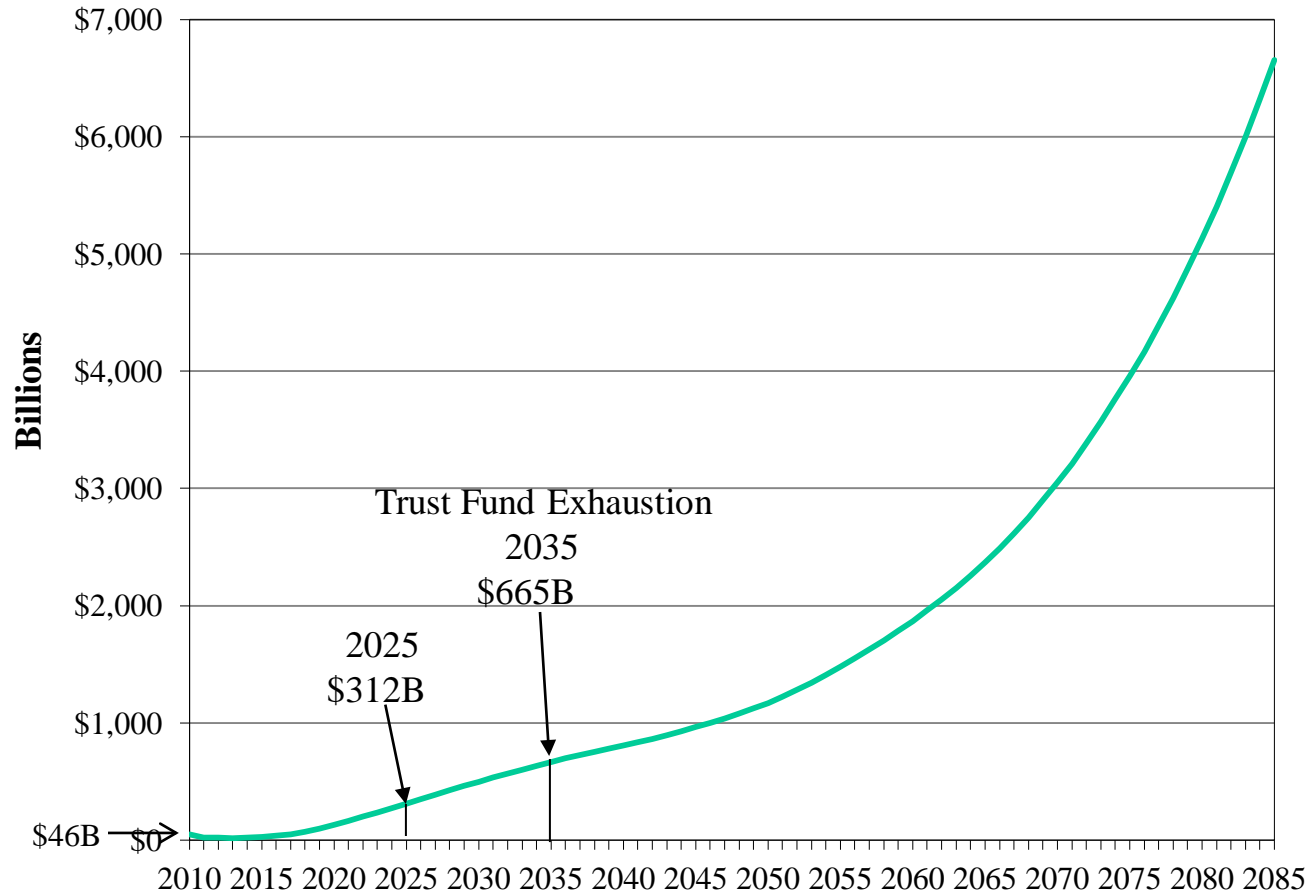


# **The Debt Crisis: Any Role For Fiscal Policy?**

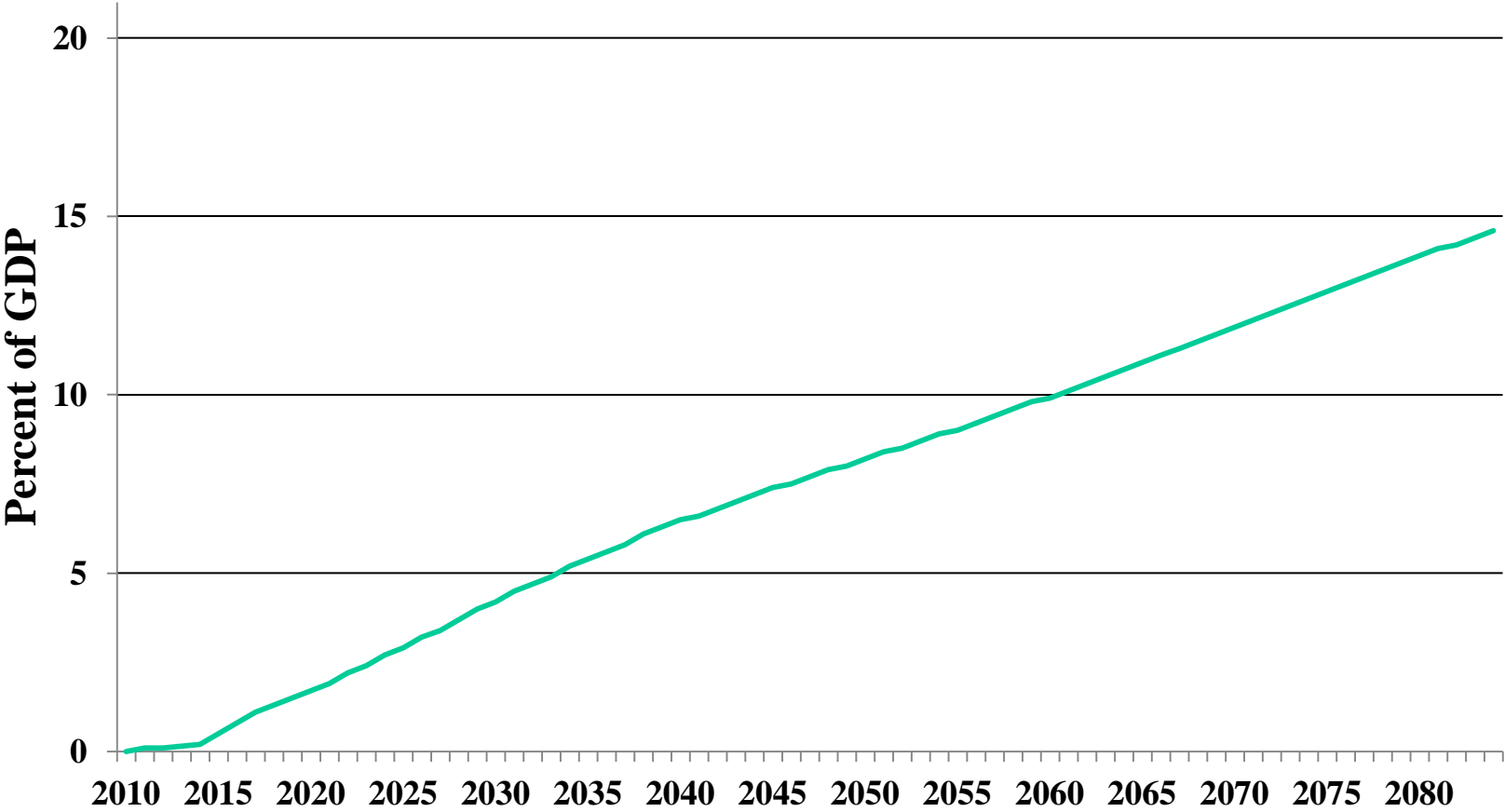
Thomas R. Saving  
Director, Private Enterprise Research Center  
Jeff Montgomery Professor of Economics  
Texas A&M University  
Immediate Past Public Trustee: SS and Medicare Trust Funds



# Social Security Deficits in 2011\$

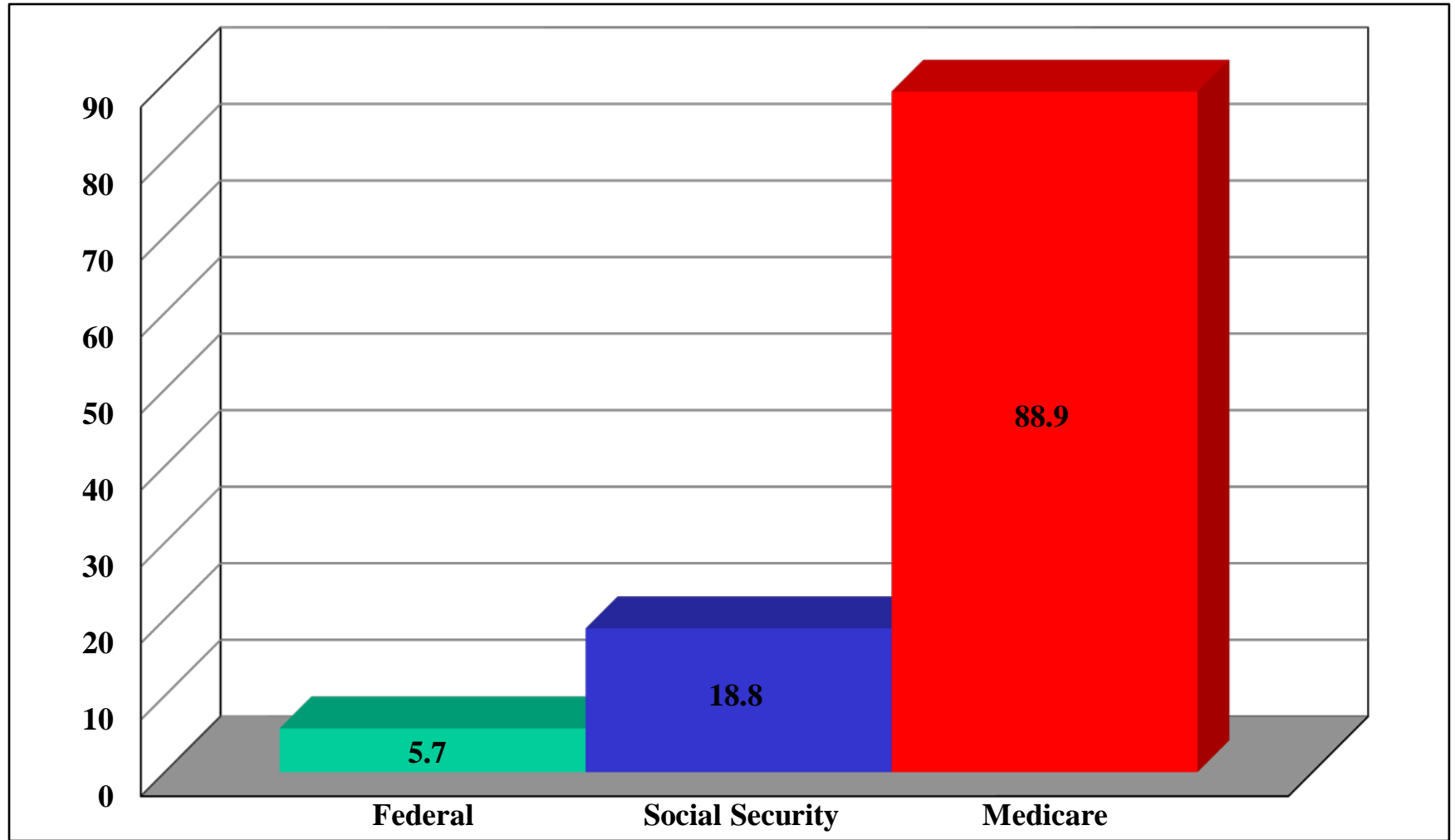


# CBO Projected Increase in Federal Health Care Spending Percent of GDP

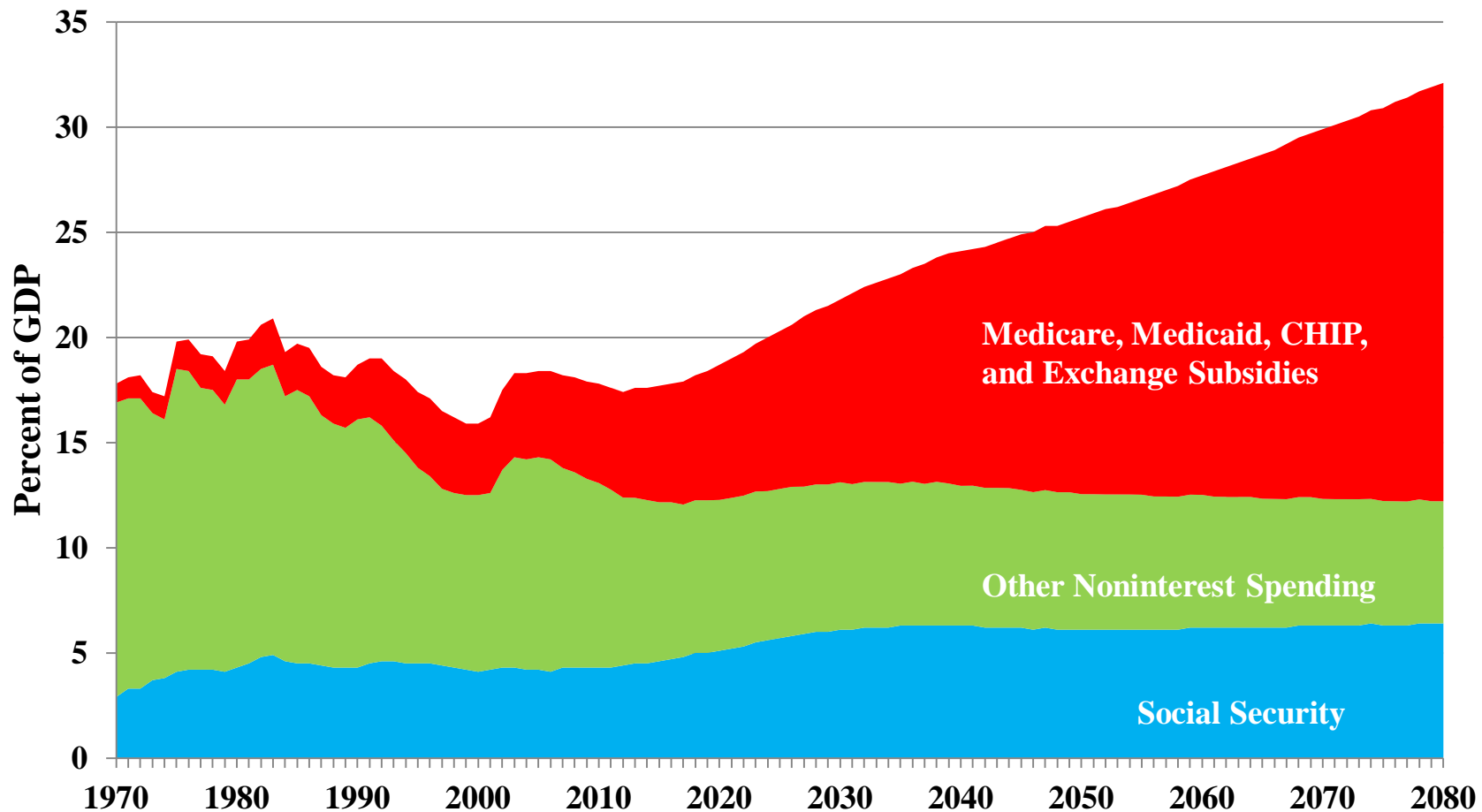


# U.S. Entitlement Debts

## Trillions Current Dollars



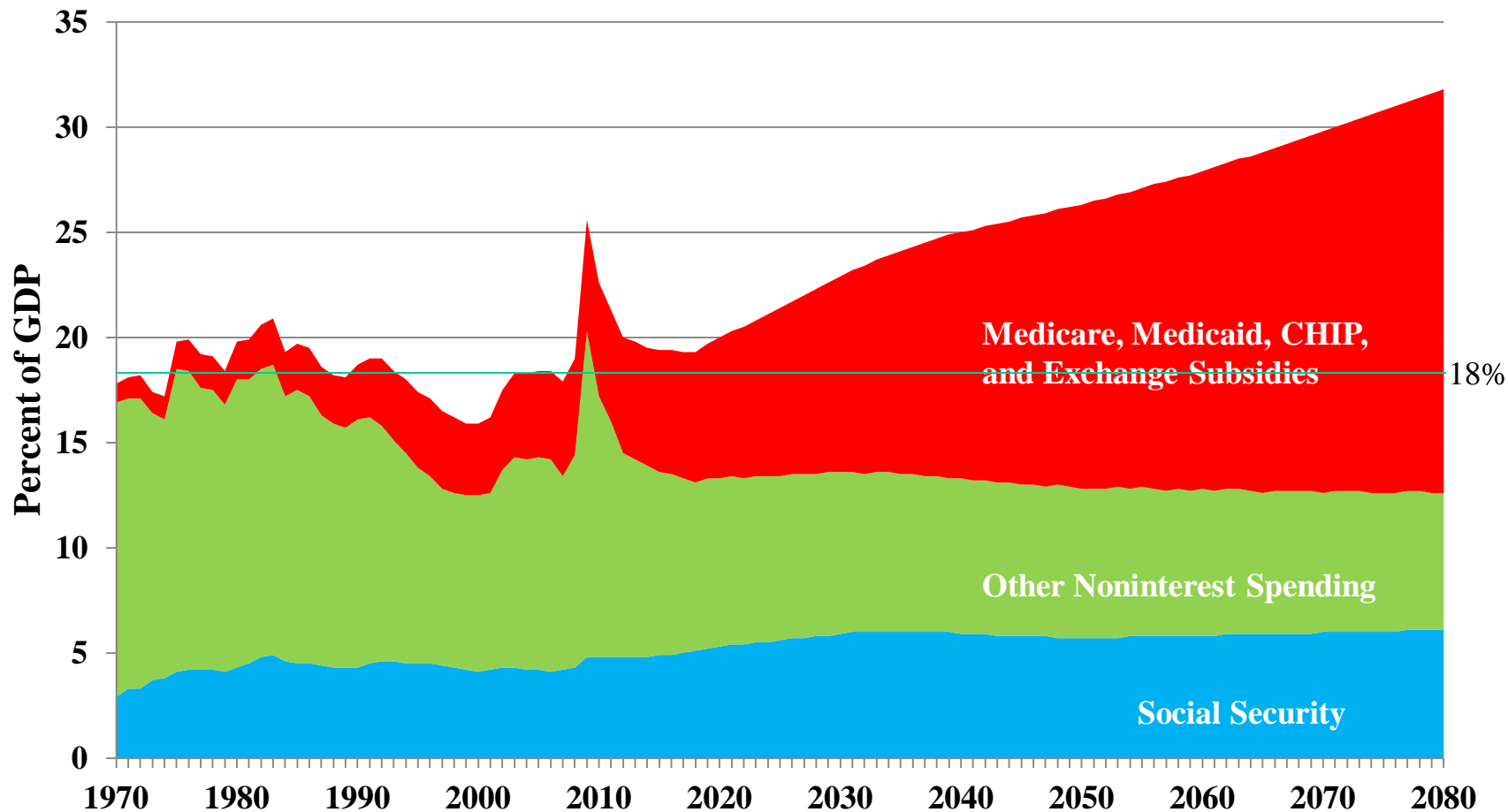
# Total Primary Federal Spending as a Percent of GDP 1970-2080



Source: Congressional Budget Office, Long-Term Budget Outlook. Extended Baseline Scenario. December 2007.



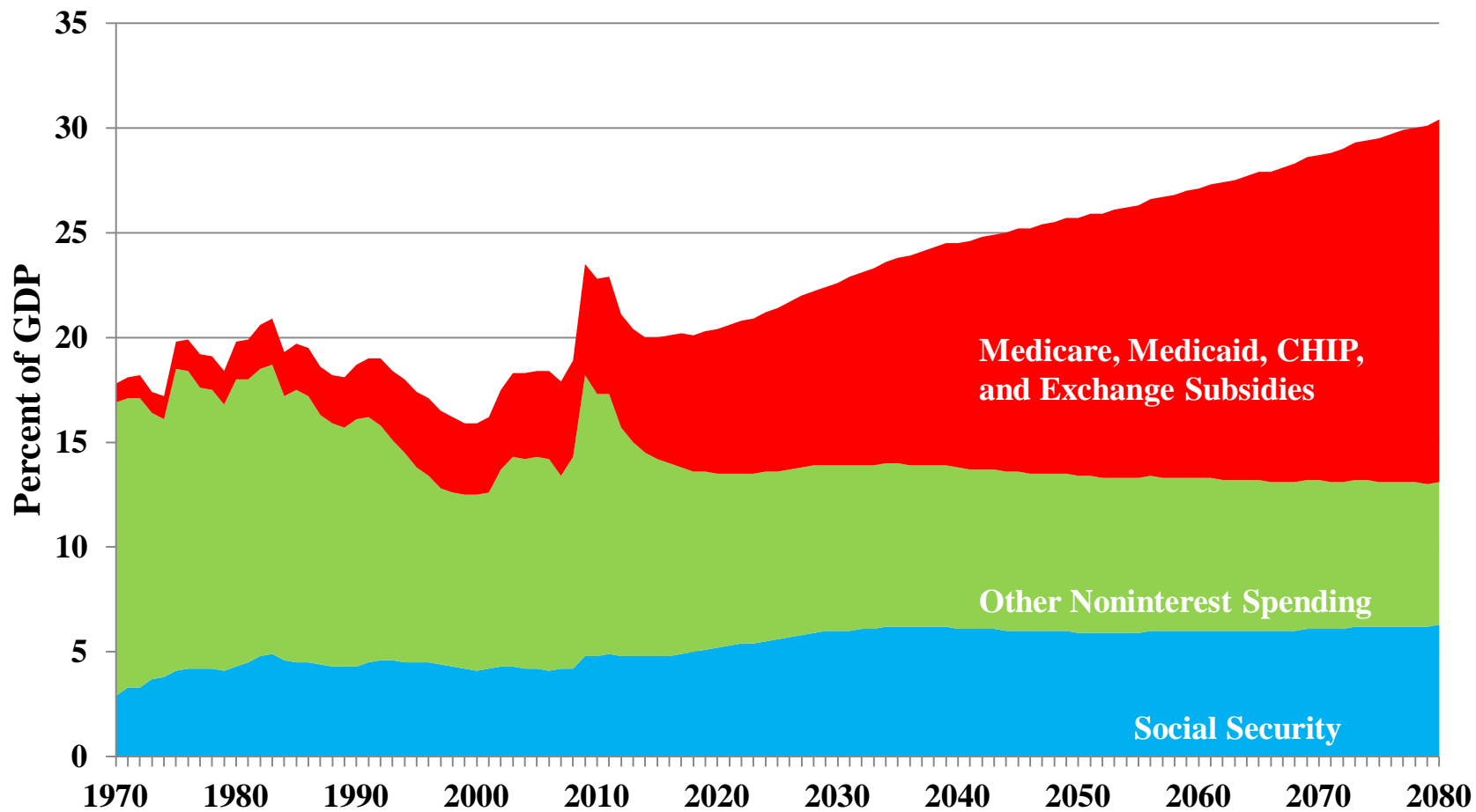
# Total Primary Federal Spending as a Percent of GDP 1970-2080



Source: Congressional Budget Office, Long-Term Budget Outlook. Extended Baseline Scenario. June 2009.



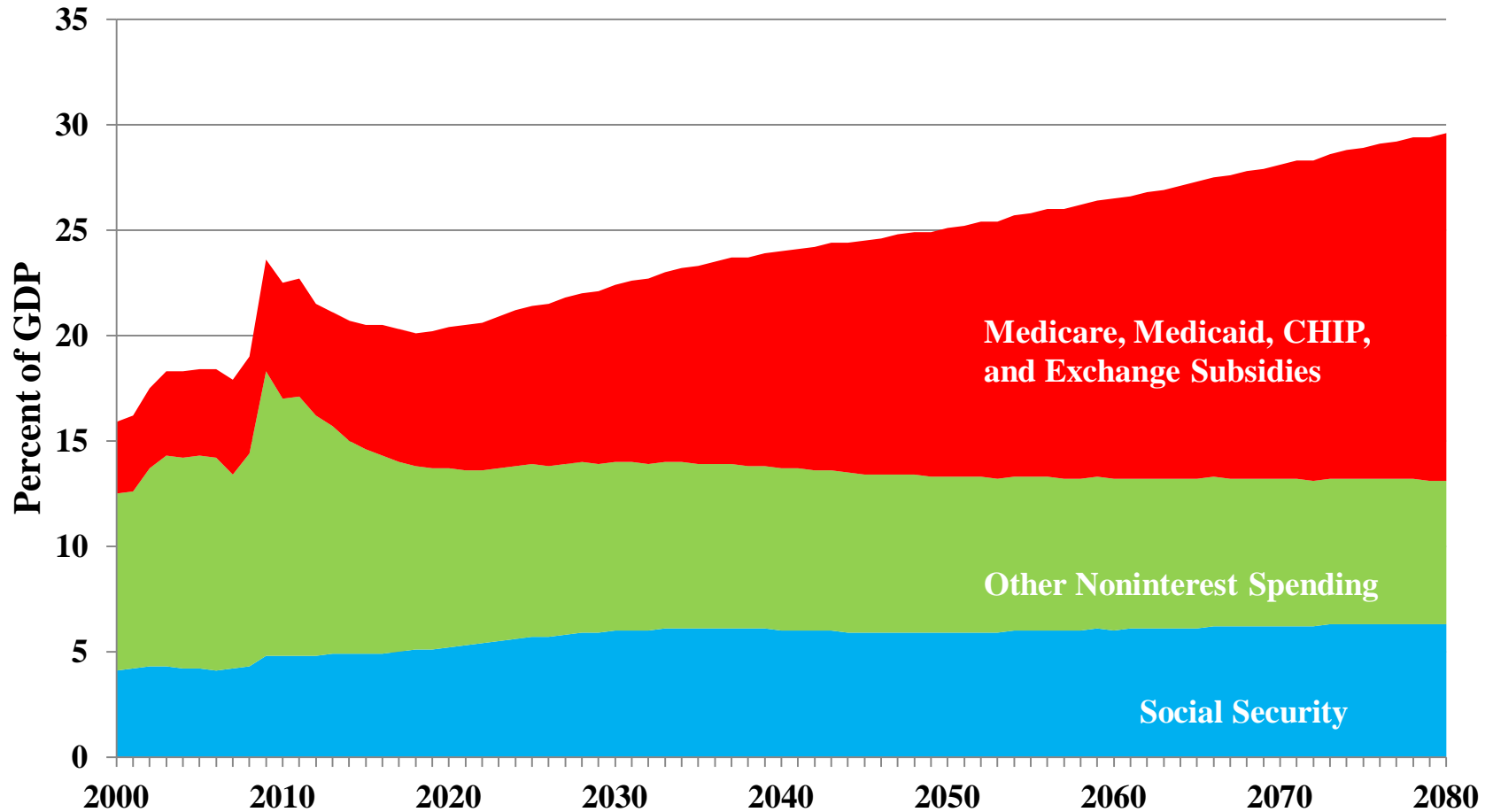
# Total Primary Federal Spending as a Percent of GDP 1970-2080



Source: Congressional Budget Office, Long-Term Budget Outlook. Extended Baseline Scenario. June 2010.



# Total Primary Federal Spending as a Percent of GDP 1970-2080



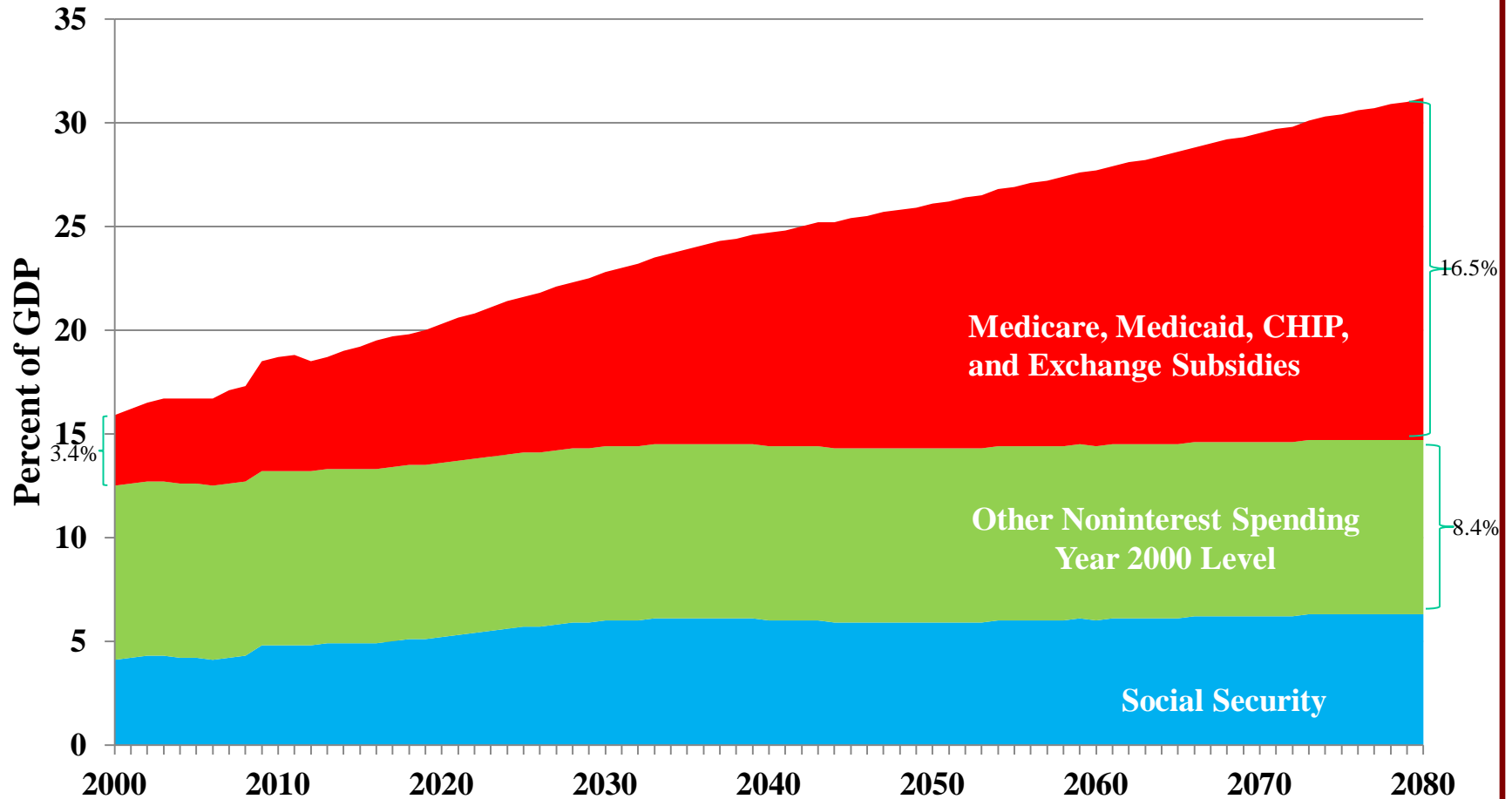
Source: Congressional Budget Office, 2011 Long-Term Budget Outlook. Extended Baseline Scenario. June 2011.





# Total Primary Federal Spending 2000 Noninterest Spending

Percent of GDP 2000-2080



Source: SS and Health Care, Congressional Budget Office, 2011 Long-Term Budget Outlook. Extended Baseline Scenario. June 2011.

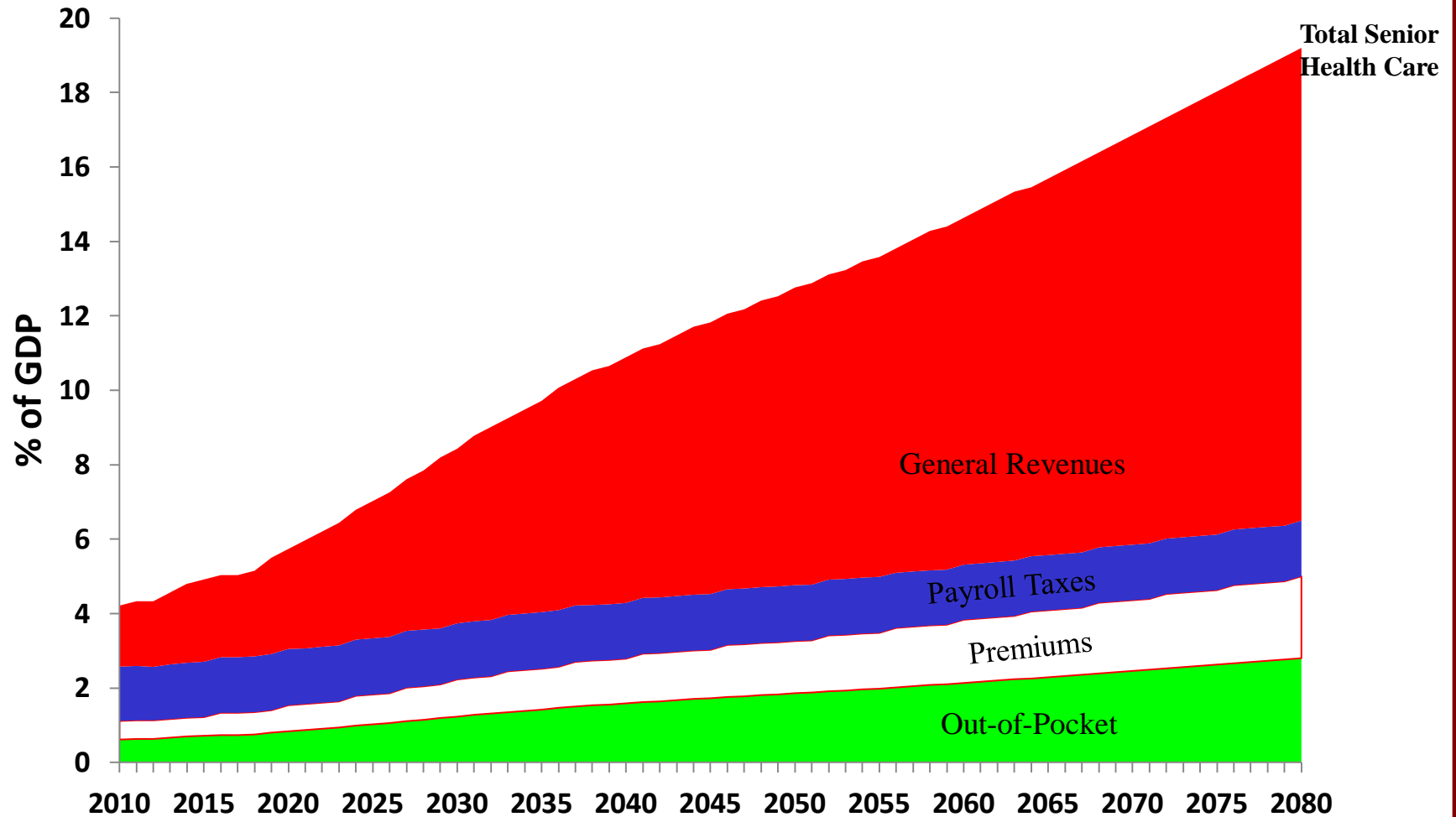


# Medicare Drives the Bus

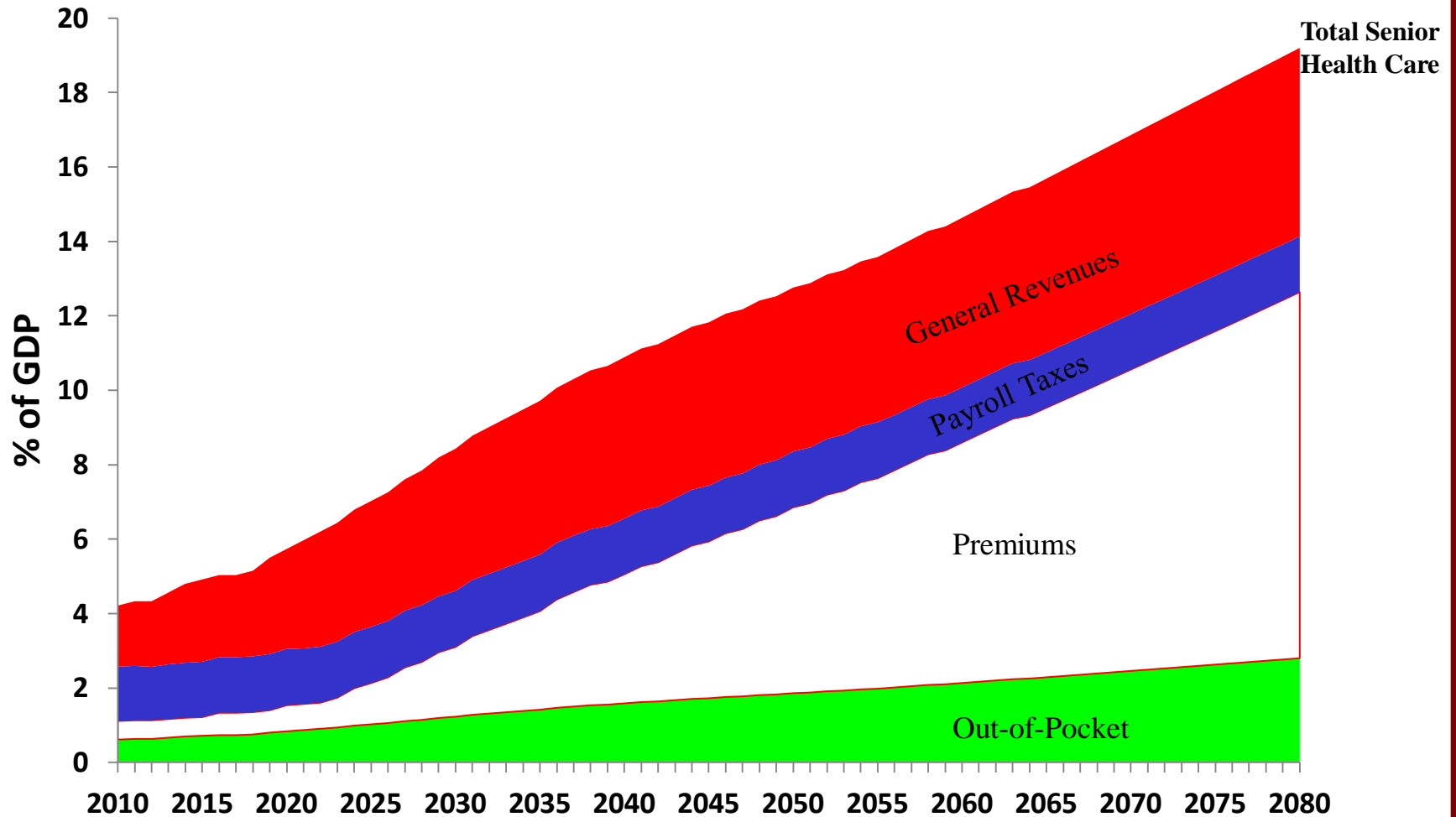


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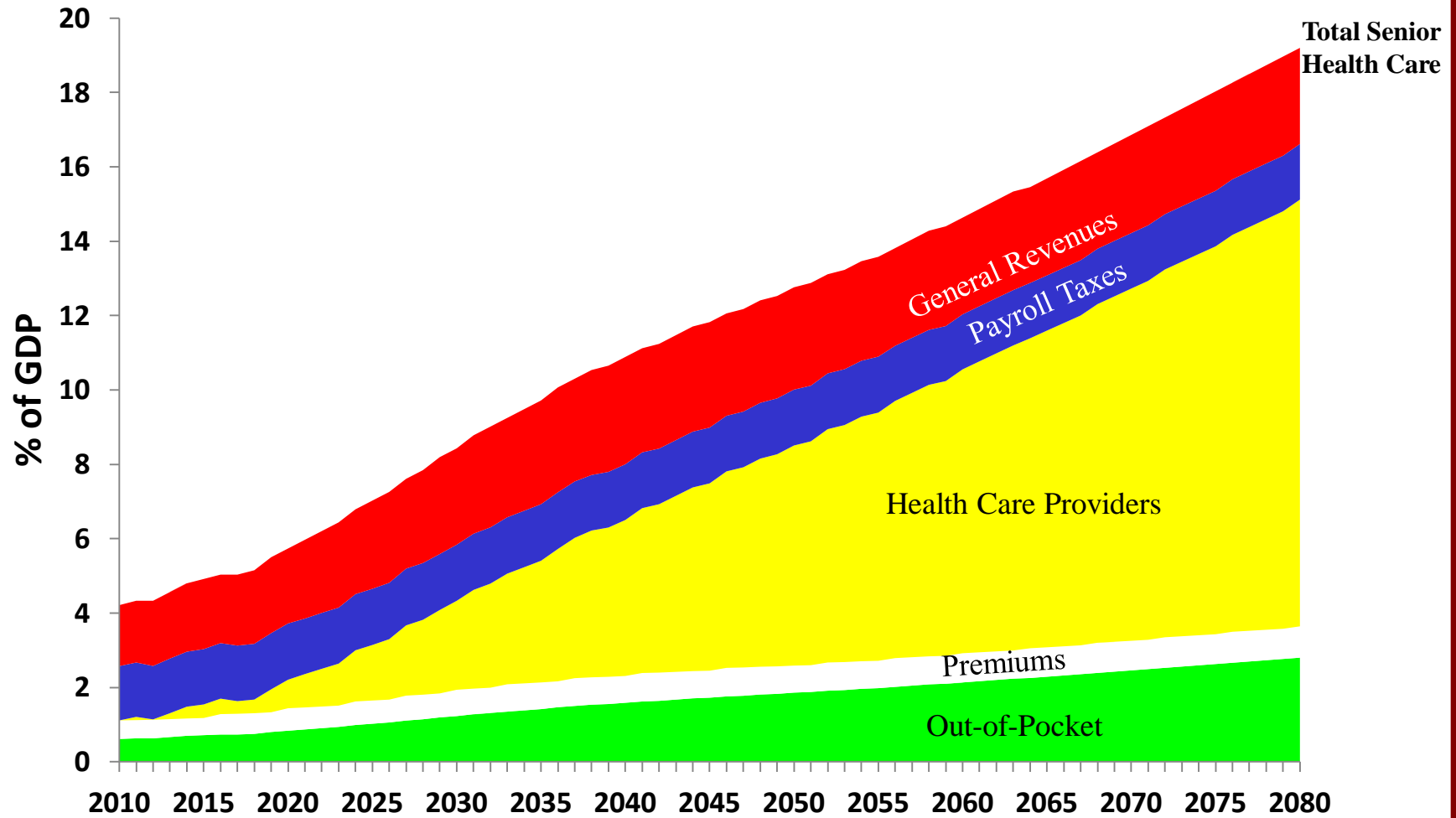
# The Future of Senior Health Care



# Projected Senior Health Care With Premium Support GDP Growth Indexed



# Medicare's Future With ACA



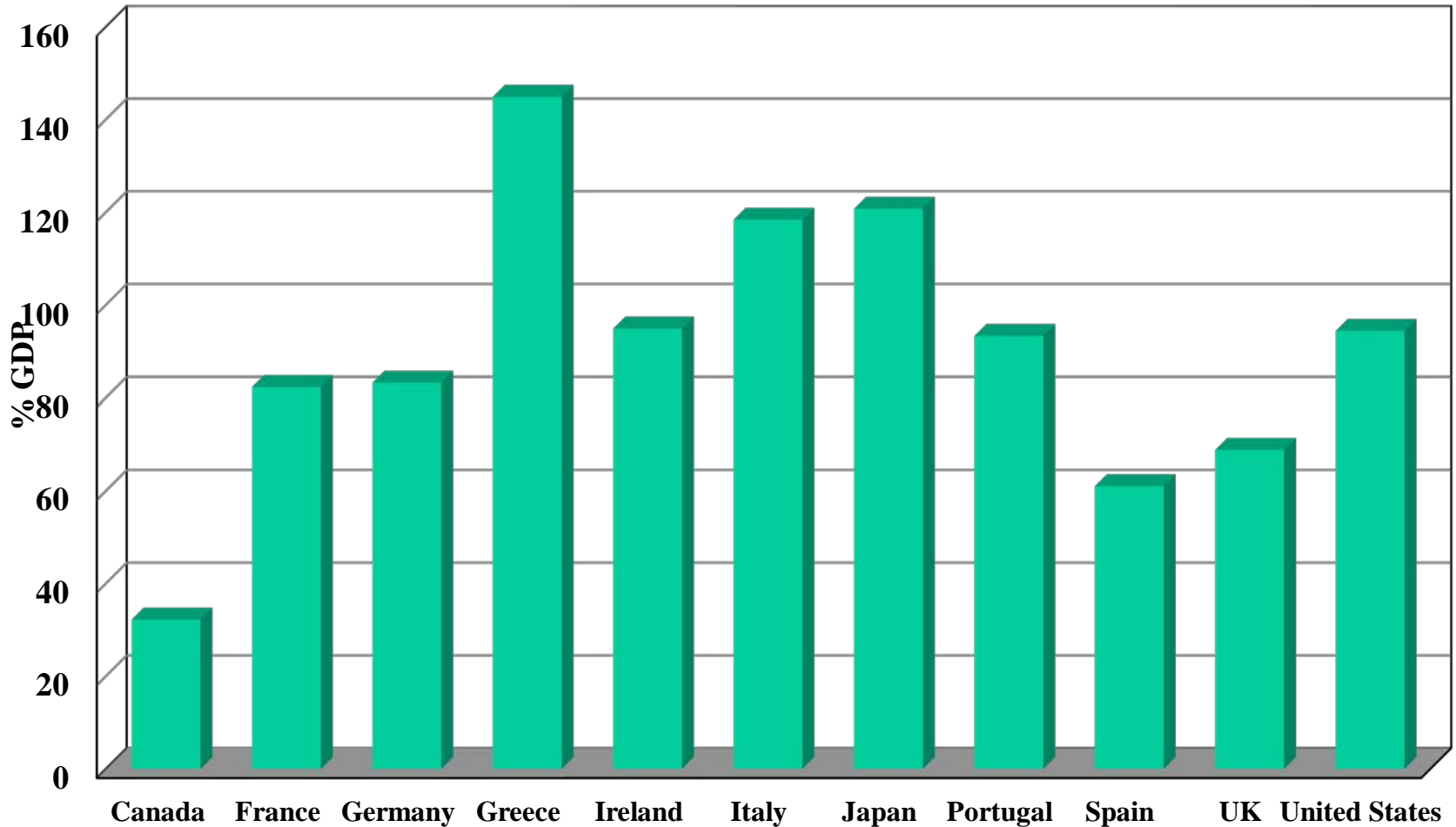
# The Real Burden of the Debt

- James Buchanan and understanding the burden of sovereign debt.
  - Corporate debt versus country debt
  - Consumption debt versus investment debt
- Internally or externally held: Does it matter?
- Does the interest rate matter?

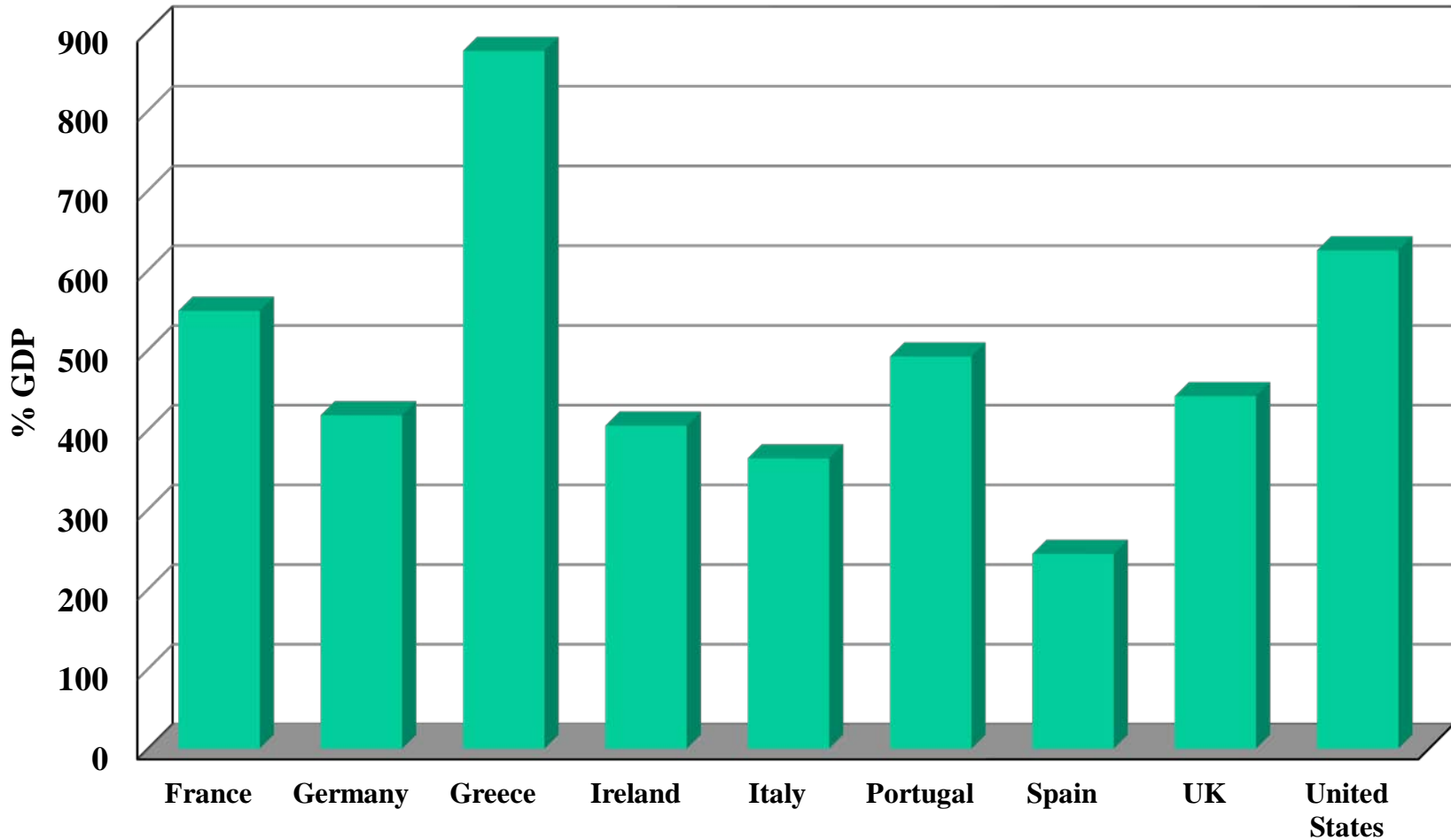


# Publicly Held Government Debt

## 2011 - Economist



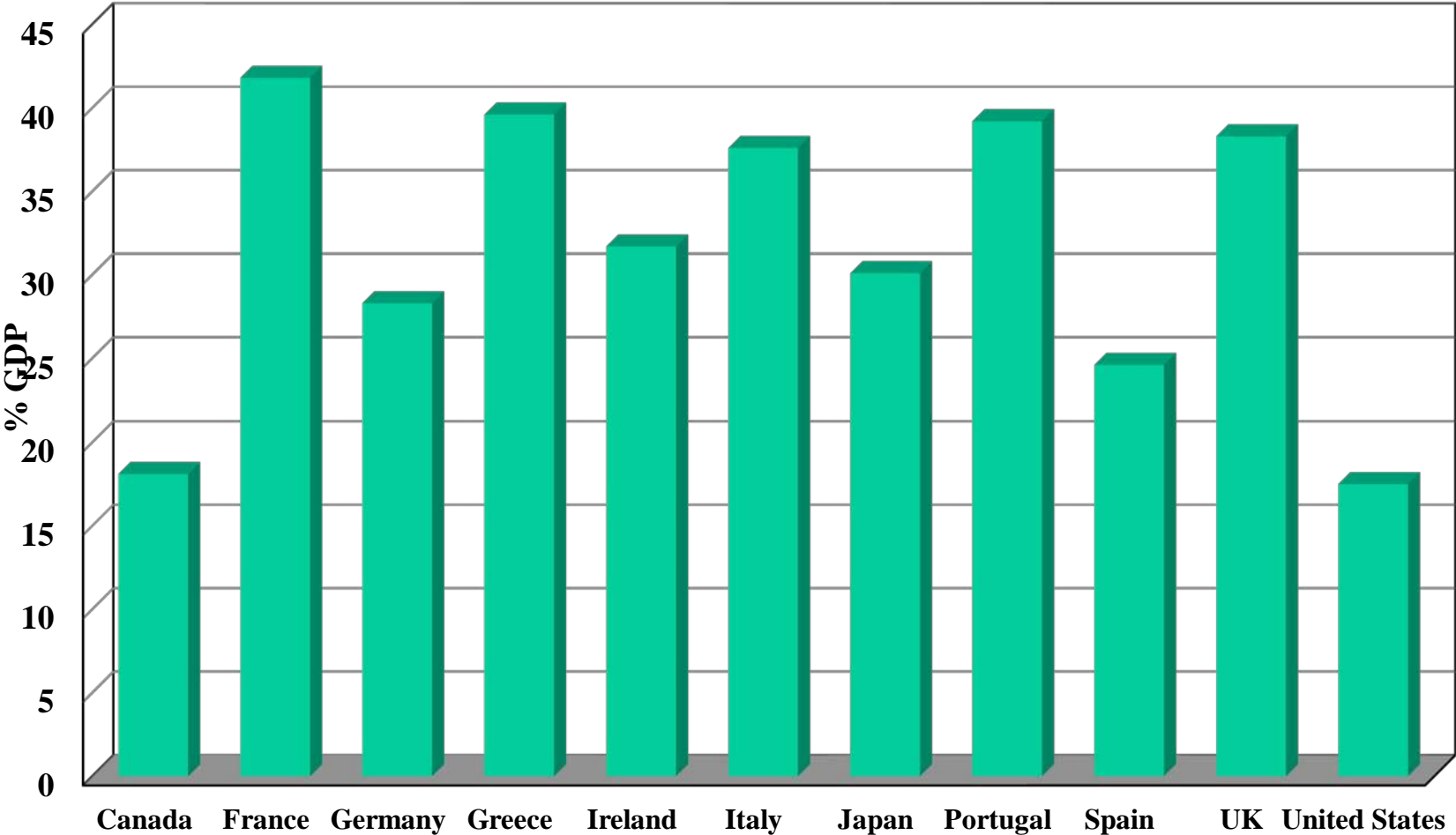
# Future Entitlement Debt % GDP



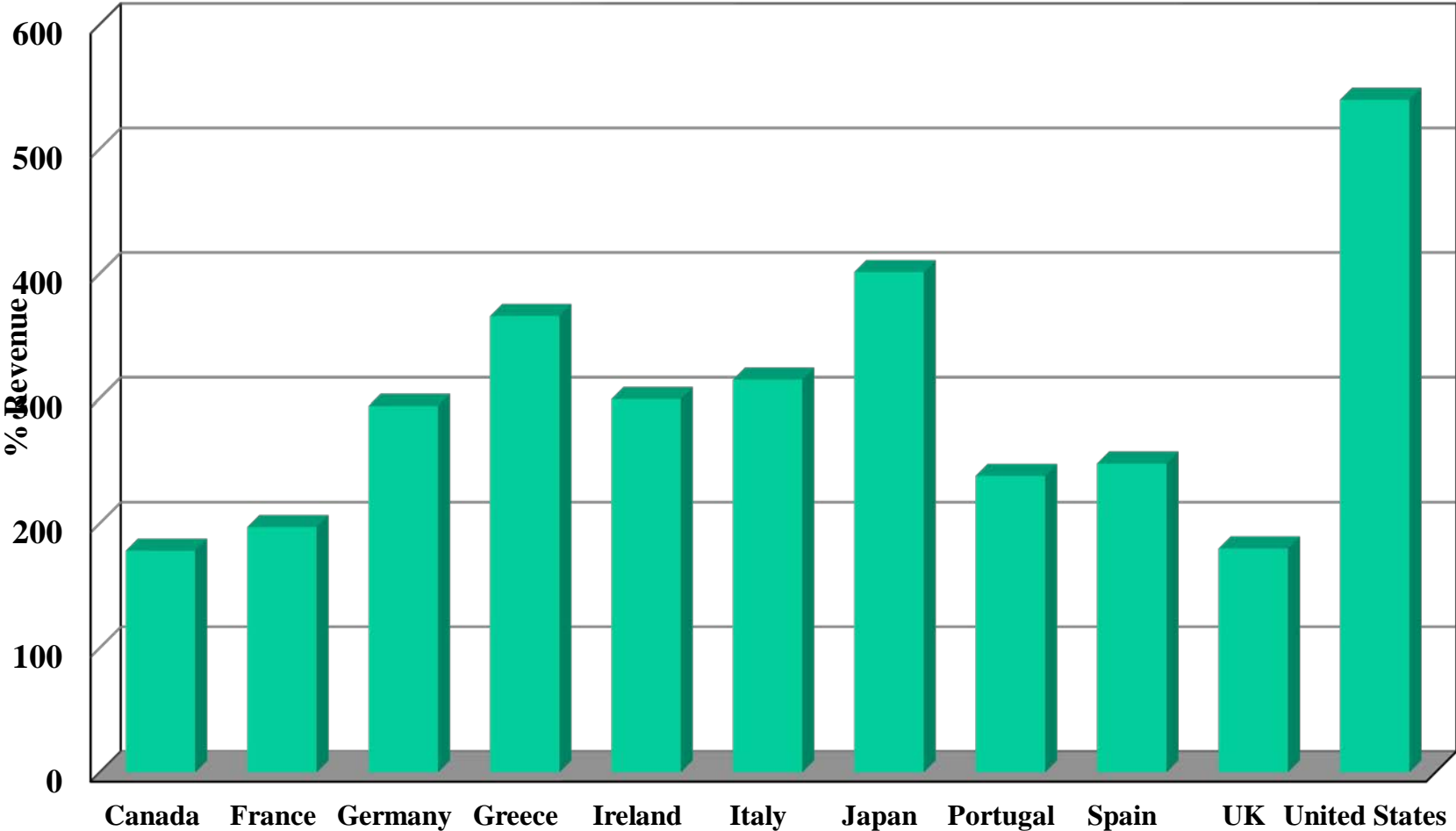


# Government Revenue % GDP

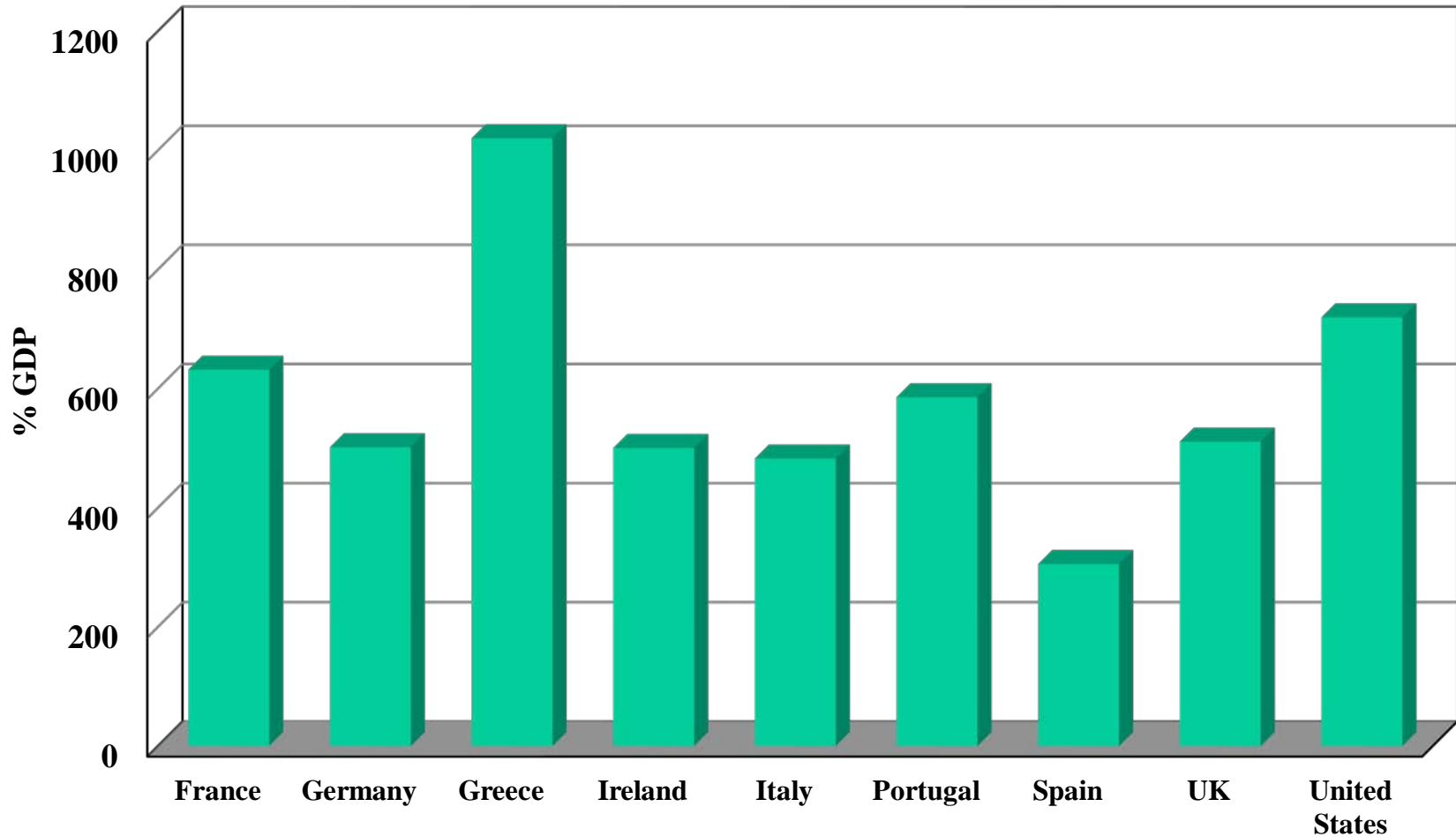
## 2010



# Debt as % of Central Government Revenue 2011

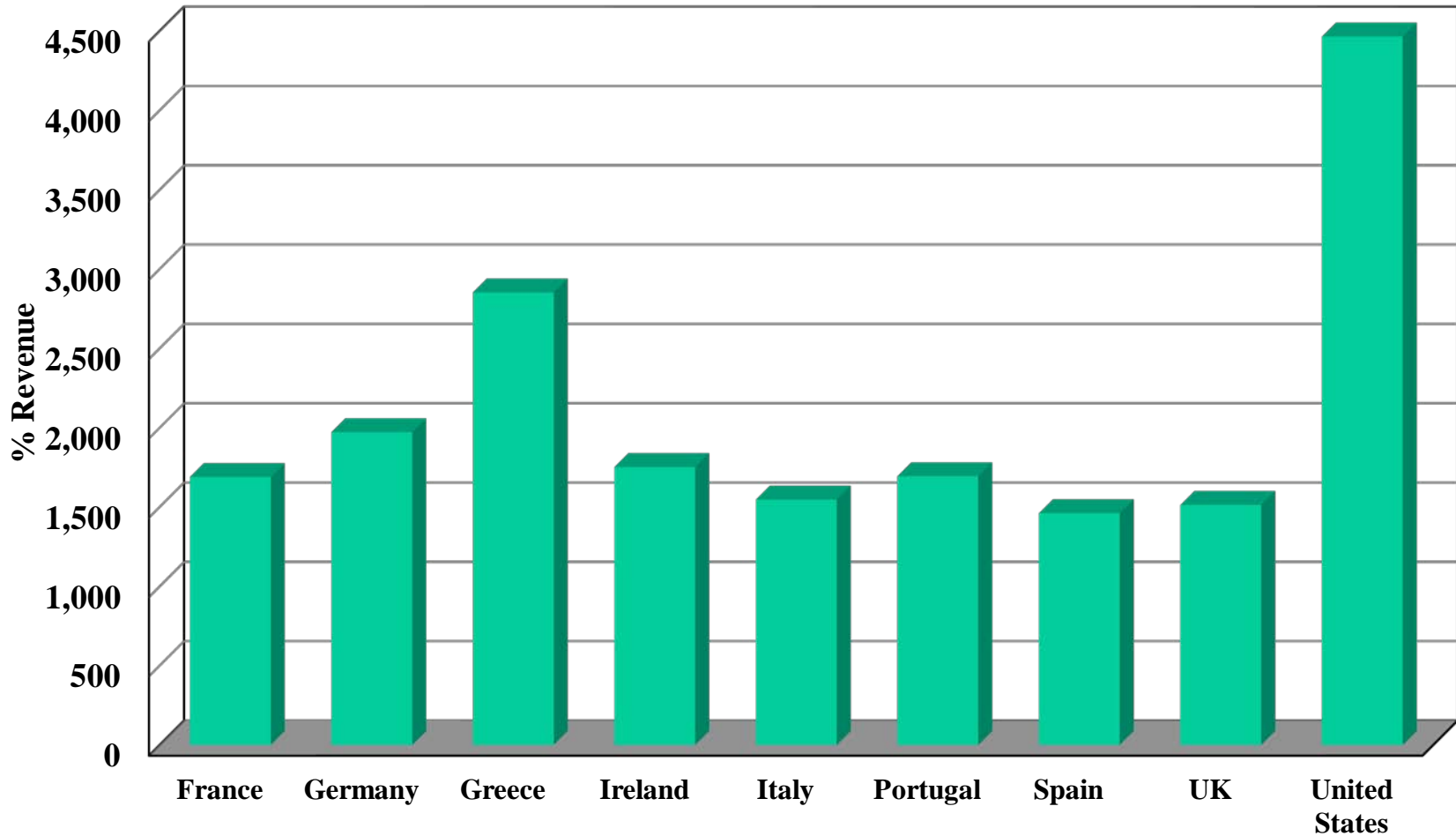


# Sovereign Plus Entitlement Debt % GDP

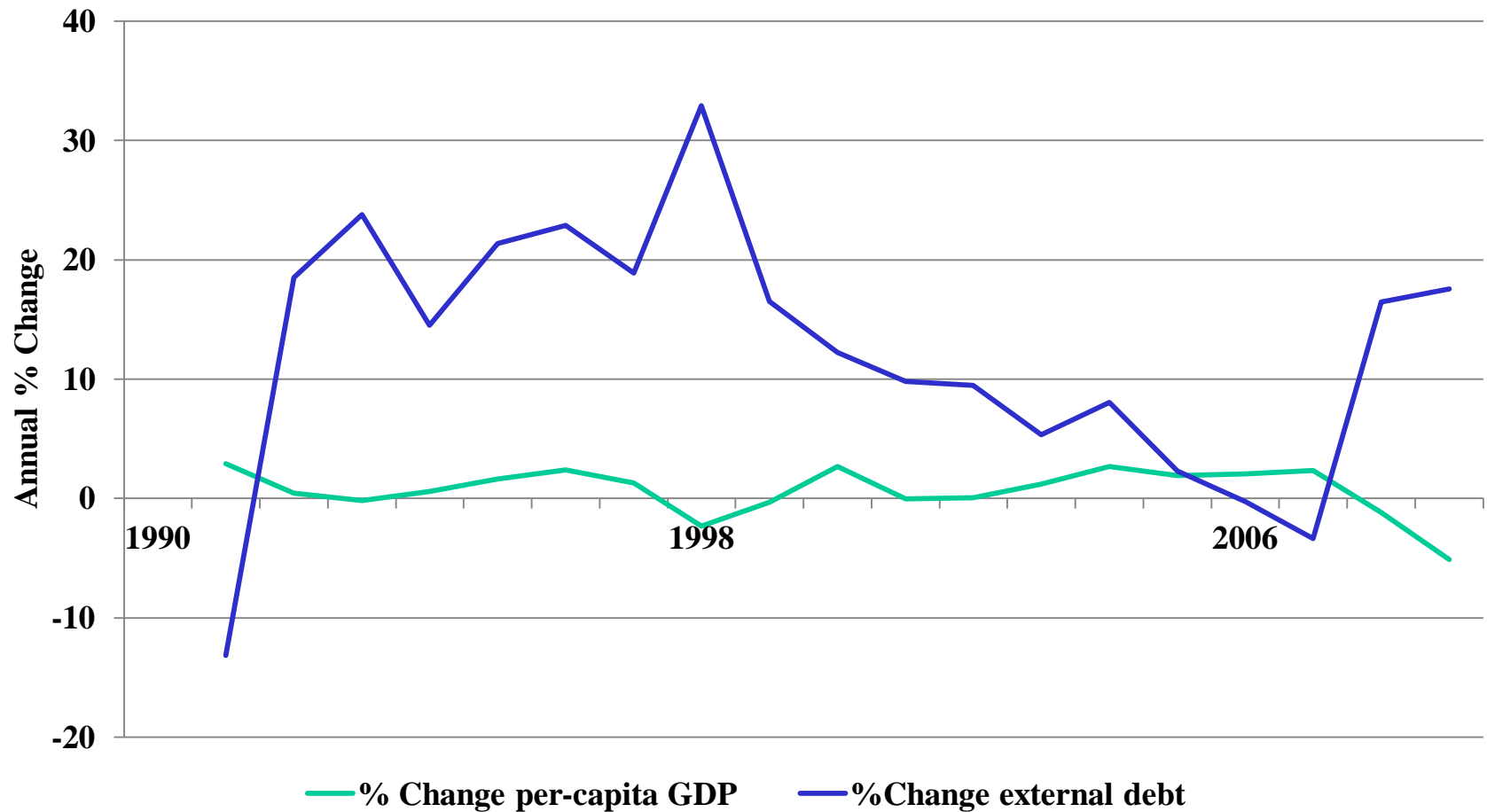


# Sovereign Plus Entitlement Debt

## % Central Government Revenue



# External Debt Growth and Productivity Japan 1990-2009



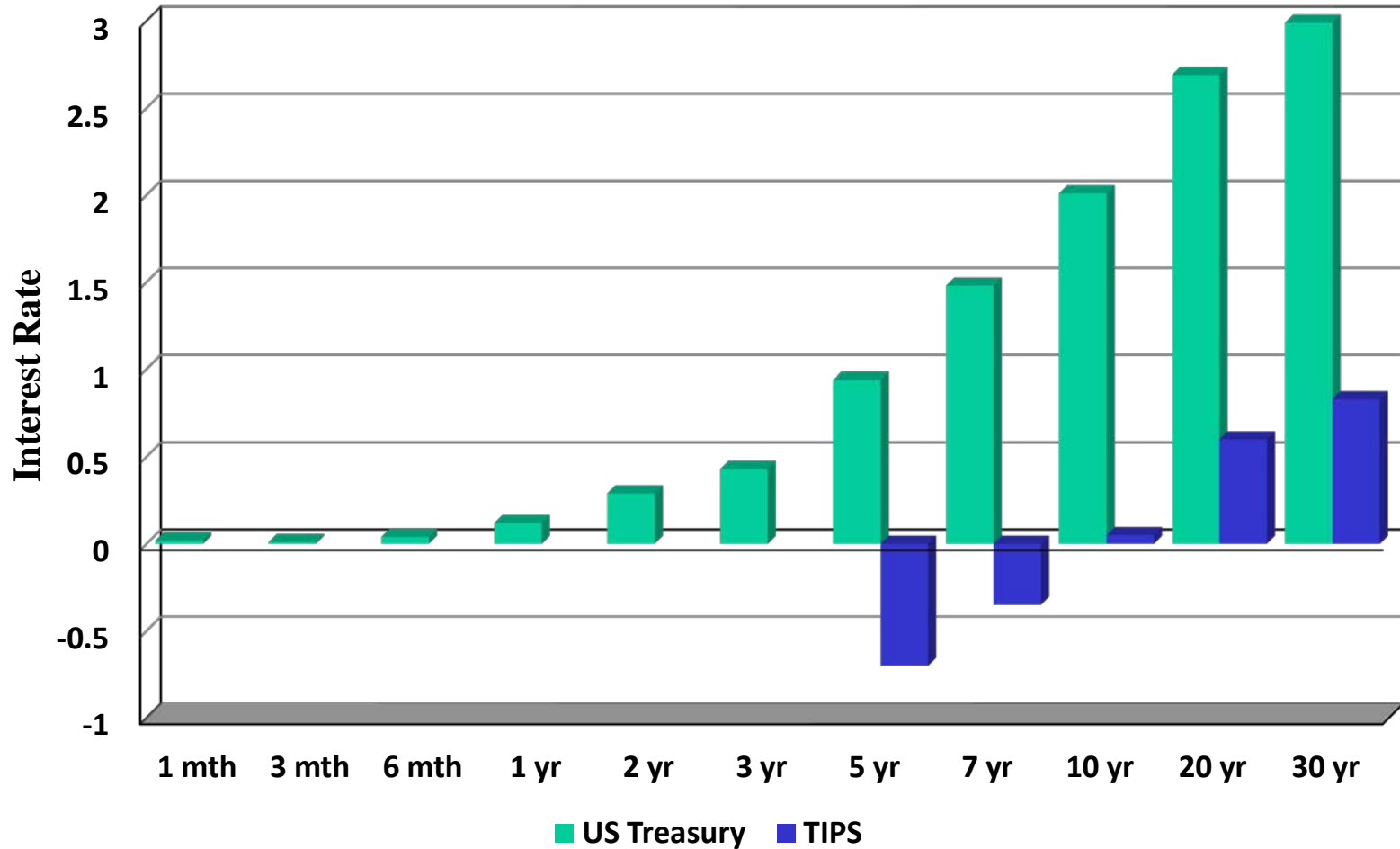
# The Valuation of Future Debt



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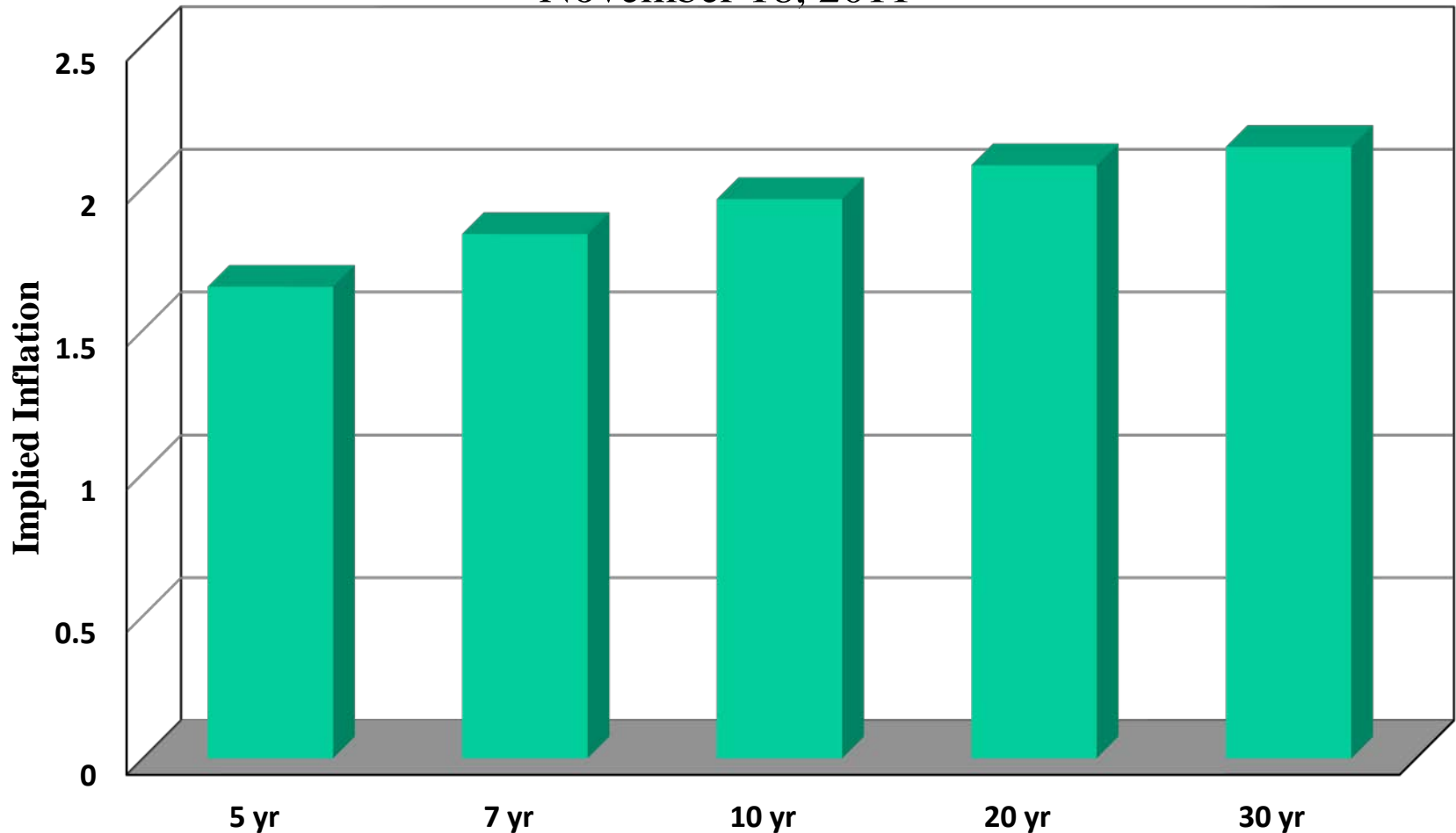
# Interest Rates and Term to Maturity U.S Government Bonds and TIPS

November 18, 2011



# Inflation Required for Return Equivalence U.S Government Bonds and TIPS

November 18, 2011



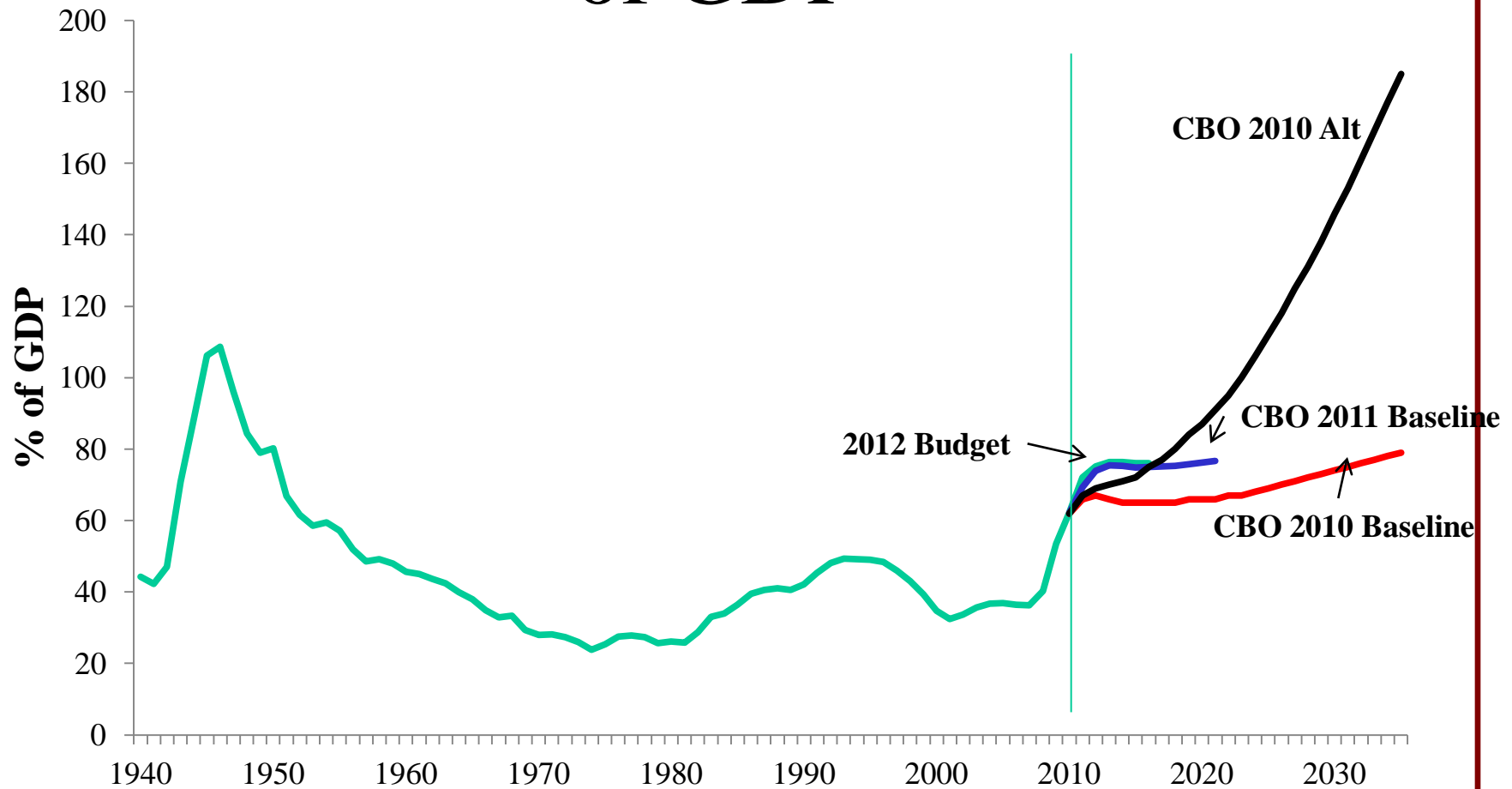


# Debt Projections

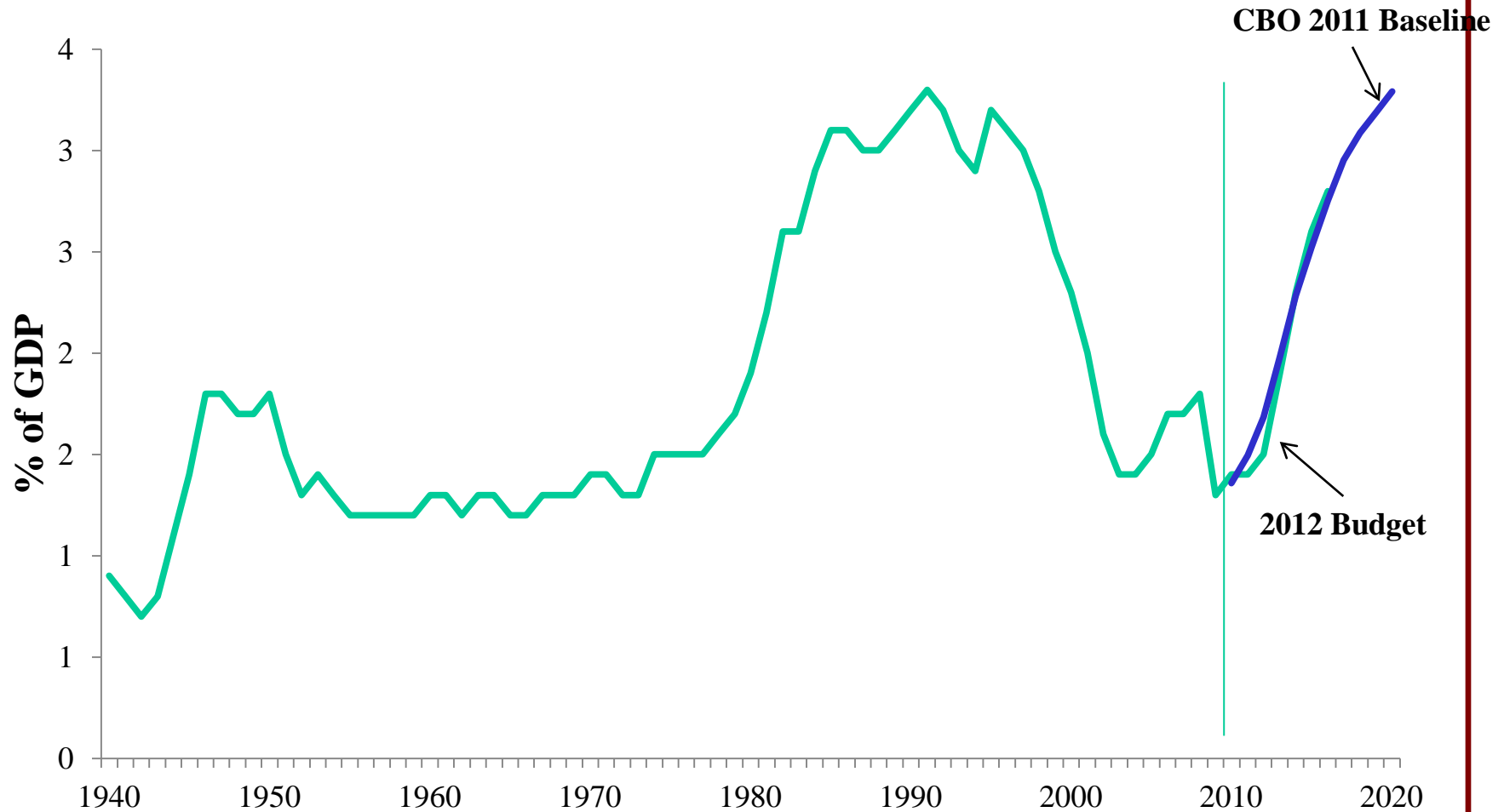


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# Debt Held by the Public as a Percent of GDP



# Net Interest as a Percent of GDP



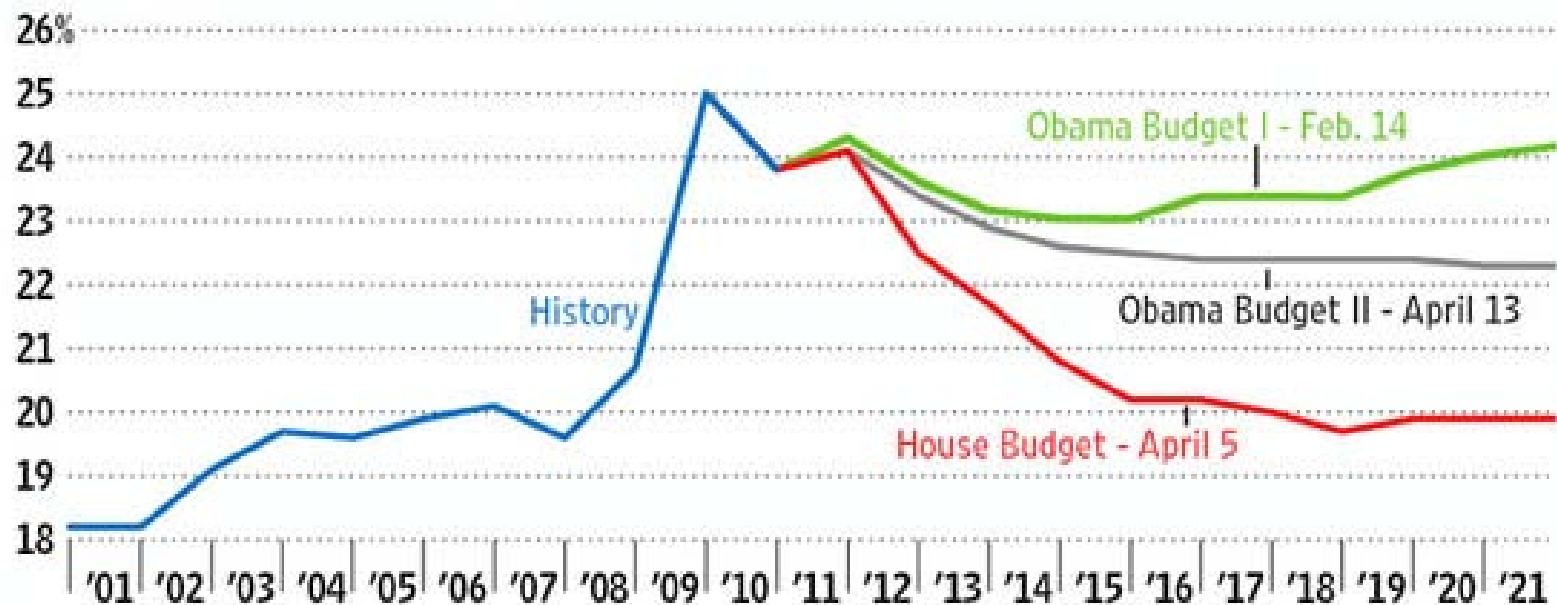
# Alternative Budgets



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# A Tale of Three Budgets

Spending as a share of GDP, 2000-2021



Sources: Congressional Budget Office, House Budget Committee, and author's estimates based on April 13 White House fact sheet

Source: John Taylor, WSJ, April 21, 2011

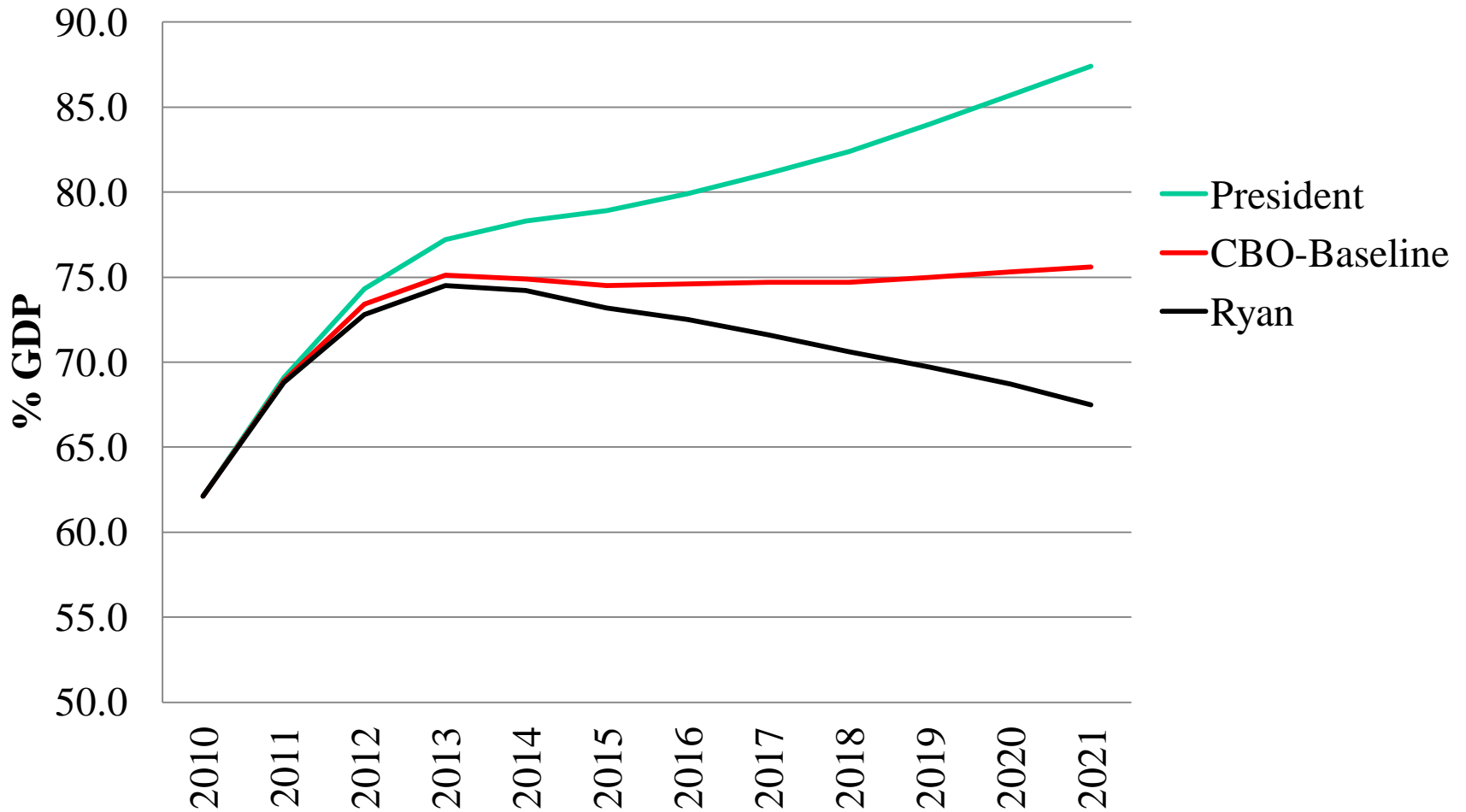


# Implications for Federal Debt

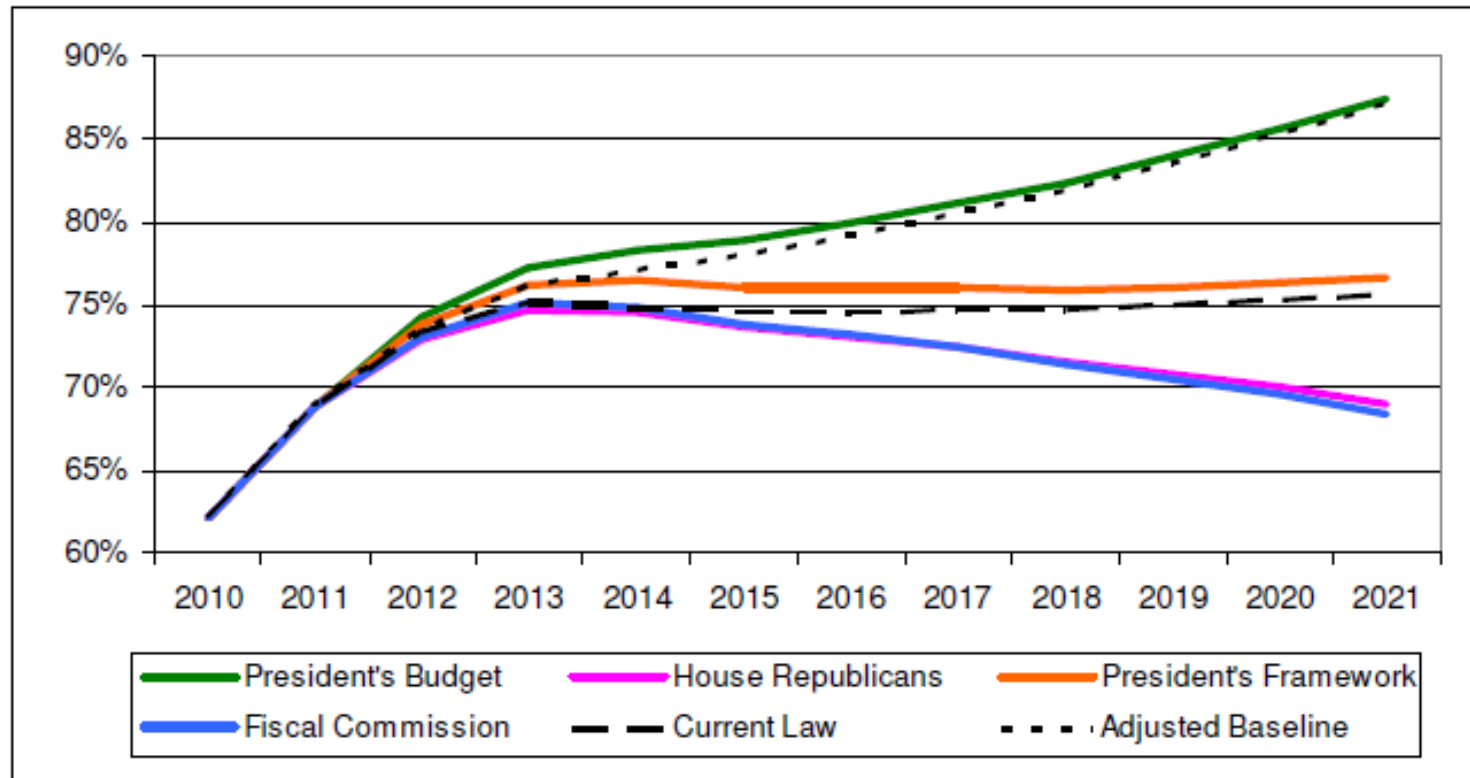


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# Publically Held Debt



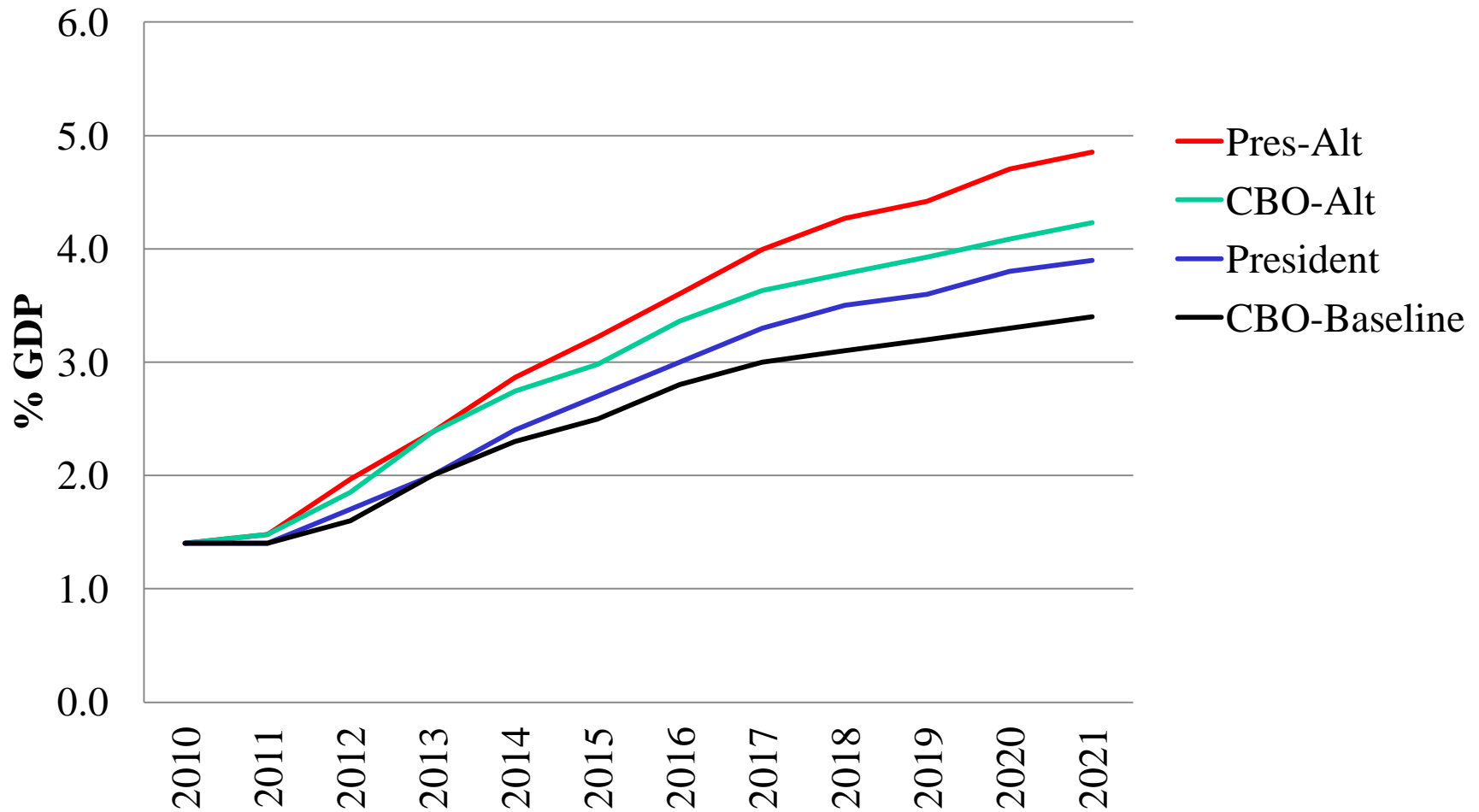
# Debt Projections under Various Fiscal Reform Plans (% of GDP)





# Net Interest on Federal Debt

*%GDP*



# The Bottom Line

- Public debt, both marketable debt and promises to citizens, crowds out capital investment.
- The almost unprecedented increase in the ability of the population to move resources to the future using debt rather than capital could result in a significant reduction in the rate of economic growth in the coming decades.
- Without a solution to entitlements there is no fiscal policy way out of this gloomy future.

