

# Is U.S. Government Debt Different?

Franklin Allen

University of Pennsylvania

Peterson Institute for International Economics

October 23, 2013

# Is a default possible?

- Chapter 5 by Michael W. McConnell addresses this
- 14<sup>th</sup> Amendment – Section 4 – “The debt clause”

“The validity of the public debt of the United States, authorized by law, including debts incurred for the payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned.”

- The Gold Clause Cases: *Perry v. United States*

# Is a default possible?

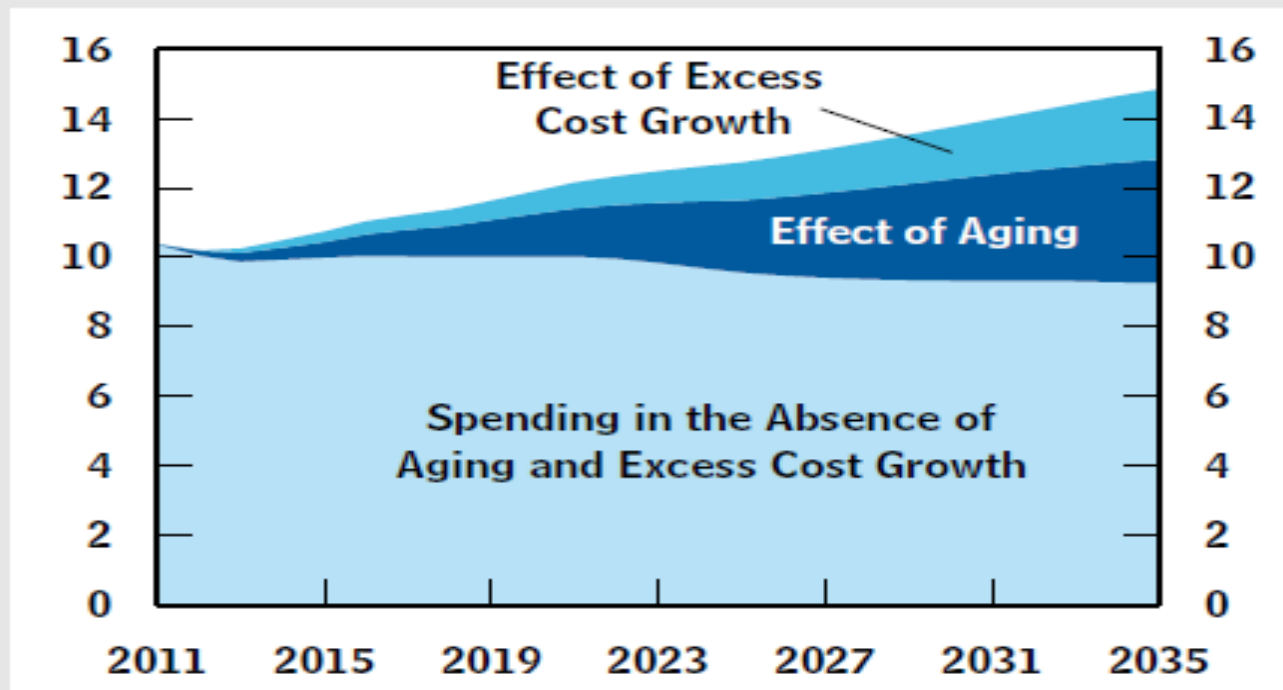
- What is likely to happen if the debt ceiling is hit and no agreement on extending it is reached?
- Chapter 6 by Howell E. Jackson addresses this issue (see also the Appendix on p. 255)
- FIFO
- Perhaps the most likely outcome is FIFO informed by the debt clause and other priorities

# The long term problem

- The current problems are a prelude to a significant long term problem that we have in the U.S.
- Entitlement spending is set to increase significantly beyond tax revenues
- Without cuts in expenditures and/or increases in taxes debt is set to increase significantly
- Chapter 9 by Deborah Lucas assesses possible paths for the imbalance and their effects on debt

## Sources of Growth in Federal Spending on Major Mandatory Health Care Programs and Social Security, 2011 to 2035

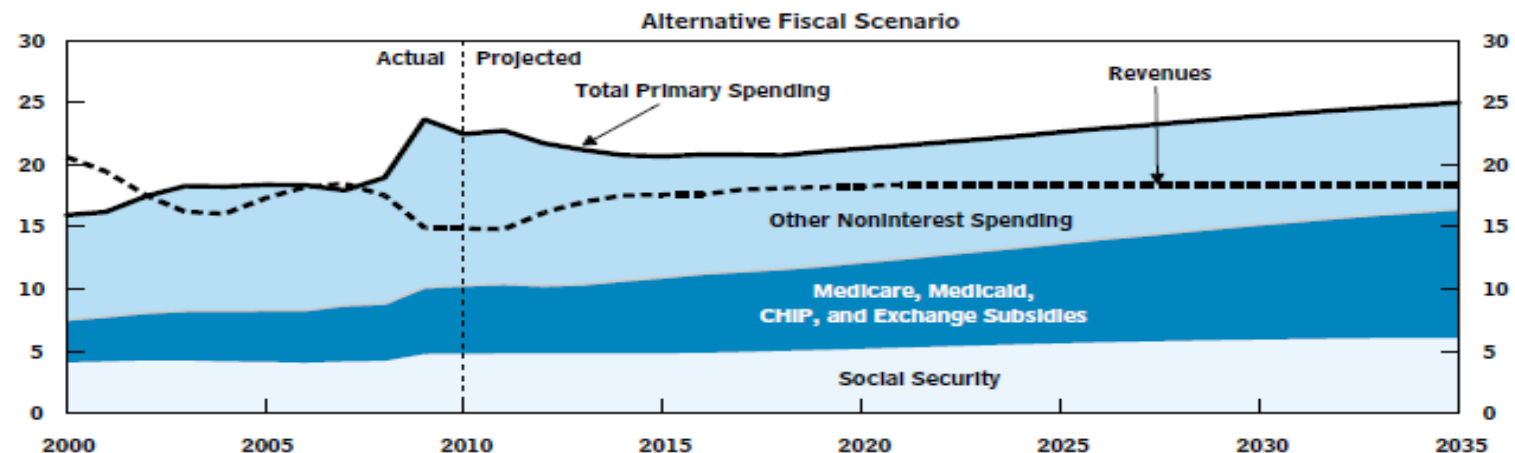
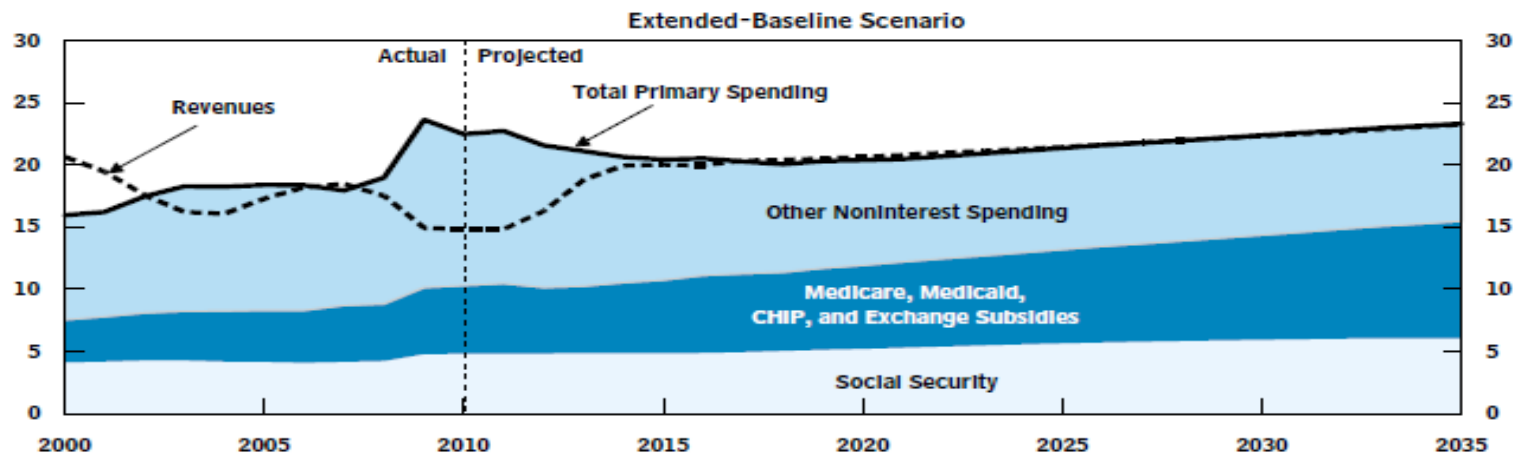
(Percentage of gross domestic product)



Source: Congressional Budget Office.

# Primary Spending and Revenues, by Category, Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

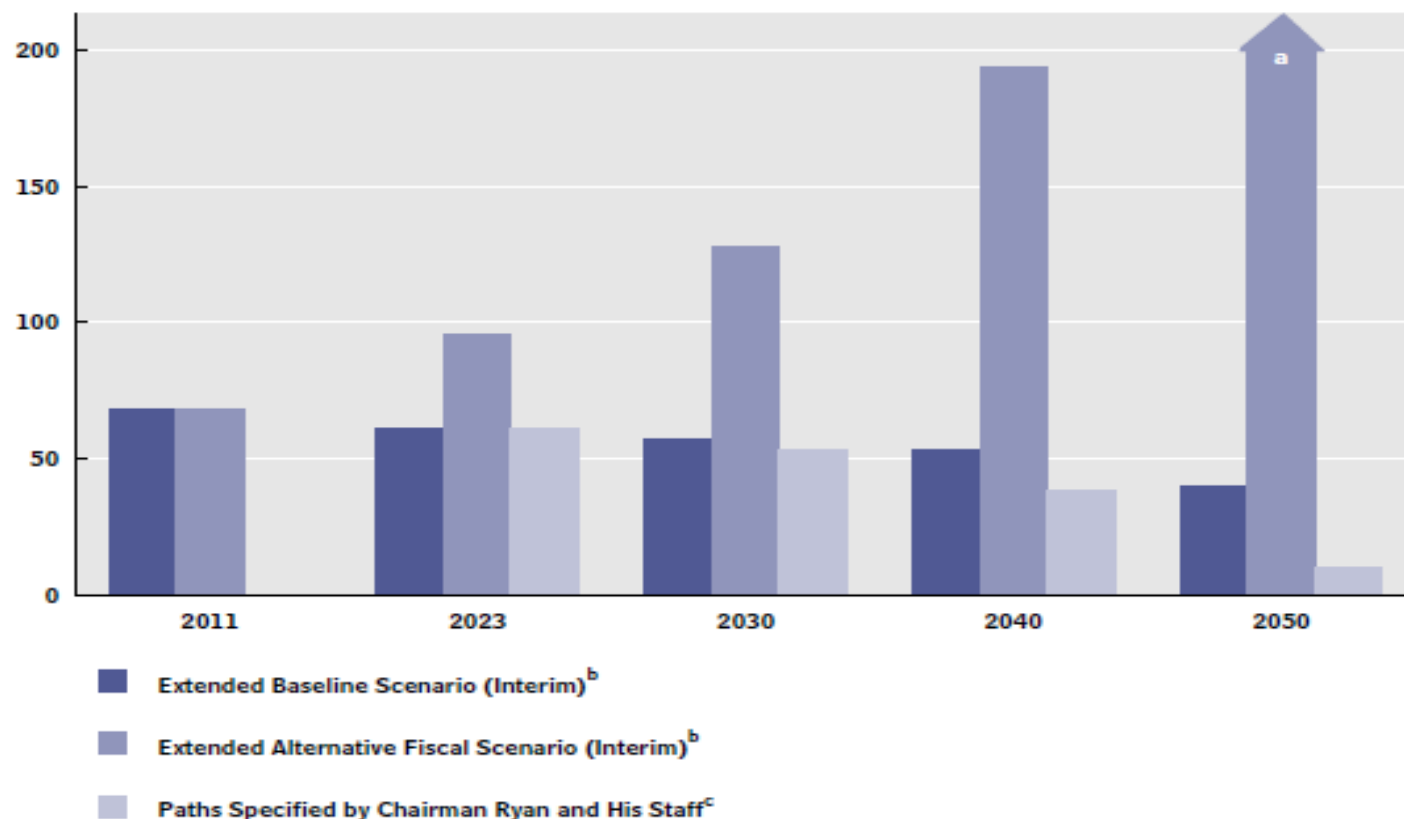
Notes: Primary spending refers to all spending other than interest payments on federal debt.

The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2021 and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period. (For details, see Table 1-1 on page 4.)

CHIP = Children's Health Insurance Program.

## Debt Held by the Public

(Percentage of gross domestic product)



Source: Congressional Budget Office.

- Debt would be greater than 200 percent of gross domestic product.
- The extended baseline scenario and extended alternative fiscal scenario reflect projections through 2022 from *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012) extrapolated into future years using rates of interest and growth rates for revenues and spending from *CBO's 2011 Long-Term Budget Outlook* (June 2011).
- Amounts of revenues and spending for 2012 through 2022 were provided by Chairman Ryan and his staff. The specified paths of revenues and spending thereafter would set federal spending for major health care programs according to specified formulas, leave Social Security spending as it would be under current law, and set all other spending (excluding interest) and revenues on the basis of specified growth rates or specified percentages of GDP. For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established by the Affordable Care Act.

# How heavily taxed is the U.S.?

- Chapter 10 by James R. Hines Jr. compares the U.S. tax system with that of other advanced industrialized countries
- Although many people in the U.S. think of us as being heavily taxed, relative to other countries, this is not the case
- How do we compare in total and in terms of different types of tax?



# Total tax revenue as a percentage of GDP

<b>Country</b>	<b>2006</b>	<b>2010</b>
Canada	33.3	31.0
France	44.4	42.9
Germany	35.6	36.3
Italy	42.3	43.0
Japan	28.0	26.9
United Kingdom	36.4	35.0
United States	27.9	24.8

# Taxes on goods and services as a percentage of GDP

<b>Country</b>	<b>2006</b>	<b>2010</b>
Canada	8.1	7.5
France	11.1	10.7
Germany	10.1	10.7
Italy	11.1	11.1
Japan	5.2	5.1
United Kingdom	10.6	10.8
United States	4.8	4.5

# Social security taxes as a percentage of GDP

<b>Country</b>	<b>2006</b>	<b>2010</b>
Canada	4.9	4.8
France	16.4	16.6
Germany	13.7	14.2
Italy	12.5	13.6
Japan	10.2	11.0
United Kingdom	6.7	6.7
United States	6.6	6.5

# Corporate tax revenue as a percentage of GDP

Country	2006	2010
Canada	3.8	3.3
France	3.0	2.1
Germany	2.2	1.5
Italy	3.4	2.8
Japan	4.7	2.8
United Kingdom	3.9	3.1
United States	3.4	2.7

# Can the U.S. actually achieve long term fiscal sustainability?

- Chapter 11 by James Kwak considers this issue
- From a technical point of view the answer is definitely yes
- The real problem is that from a political point of view this does not seem likely
- The current political deadlock illustrates the basic problem

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EDITED BY  
FRANKLIN ALLEN  
ANNA GELPERN  
CHARLES MOONEY  
DAVID SKEEL

## CONTRIBUTORS:

*Donald S. Bernstein (Davis Polk & Wardwell LLP)*

*William W. Bratton (University of Pennsylvania)*

*Peter R. Fisher (BlackRock)*

*Richard J. Herring (University of Pennsylvania)*

*James R. Hines Jr. (University of Michigan)*

*Howell E. Jackson (Harvard Law School)*

*Jeremy Kreisberg (J.D. candidate - Harvard Law School)*

*James Kwak (University of Connecticut)*

*Deborah Lucas (MIT - Sloan School of Management)*

*Michael W. McConnell (Stanford Law School)*

*Jim Millstein (Millstein & Co., LLC)*

*Charles W. Mooney Jr. (University of Pennsylvania)*

*Kelley O'Mara (J.D. candidate - Harvard Law School)*

*Zoltan Pozsar (International Monetary Fund)*

*Steven L. Schwarcz (Duke University)*

*Richard Squire (Yale Law School)*

*Richard Sylla (New York University)*

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