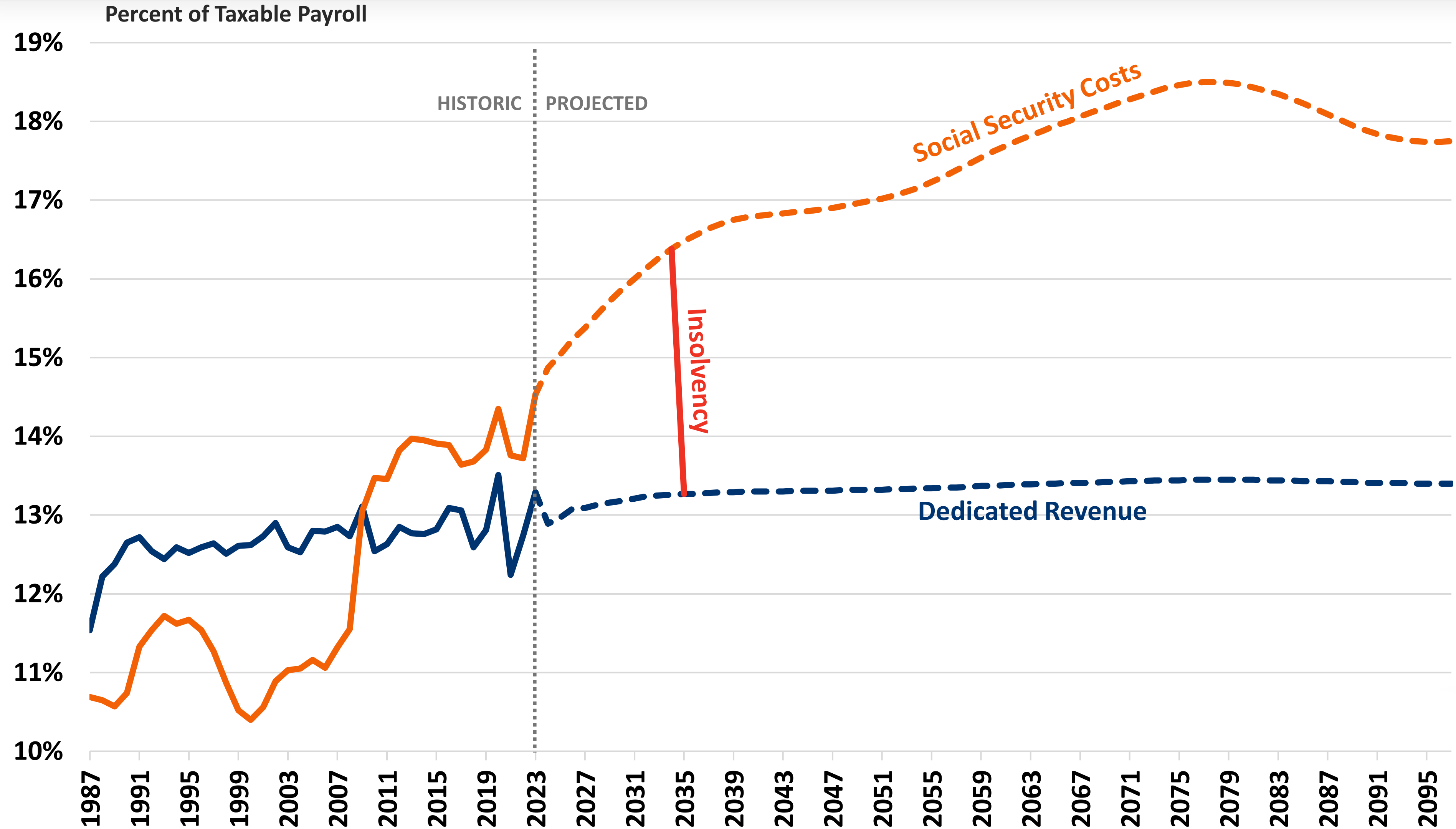
Increasing the Cost of Social Security and Medicare



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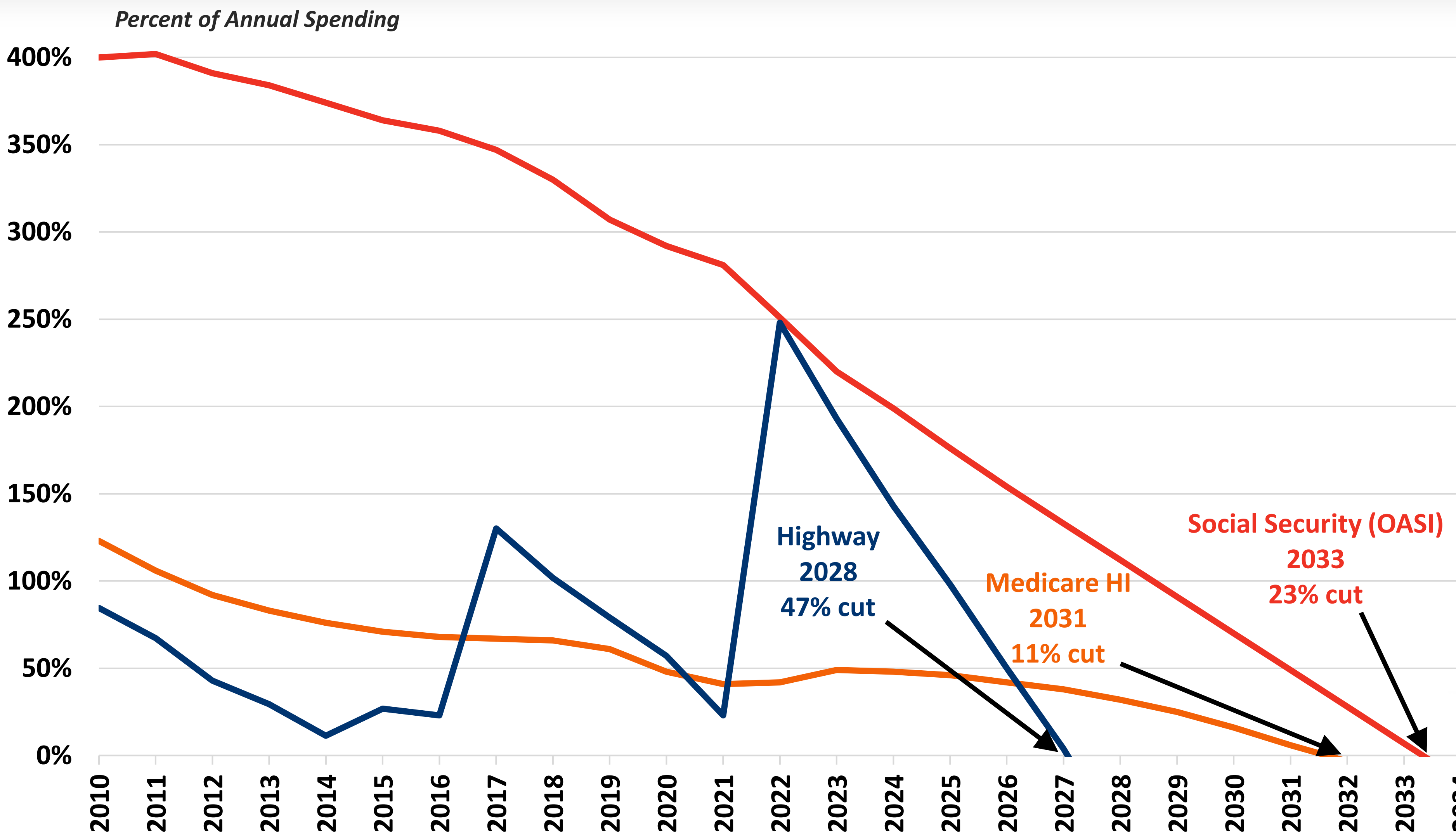
Source: Social Security Administration.

And Driving Them Toward Insolvency



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Sources: Social Security Trustees, Medicare Trustees, and Congressional Budget Office.

Ingredients for Debt Sustainability

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- ☐ **Limited health care cost growth**
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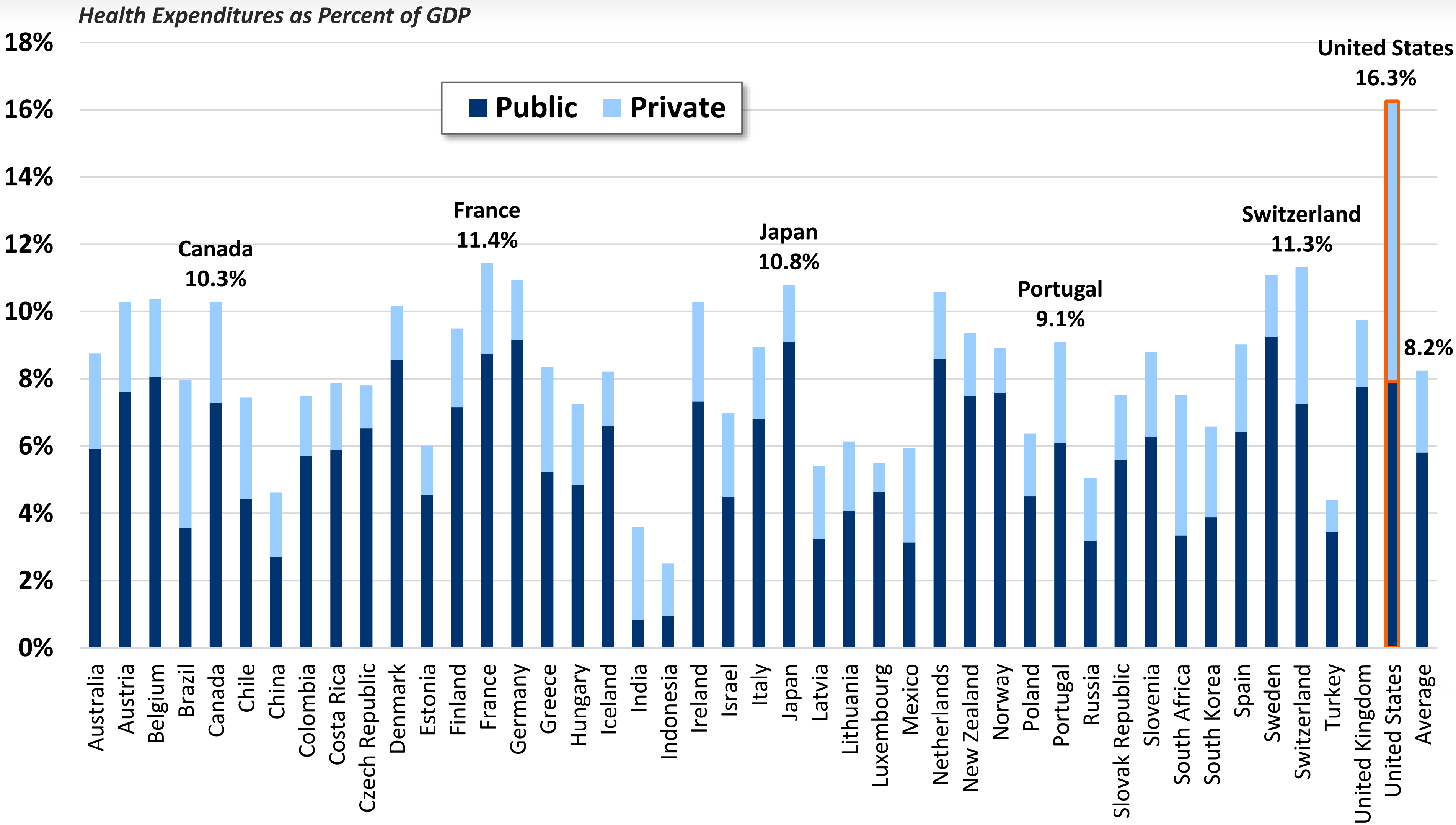
Health Costs are High in the U.S.



Note: Data from 2013

Source: Organization for Economic Cooperation and Development

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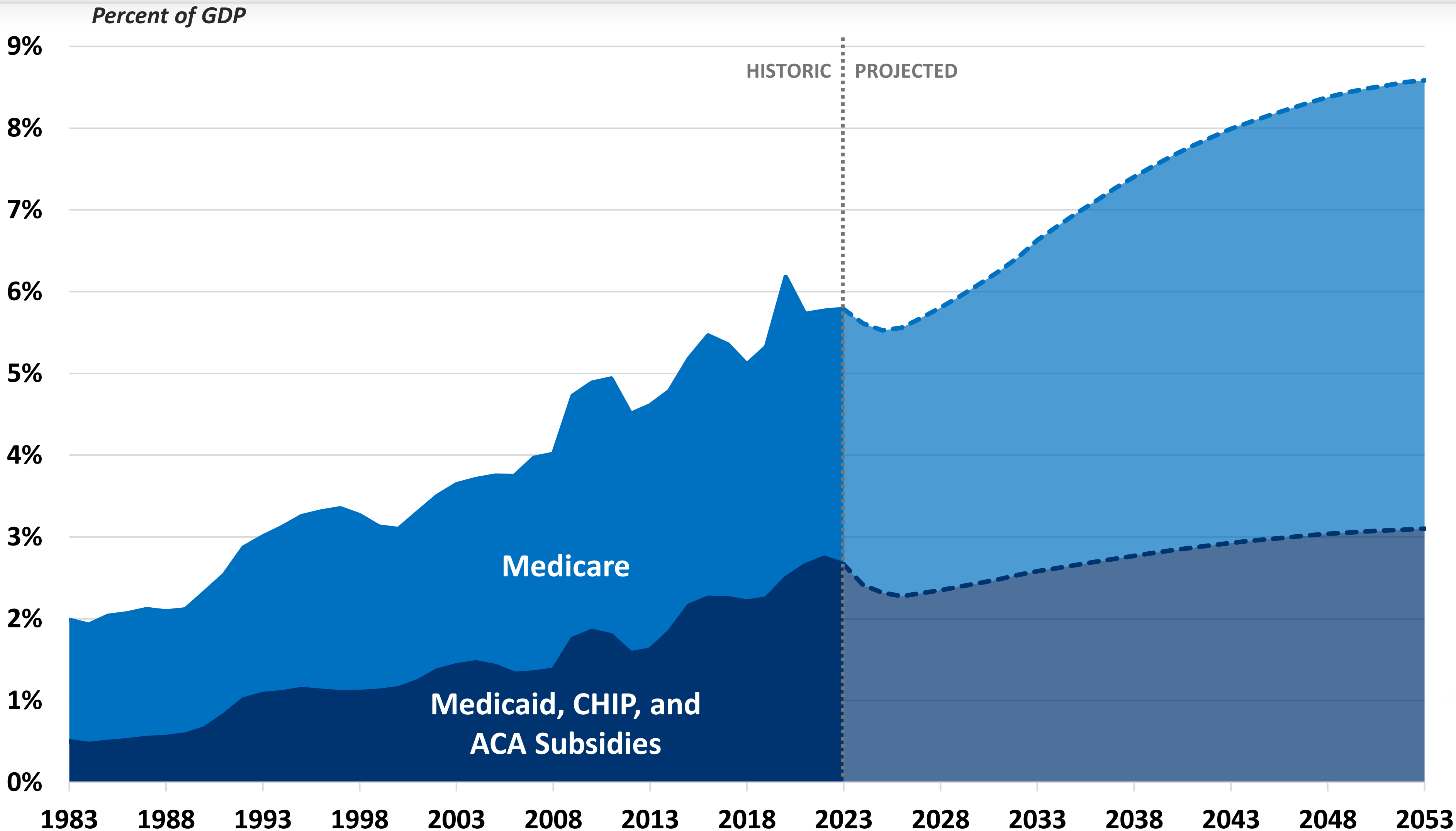
And Federal Health Spending Keeps Growing



Source: Congressional Budget Office

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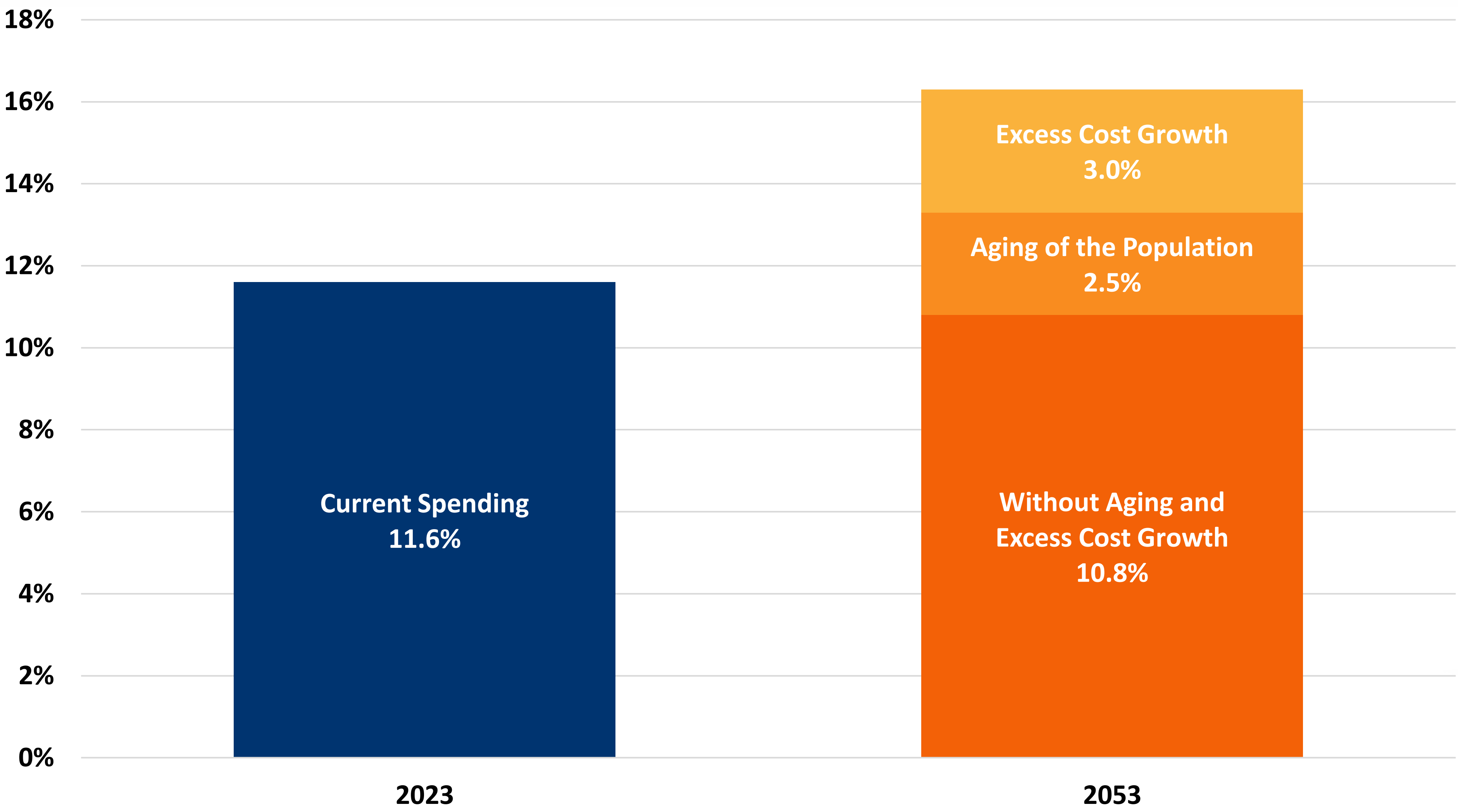
With Aging and Excess Cost Growth Largely Responsible



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Source: Congressional Budget Office

Ingredients for Debt Sustainability

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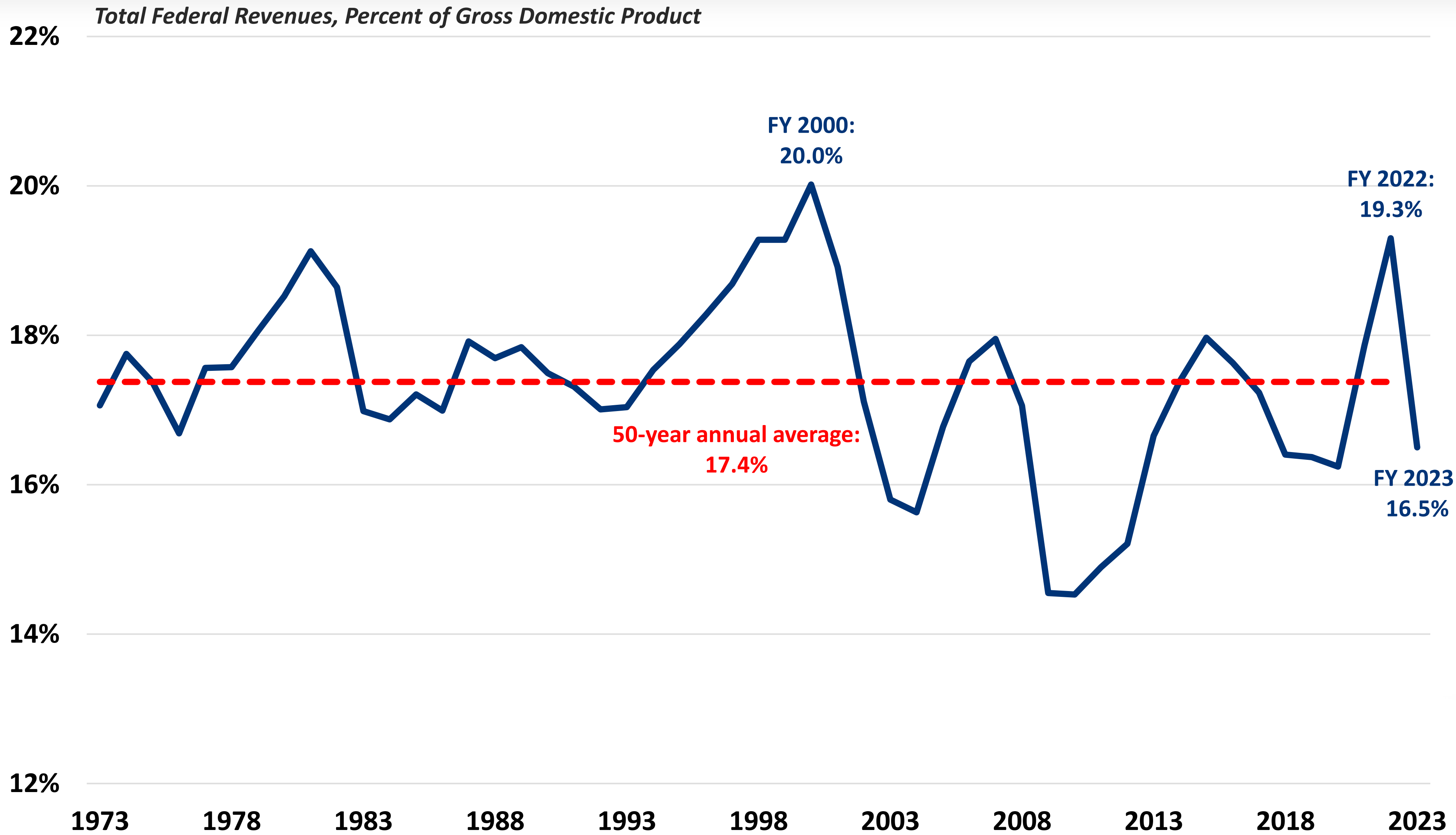
- ☐ Interest rates below the growth rates (R<G)

Revenue is Back Below Historic Averages



Sources: Congressional Budget Office, Department of Treasury, Bureau of Economic Analysis, and Committee for a Responsible Federal Budget.

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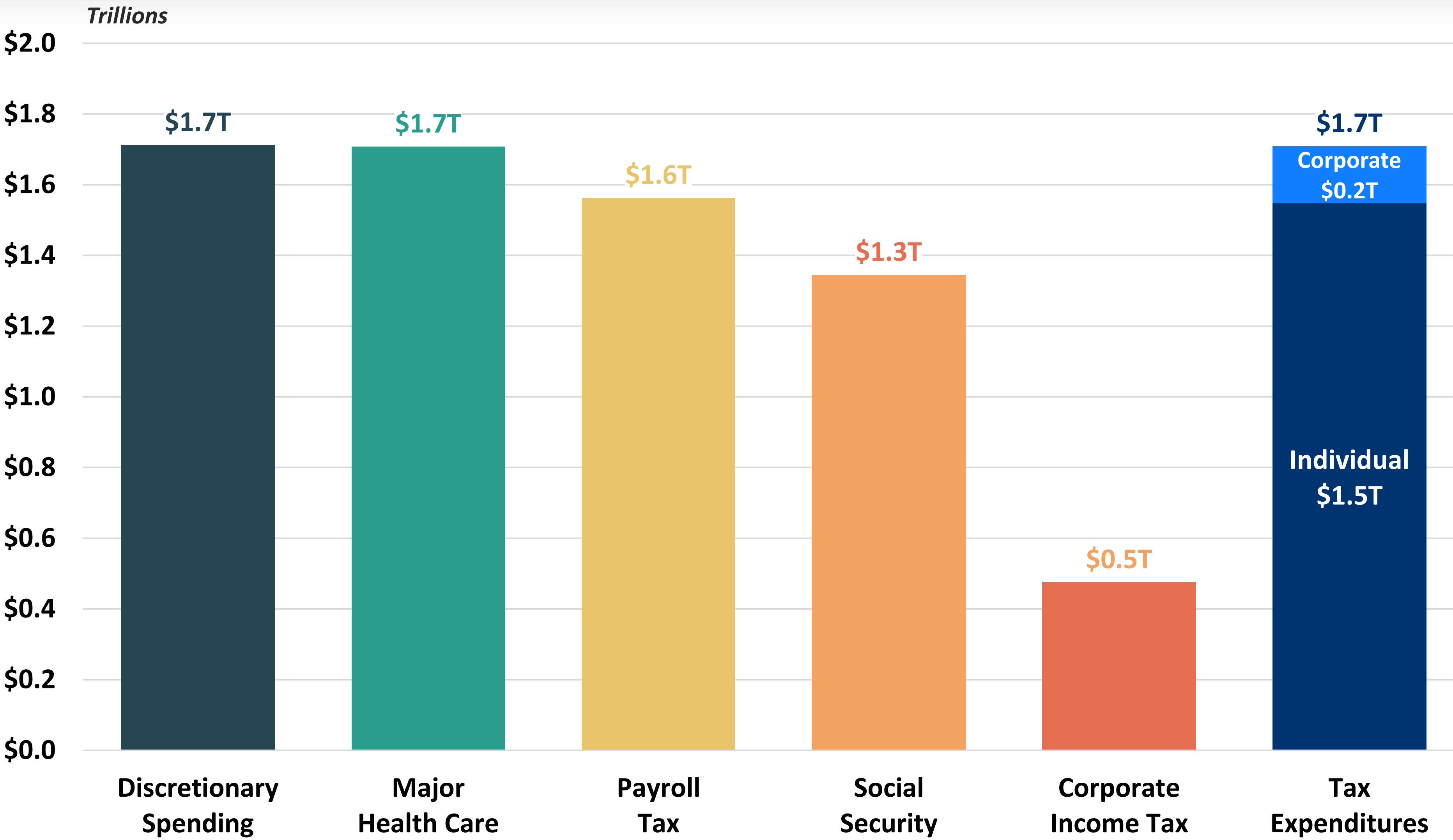
Tax Expenditures Cost $1.7 Trillion Per Year



Note: Chart depicts FY2023 levels
Sources: Congressional Budget Office, Joint Committee on Taxation

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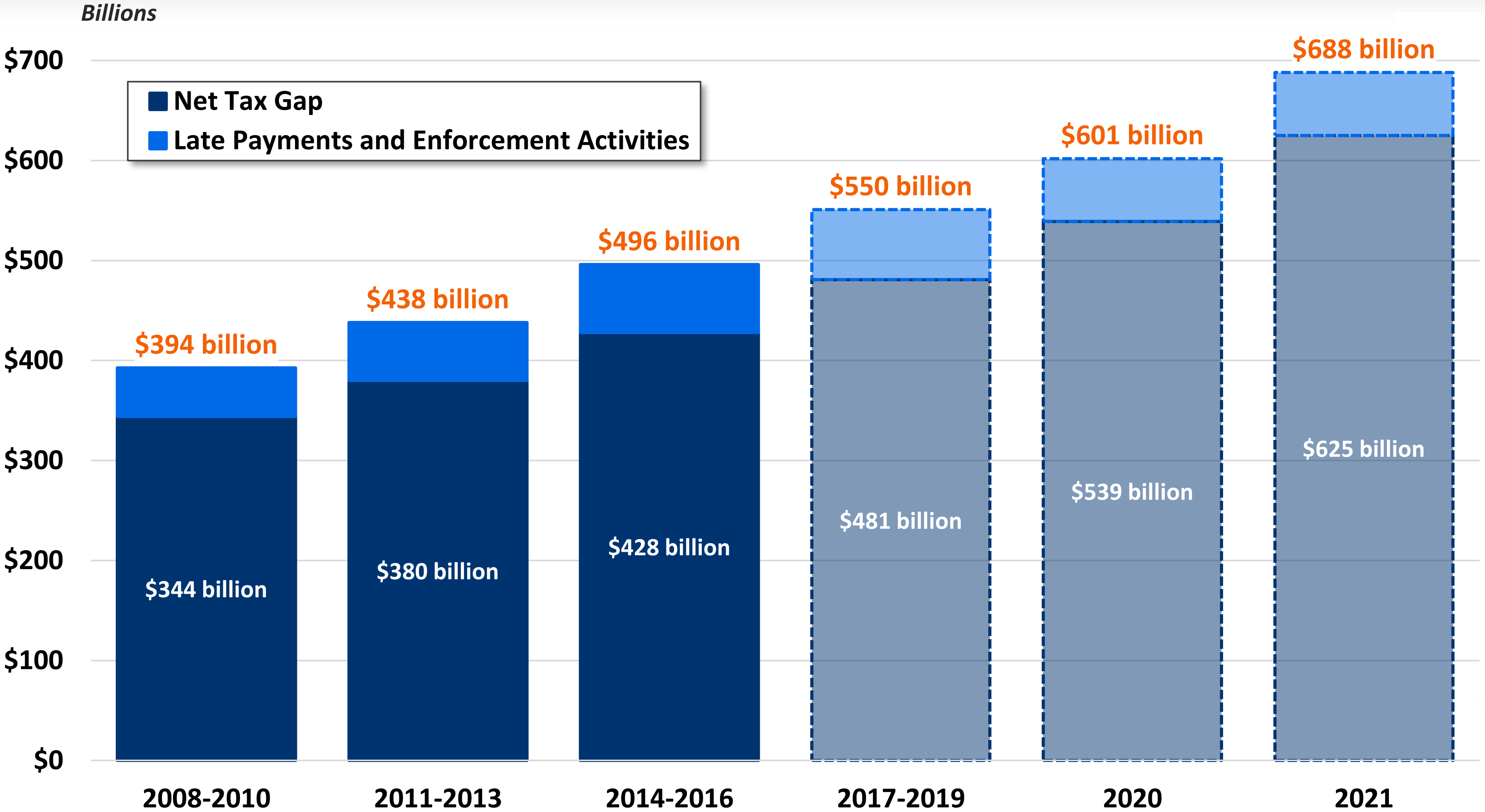
And the Tax Gap Costs $600 Billion More



Note: Due to updated methodologies, these figures are not directly comparable. Figures for tax years up to and including TY 2014-2016 reflect official IRS estimates. Figures for TY 2017-2019, 2020, and 2021 reflect preliminary projections, and are subject to revision. The TY 2017-2019 projection has been updated since it was first published in October 2022.
Source: Internal Revenue Service, Treasury Department.

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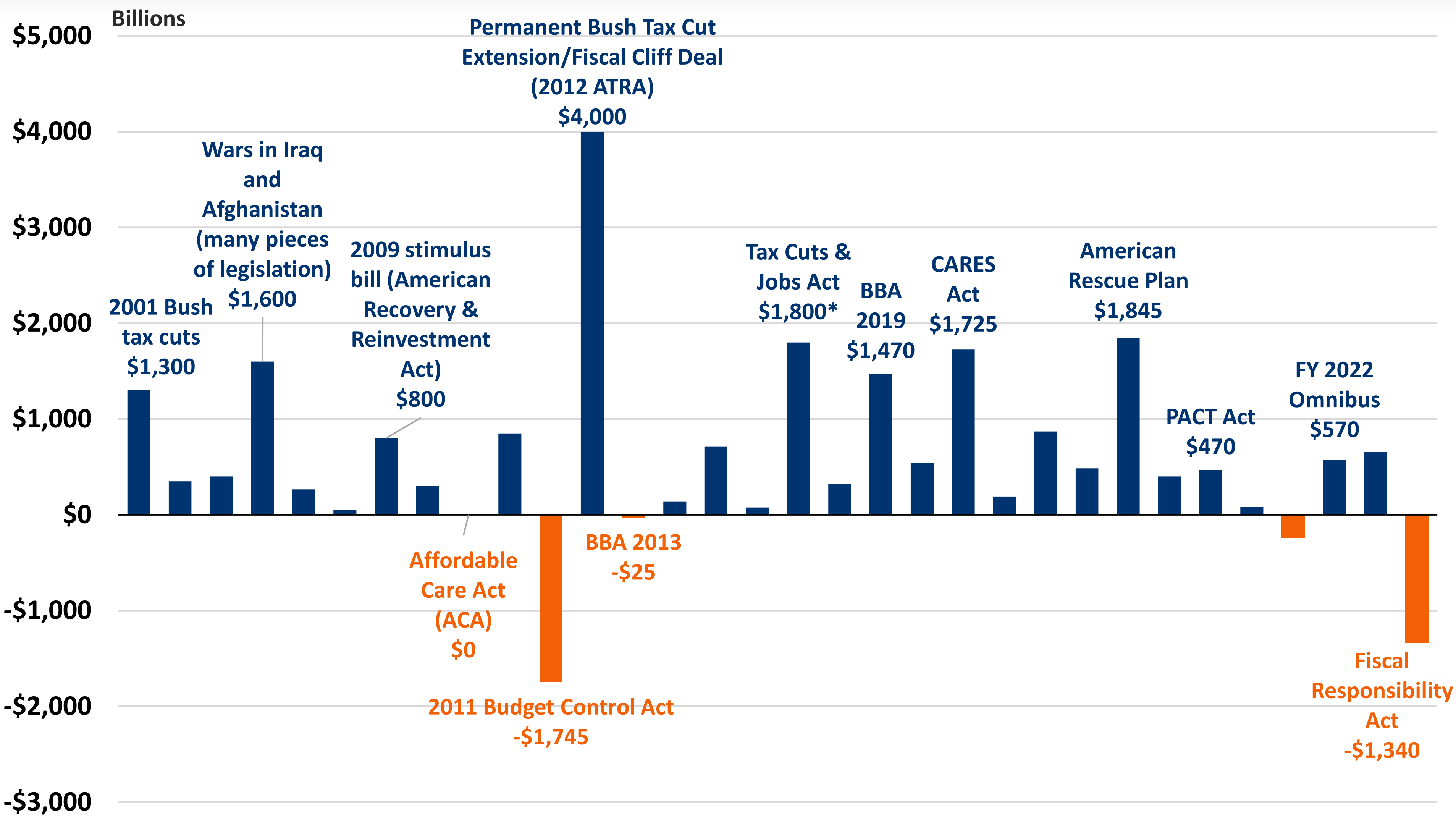
We Keep Adding Tax Cuts & Spending to the Debt



** Cost of Tax Cuts & Jobs Act is estimated on a conventional basis for comparison purposes*

Sources: Committee for a Responsible Federal Budget, Congressional Budget Office, Congressional Research Service.

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Politicians May Pass Costly Policy Extensions

Expiring Provision	Cost of Extension (2026-2035)
Reduce individual income tax rates to 10|12|22|24|32|35|37	$3.2 trillion
Repeal 'Pease' deduction limit & Alternative Minimum Tax for most taxpayers	$800 billion
Replace personal and dependent exemption with doubled Child Tax Credit ($1,000 to $2,000) and larger standard deduction	$40 billion
Establish 20% deduction for certain pass-through business income	$720 billion
Expand Opportunity Zones	$80 billion
Limit state and local tax (SALT) deduction to $10,000 per taxpayer	-$960 billion
Limit or repeal other tax deductions	-$280 billion
Limit deductibility of business losses against ordinary income.	-$200 billion
Subtotal, TCJA Extensions	**$3.4 trillion**
Expanded Affordable Care Act premium credits	$370 billion
Total	**$3.8 trillion**

Sources: Committee for a Responsible Federal Budget Build Your Own Tax Extensions Model, Joint Committee on Taxation, and Congressional Budget Office.

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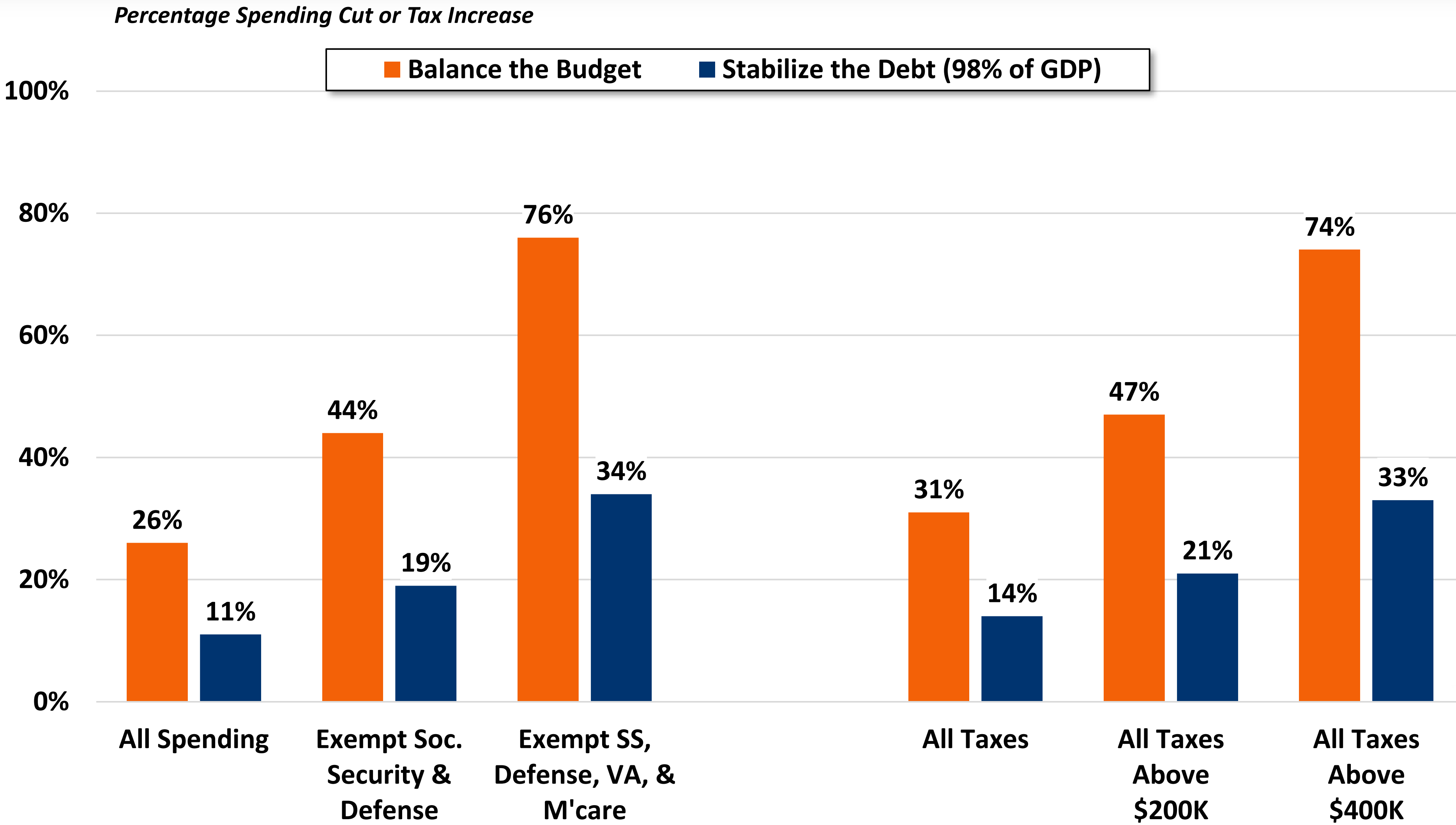
And They Are Taking Solutions Off the Table



Note: Taxes above $200k and $400k includes all corporate and estate taxes as well as income and payroll taxes above those thresholds. Estimates are rough.

Sources: Committee for a Responsible Federal Budget and Congressional Budget Office.

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Is R<G Enough?

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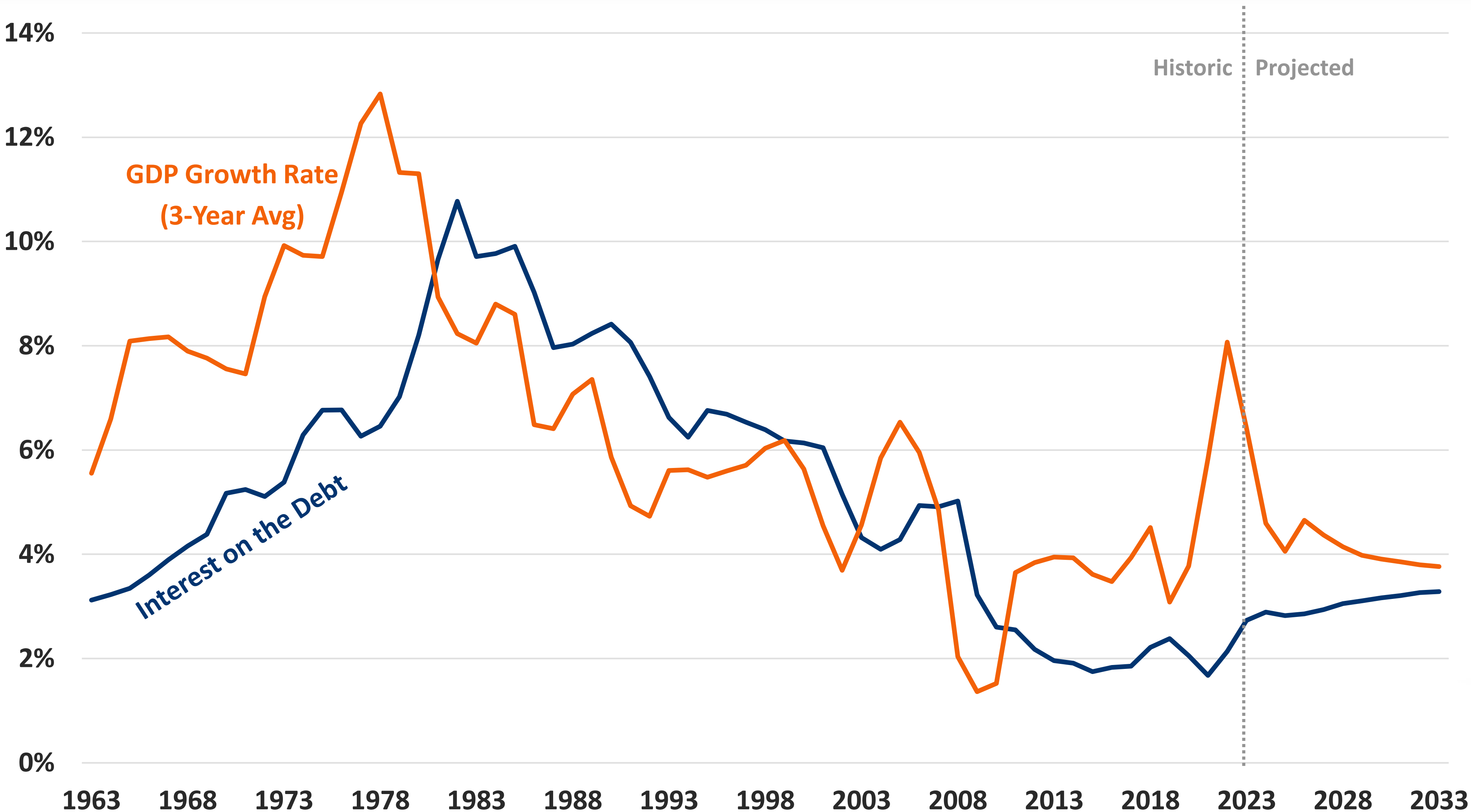
Interest Rates Have Been Below the Growth Recently



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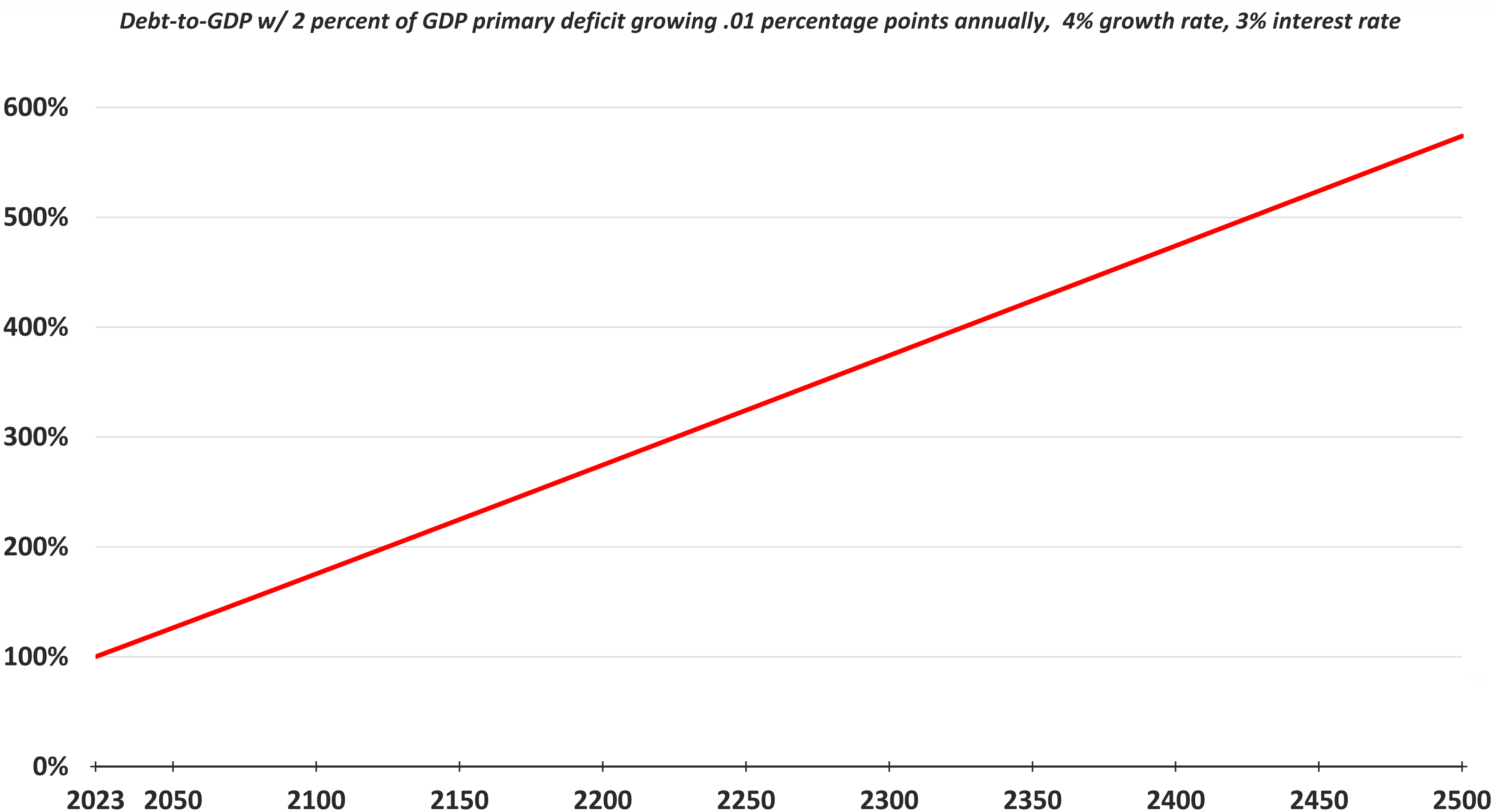
Source: Congressional Budget Office, Committee for a Responsible Federal Budget

But R<G Doesn’t Guarantee Sustainability!

Keep In Mind That:

1. If primary deficits grow, debt will too
2. Debt-to-GPD can rise for decades or centuries even with stable R, G, and primary deficits
3. Rising debt boost R and shrinks G
4. R and G can change quickly as debt rolls over, **and R>G for new debt, already!**

If Primary Deficits Grow, Debt Will Too



Sources: Committee for a Responsible Federal budget.

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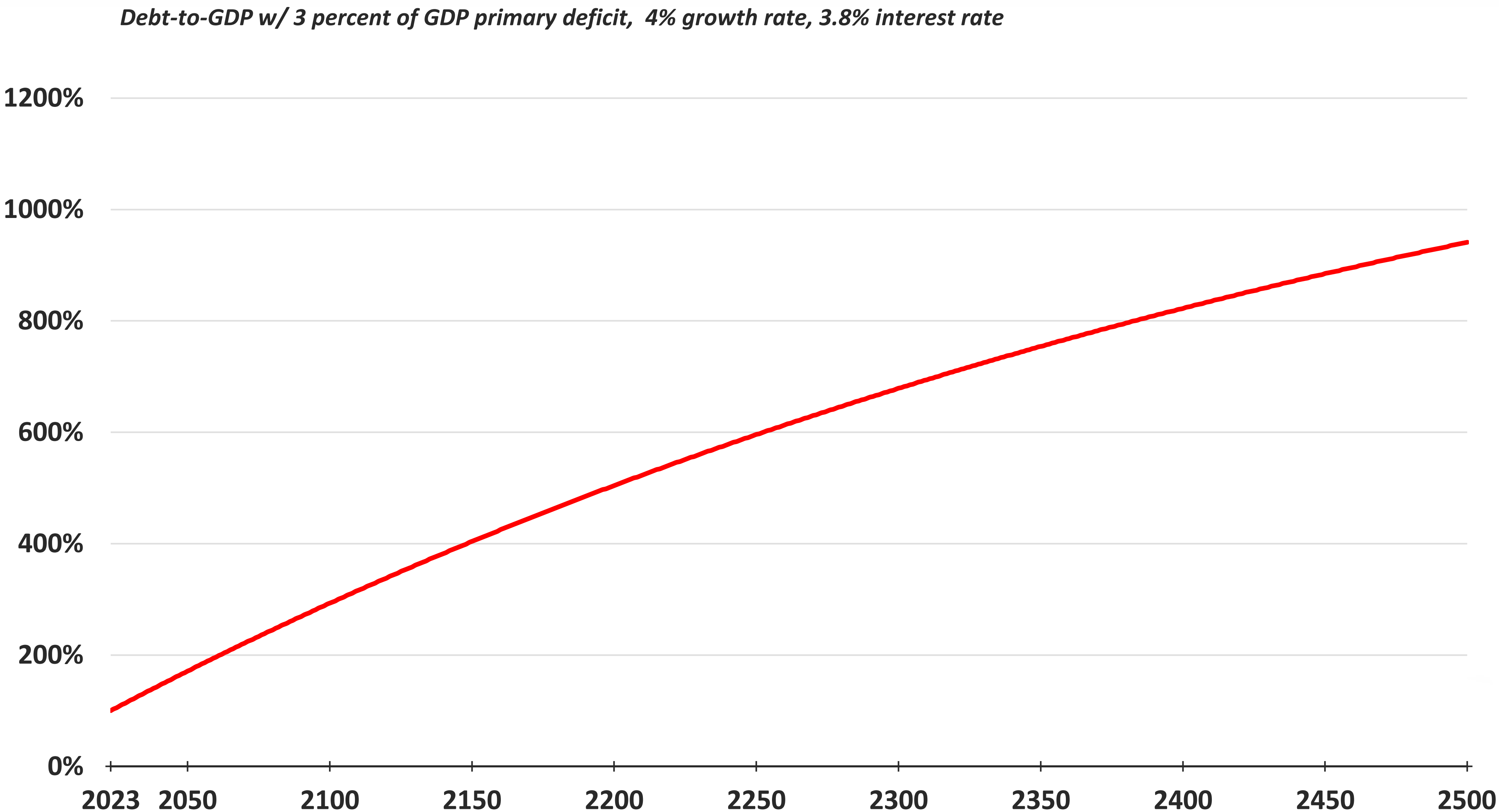
Stabilization in Thousands of Years is of Little Comfort



Sources: Committee for a Responsible Federal budget.

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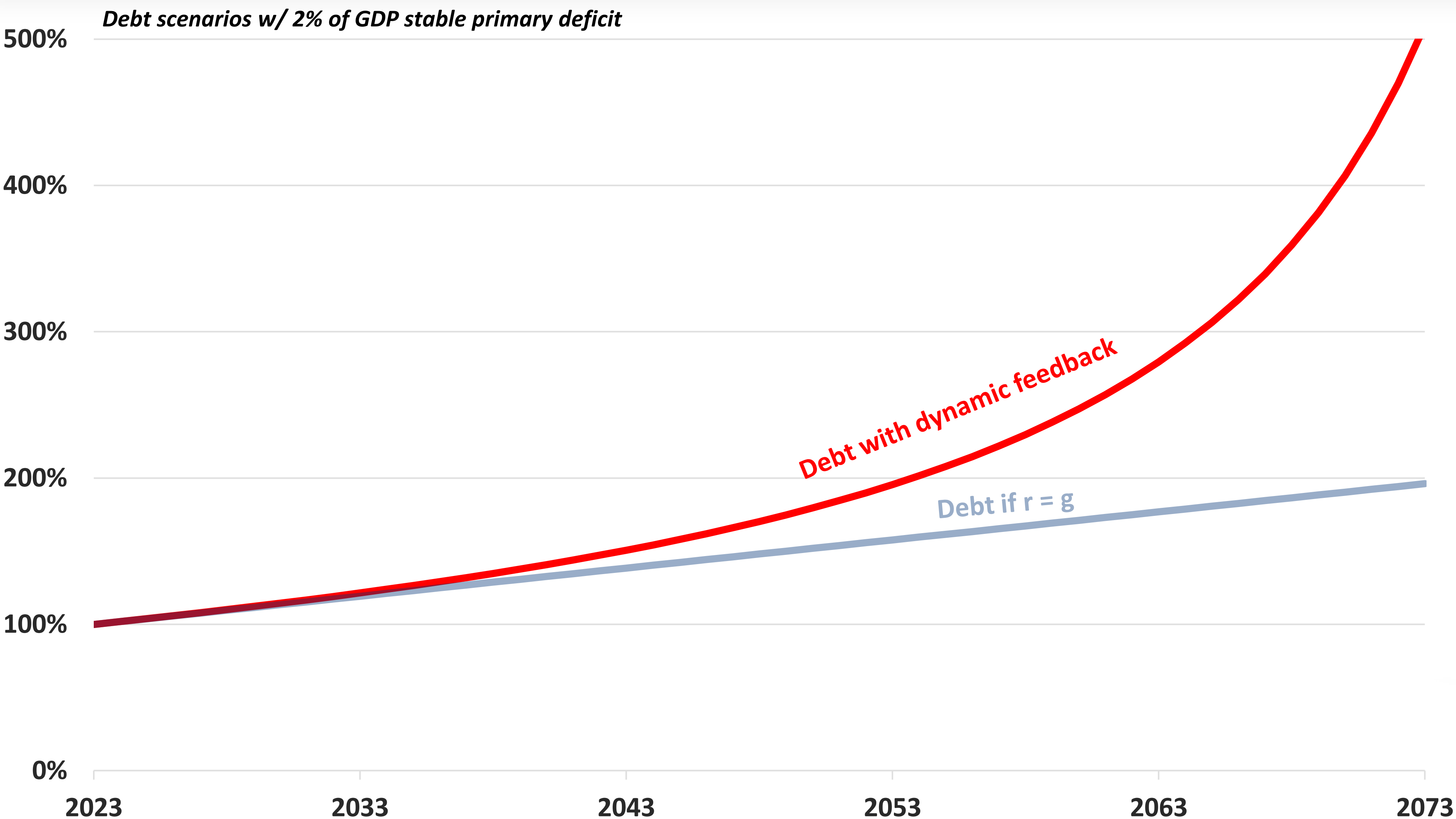
Debt Boosts R and Shrinks G



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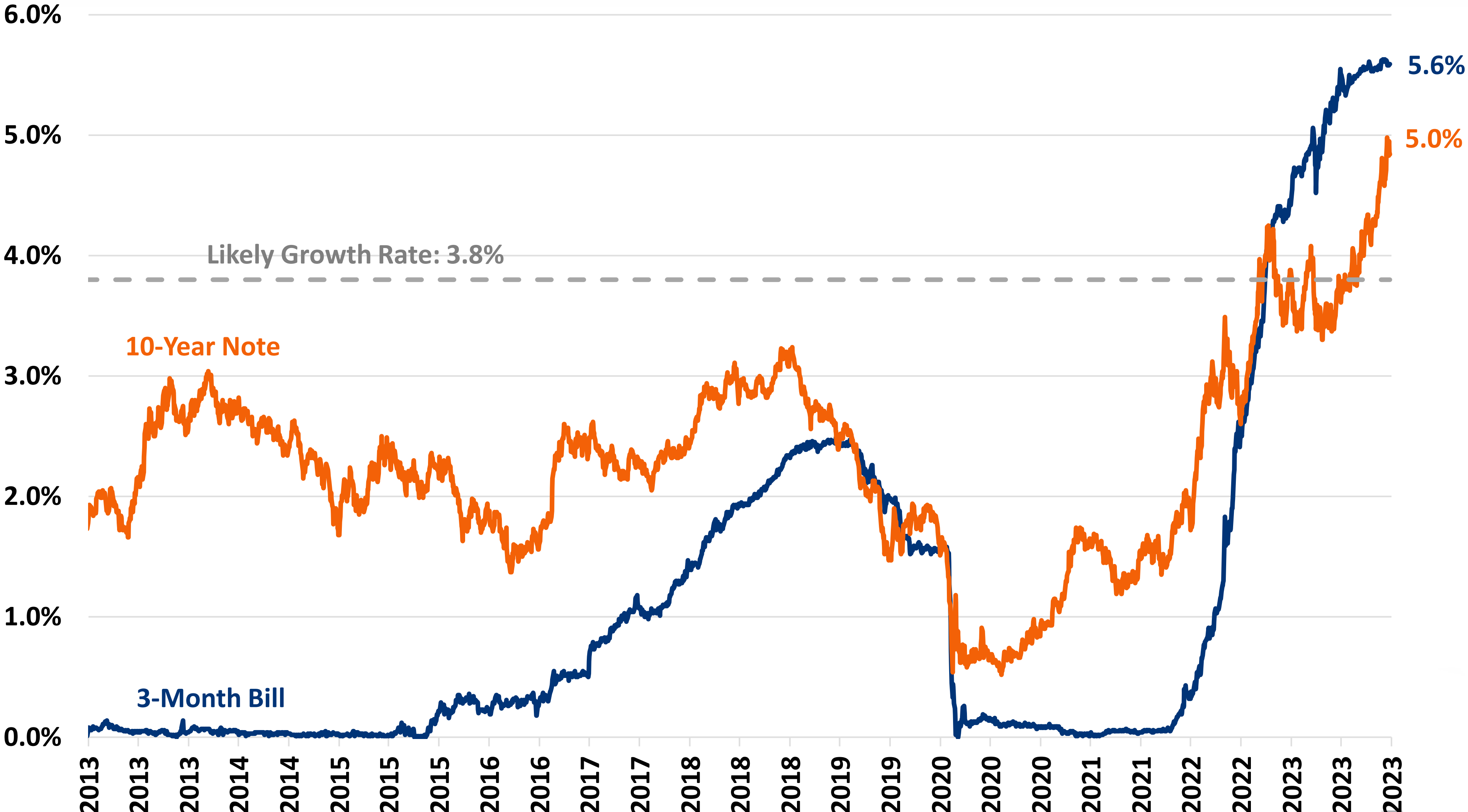
Sources: Committee for a Responsible Federal budget.

And Now, R>G on New Debt



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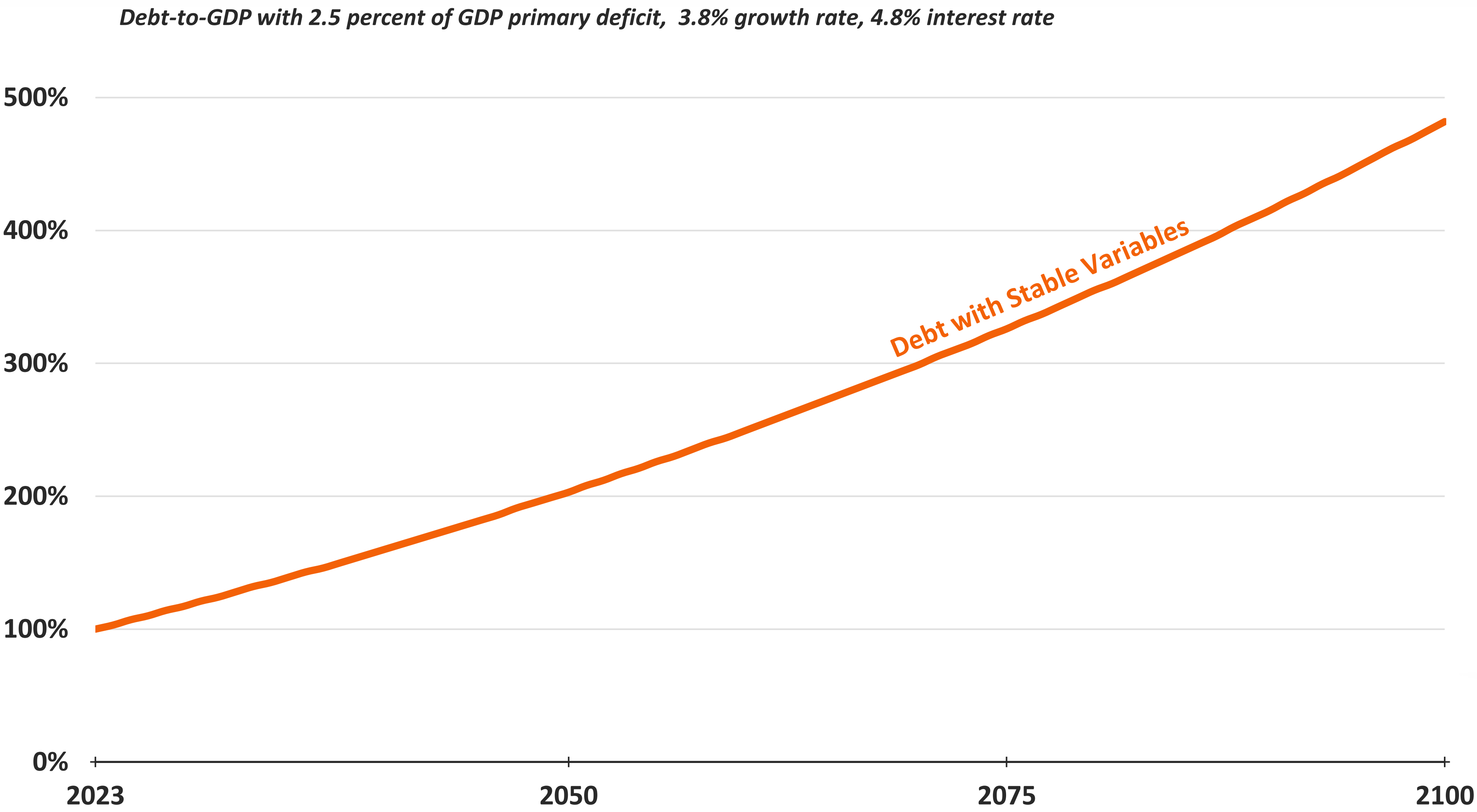
Source: U.S. Department of Treasury

Which Could Lead to Rapid Debt Growth



Sources: Committee for a Responsible Federal Budget.

*Interest rates increase 2bp and GDP growth decreases 0.25bp for every one percentage point increase in debt-to-GDP

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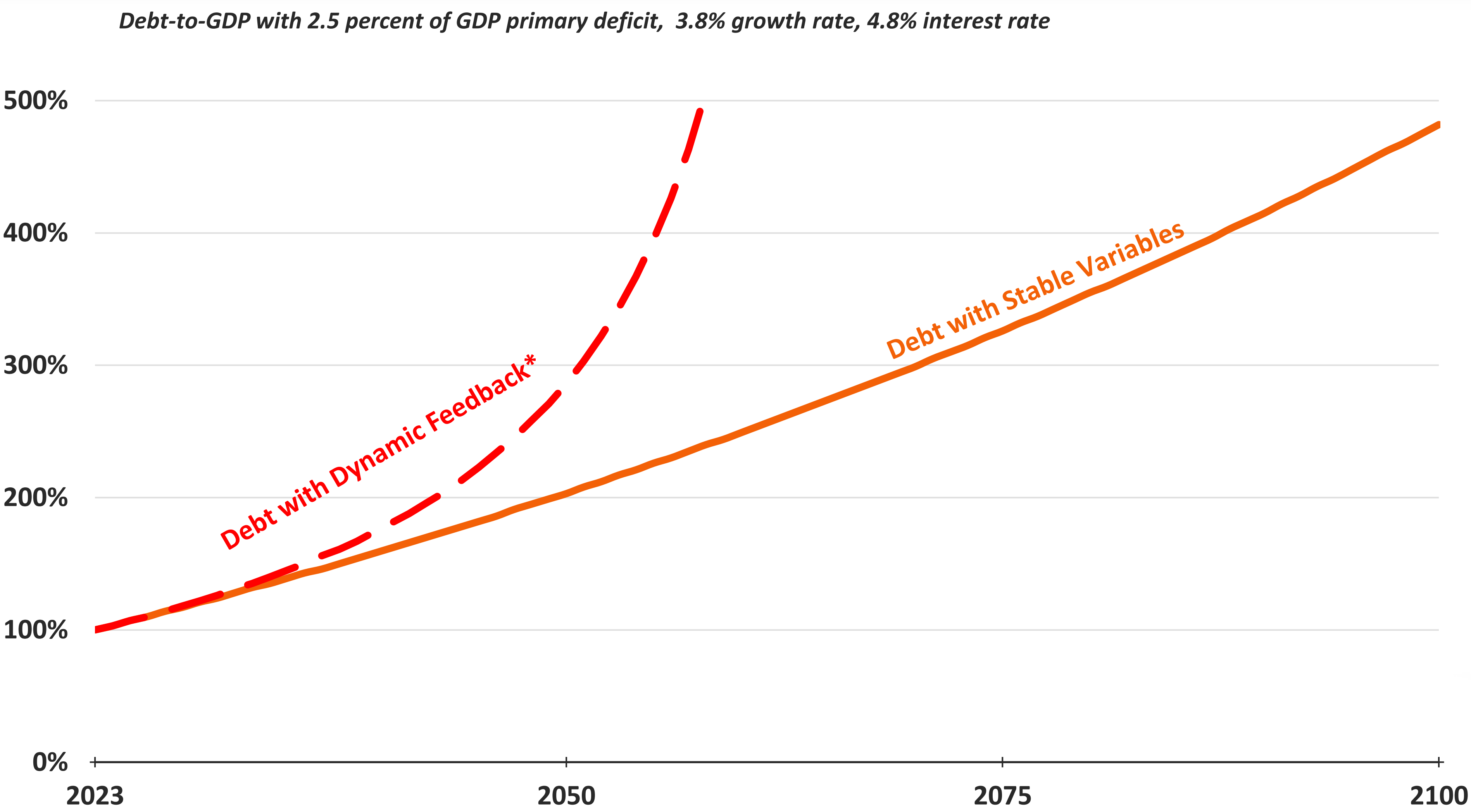
Or Even Spark An Uncontrollable Debt Spiral



Sources: Committee for a Responsible Federal Budget.

*Interest rates increase 2bp and GDP growth decreases 0.25bp for every one percentage point increase in debt-to-GDP

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Will Rates Stay High, Rise, or Come Back Down?

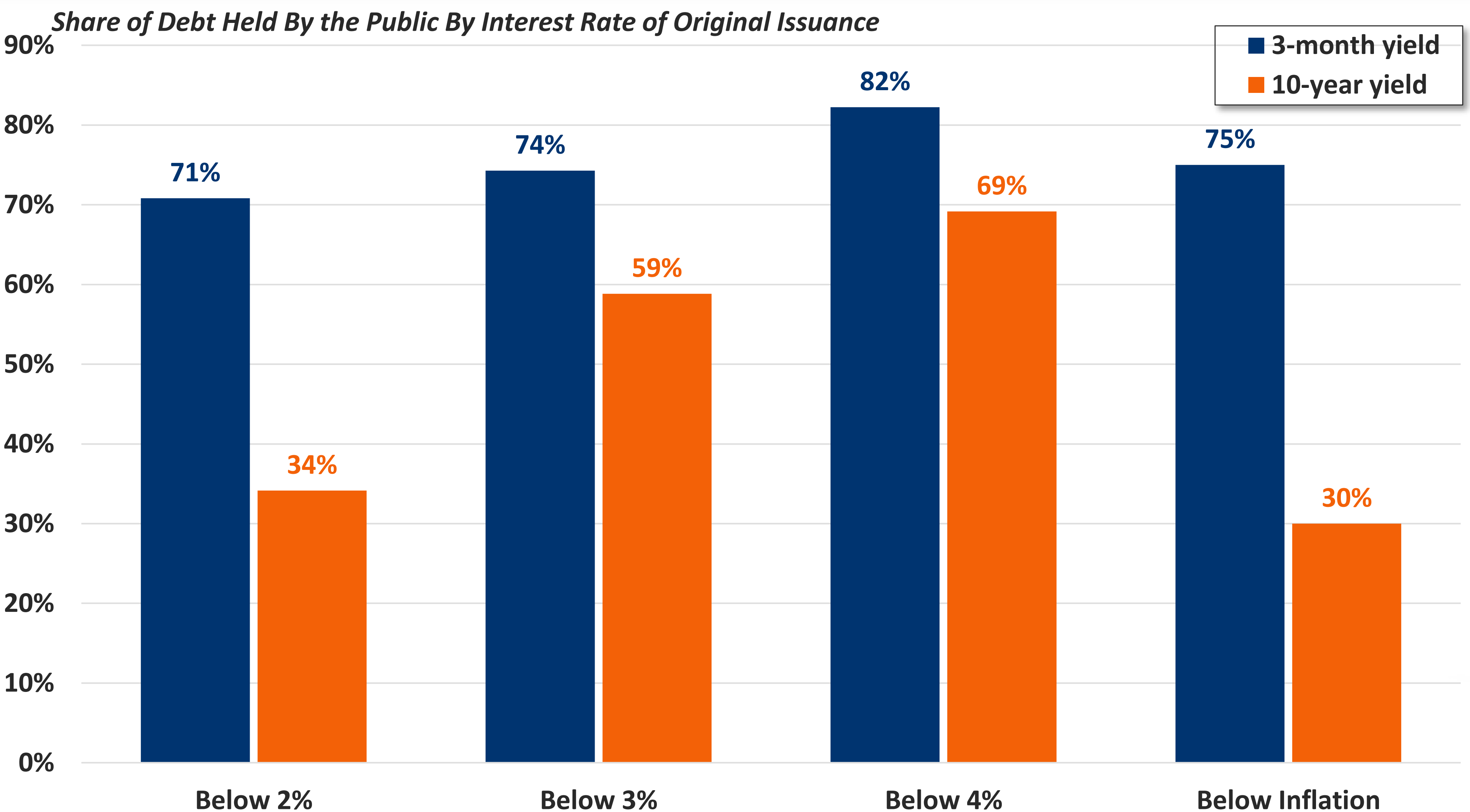
Reasons for Optimism:

- Fed plans to cut rates and eventually end QT
- Aging of population means more savers
- Rising global wealth means more savings
- Rising rates may reflect rising productivity growth

Reasons for Pessimism:

- Strong inflation & employment → higher for longer
- Aging of the aged means more dissavers
- Rising global income means more spenders
- Rising sovereign debt boost rates, slows growth

Most Debt Was Issued Under Low Interest Rates – Now It Is Rolling Over!



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Source: Congressional Budget Office, Department of the Treasury, Committee for a Responsible Federal Budget

Is Debt Sustainability Enough?

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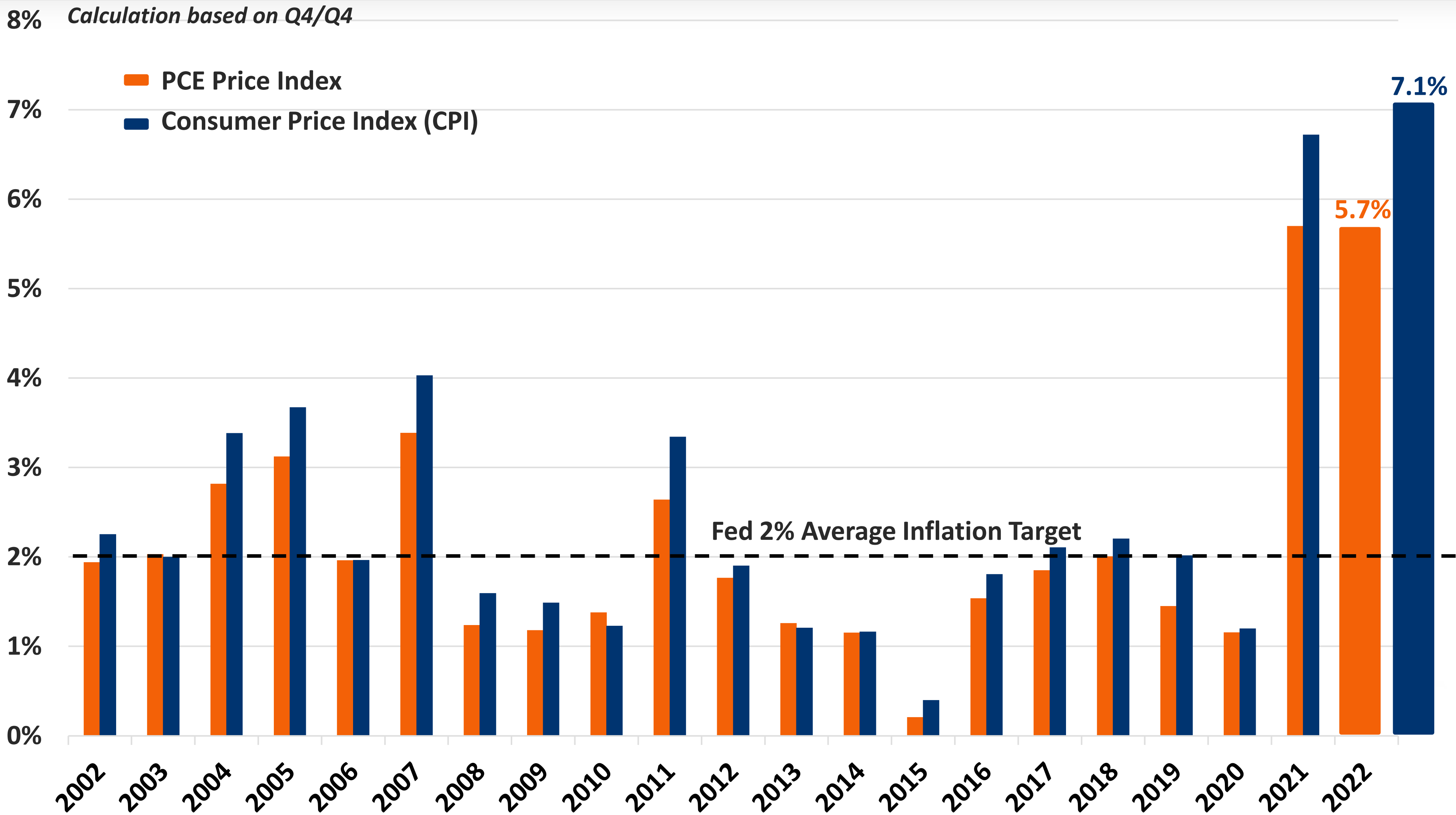
High and Rising Debt Has Many Other Consequences

- **High inflation** due to excessive demand
- **Slower economic and income growth** due to crowd out
- **Rising interest rates** due to crowd out
- **Rising interest payments** consuming tax revenue
- **Increased geopolitical risk** due to our lenders, declining fiscal flexibility, and weakened international standing
- **Less fiscal space** to respond to disasters or crises
- **Loss of policy dynamism**, leading to inefficient and outdated tax and spending policies
- **Risk of fiscal crisis**, where panic over debt causes financial market turmoil

Deficits Can Lead to High Inflation



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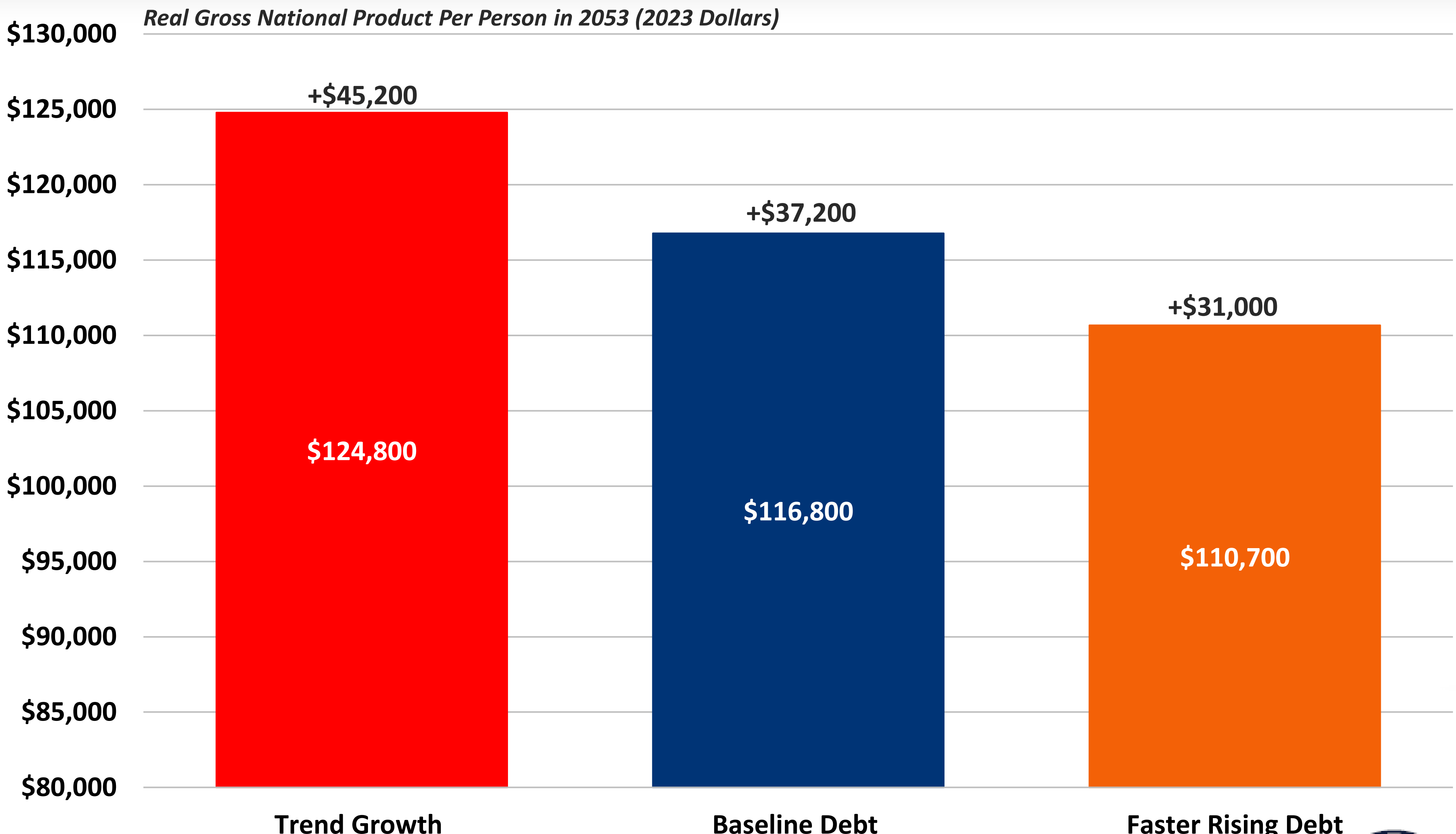
Source: Committee for a Responsible Federal Budget, Bureau of Economic Analysis, Bureau of Labor Statistics.

Debt Can Slow Income Growth



Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.
Numbers may not sum due to rounding.

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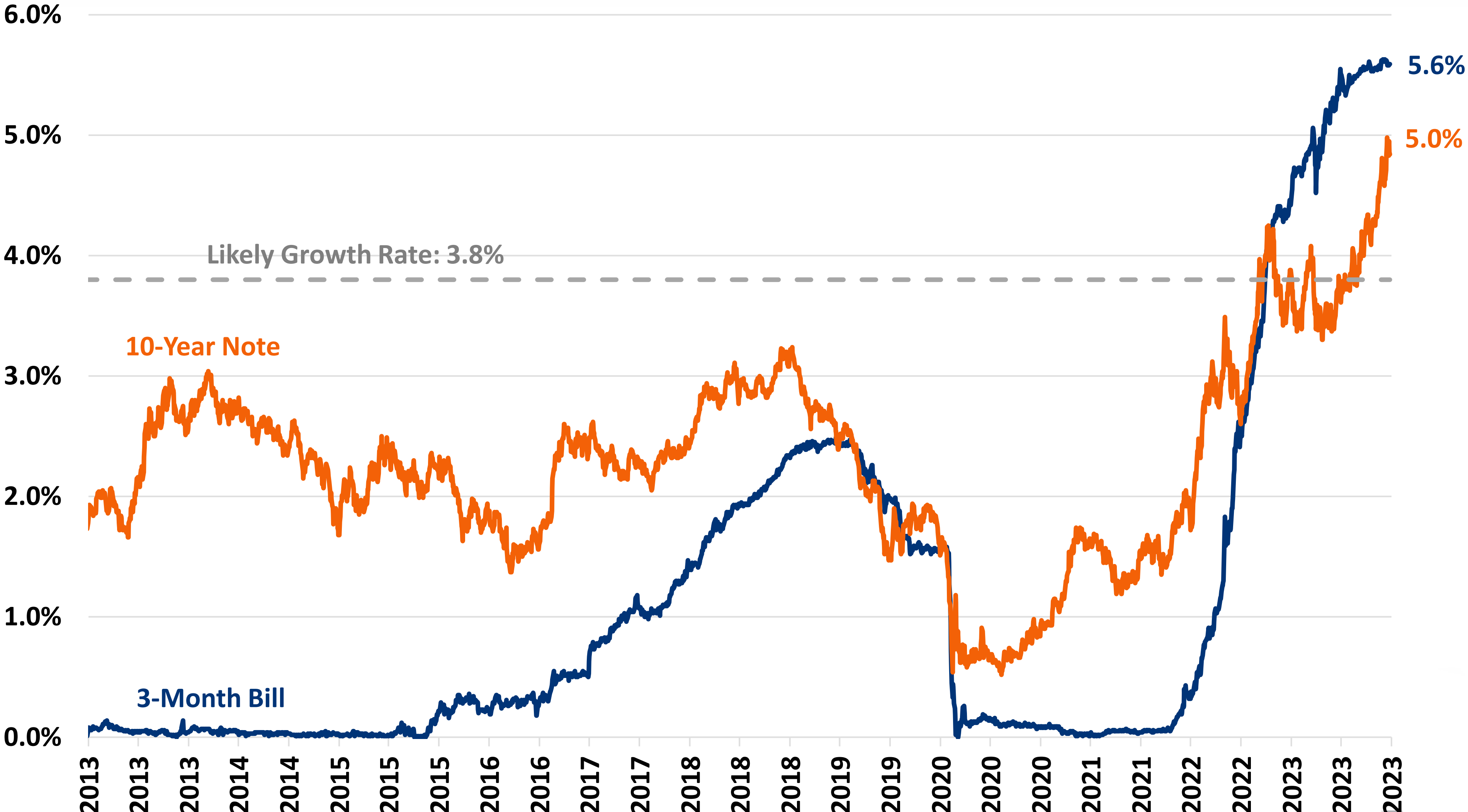
It Can Boost Interest Rates



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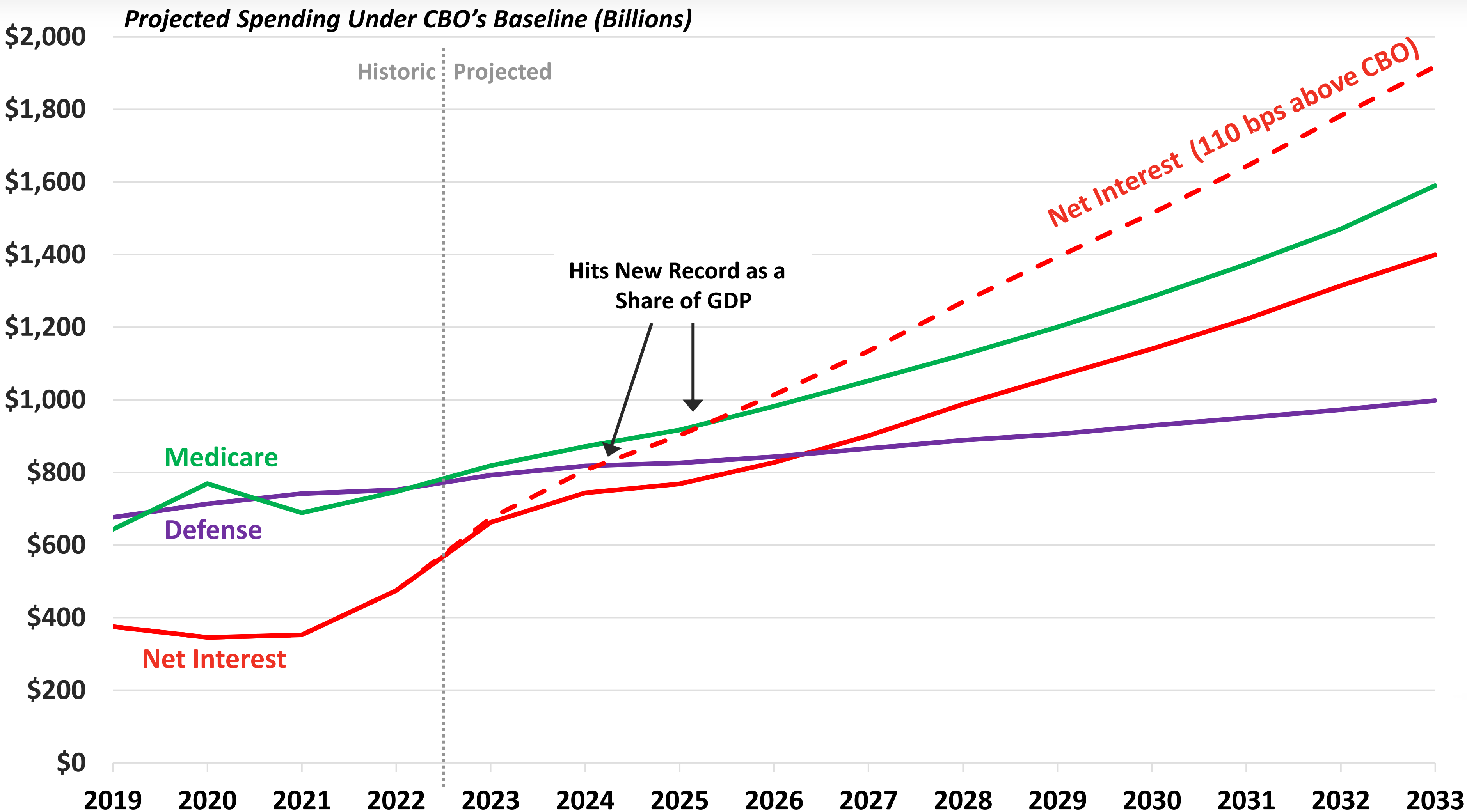
Source: U.S. Department of Treasury

And Explode Interest Costs



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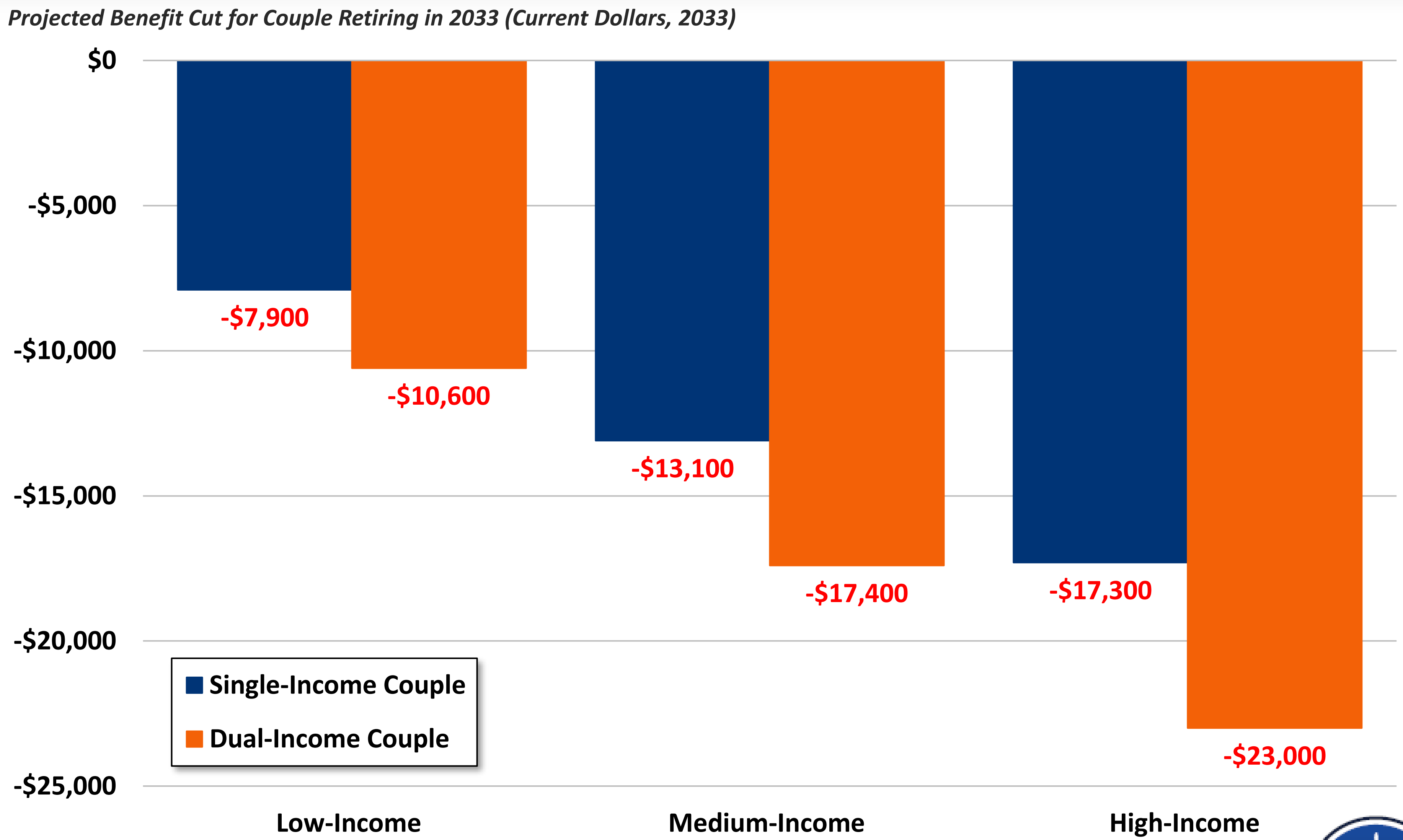
Sources: Congressional Budget Office, Committee for a Responsible Federal Budget

Looming Trust Fund Insolvency Could Mean Abrupt Cuts



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Sources: Social Security Administration and Committee for a Responsible Federal Budget.

The U.S. Needs Trillions of Dollars of Debt Reduction

Deficit Reduction Needed to Achieve Certain Fiscal Targets

	Through 2028 (5 years)	Through 2033 (10 years)
Debt Targets		
110 percent of GDP	n/a	$2.0 trillion
100 percent of GDP	$1.8 trillion	$5.9 trillion
90 percent of GDP	$5.0 trillion	$9.8 trillion
80 percent of GDP	$8.3 trillion	$13.8 trillion
Deficit Targets*		
4 percent of GDP	$2.0 trillion	$6.4 trillion
3 percent of GDP	$3.3 trillion	$8.7 trillion
On-Budget Balance	$6.2 trillion	$12.7 trillion
Primary Balance	$3.6 trillion	$8.8 trillion
Balance	$7.3 trillion	$15.7 trillion

If Not Now, When?