Press Release

Douglas Holtz-Eakin: Is Federal Debt a Problem?

ANDREW EVANS | JUNE 13, 2019

In this morning's Daily Dish, AAF President Douglas Holtz-Eakin examines the growing assertion that federal debt is not a problem. While many are saying that federal debt is not a great concern because of low interest rates, Holtz-Eakin looks at the math and concludes that such thinking is too optimistic: It places the living standards of future generations at the mercy of low interest rates, strong economic growth, or both.

An excerpt:

> An important contribution of Oliver Blanchard is to note that the current situation of low interest rates is more the rule than the exception…The contribution of Lawrence Summers and Jason Furman was to argue that policymakers should not try to reduce deficits — just that they should not make them worse…The position of the Trump Administration has been that growth is the key; it has made no serious attempt to address budget issues.
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> **But in each case, one still must eventually at least stabilize the debt-to-GDP ratio**, if not reduce it. To see how the alternatives fit together, consider that the Congressional Budget Office projects a primary deficit for 2029 of $482 billion. It also projects that the debt-to-GDP ratio is 92 percent (d=0.918). It further projects that the growth rate of (nominal) GDP is 3.8 percent (g=0.038) and that the interest rate is 3.2 percent (r = 0.032). Since g > r, the claim is that we can still run a primary deficit and keep the fiscal house in order. **Unfortunately, if you merely want to stabilize the ratio of debt to GDP (not have it decline), the primary deficit in 2029 has to be $163 billion. In the parlance of D.C., that means you would have to cut the primary deficit by roughly $320 billion — or $3.2 trillion over 10 years. That is serious work!**

Read today's Dish.