Macro Roundup Article

Headline: When Does Federal Debt Reach Unsustainable Levels?

Article Link: https://budgetmodel.wharton.upenn.edu/issues/2023/10/6/when-does-federal-debt-reach-unsustainable-levels

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Tweet: A @BudgetModel analysis argues the United States has two decades to undertake structural reforms to keep debt below 200% of GDP, a level which will be associated with a government default.

Summary: We estimate that the U.S. debt held by the public cannot exceed about 200% of GDP even under today's generally favorable market conditions. Under current policy, the United States has about 20 years for corrective action after which no amount of future tax increases or spending cuts could avoid the government defaulting on its debt whether explicitly or implicitly (i.e., debt monetization producing significant inflation). Table 1 then shows the impact on the debt-GDP ratio if financial markets start to demand a larger return before unraveling. However, additional rates closer to 50 to 100 b.p. are more reasonable in the short run, as some borrowing rates are already locked in at a weighted average duration of about 6 years. Table 1 shows that between 2040 and 2045---or in about 20 years---the U.S. debt-GDP ratio will hit between 175 and 200 percent under current fiscal policy, depending on the assumed interest rates.

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Primary Topic: Fiscal Deficits

Topics: Database, Fiscal Deficits, Fiscal Policy, Op-Ed/Blog Post, Politics, Weekly

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