

The Debt Clock Is Ticking

Joe Minarik

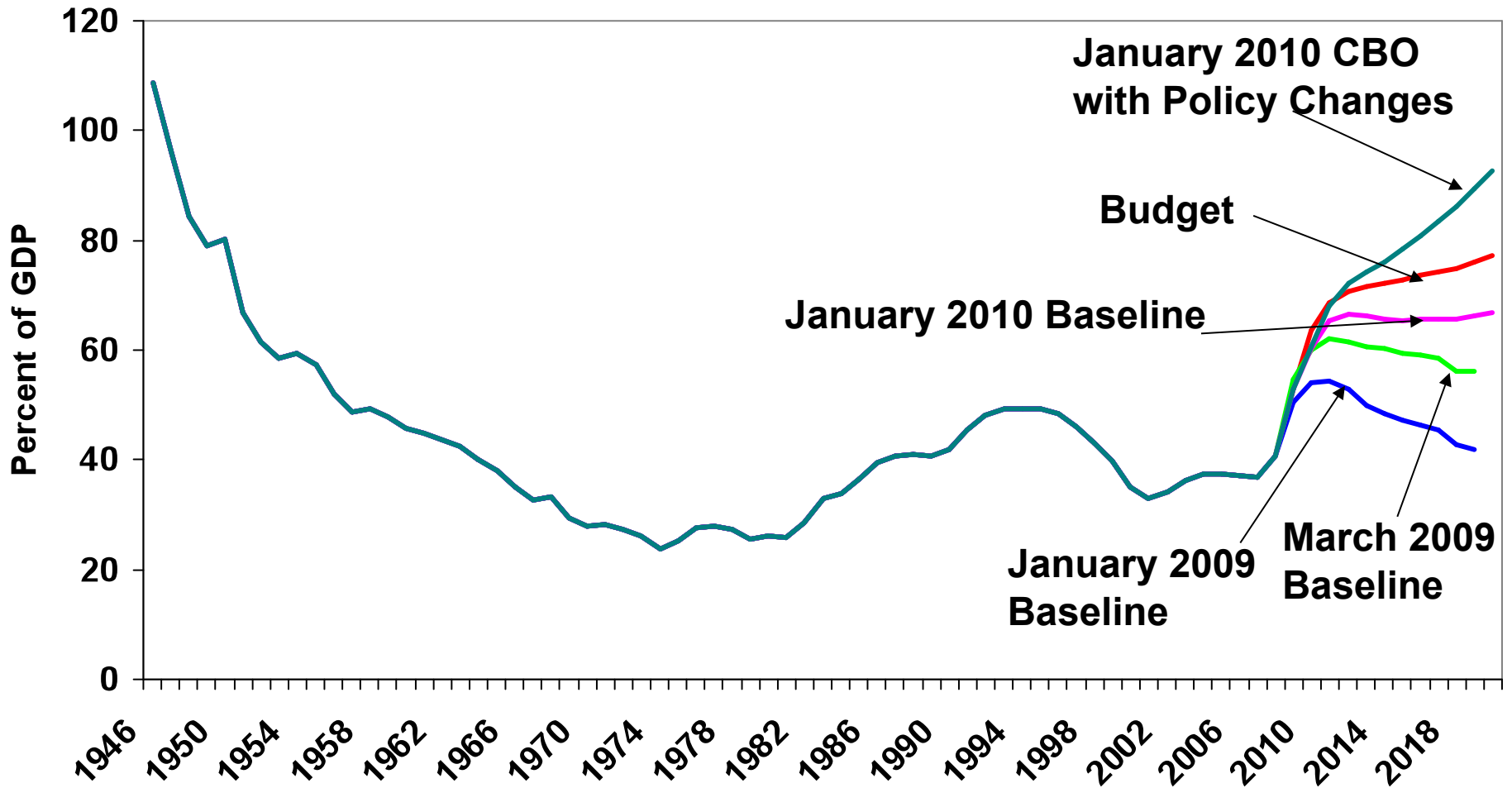
Committee for Economic Development

February 16, 2009

Up-Front Conclusion:

We can argue about how much should be done with taxes, and how much with spending, to address the problem. But if that arguing derails a solution, the results could be tragic.

A Longer-Term View: Debt Approaches World War II Levels



You Do the Math:

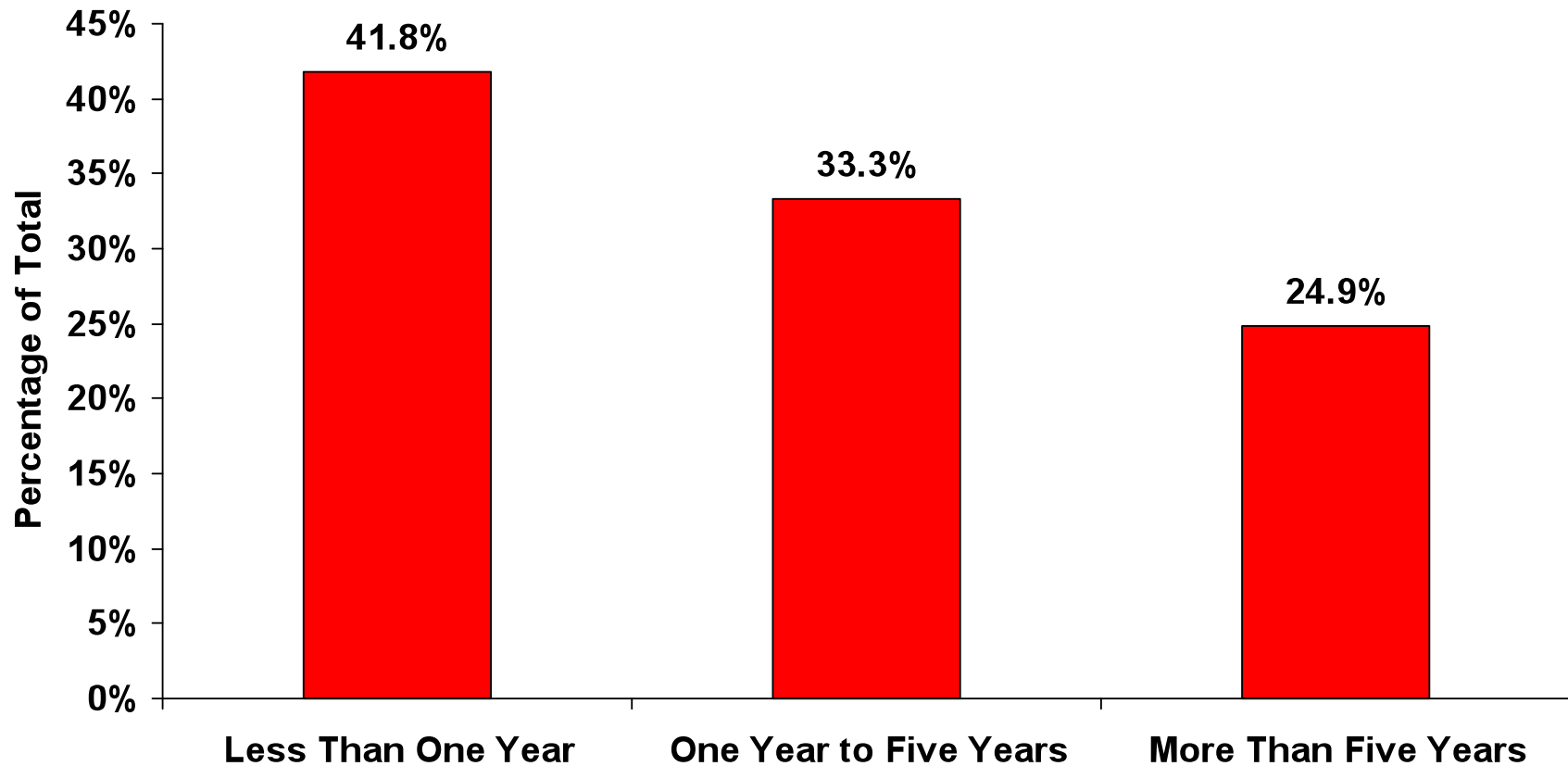
Servicing a debt equal to 80 percent of GDP at 5 percent interest rates will cost 4 percent of GDP. Average revenues historically have been 18 percent of GDP.

Spending 20-25 percent of all tax revenues on debt service?

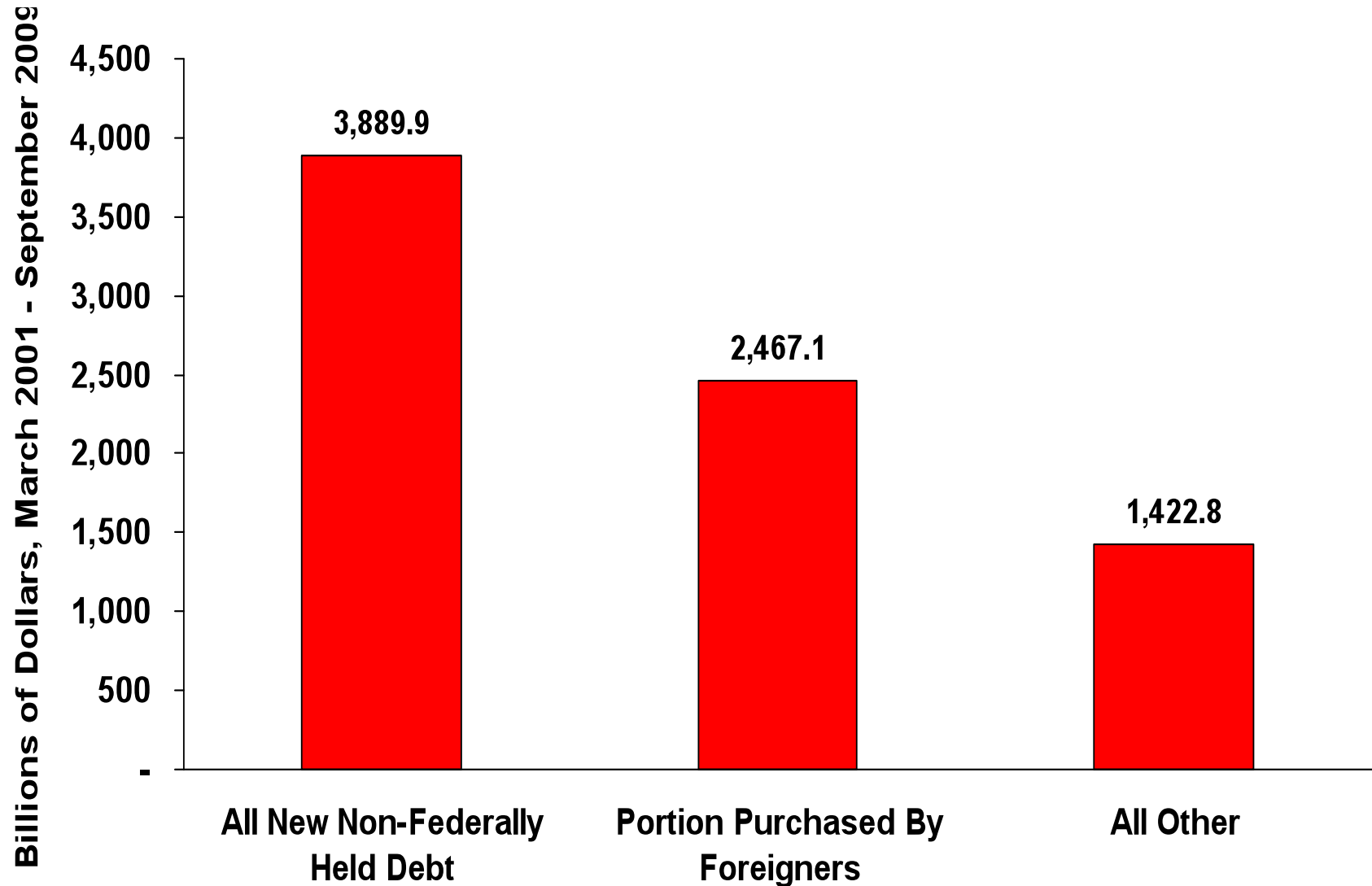
The Downsides:

- Crowding out private investment slows economic growth.
- Huge debt reduces the ability to borrow to address emergencies.
- Massive borrowing to roll over maturing debt increases the chance of a financial crisis.

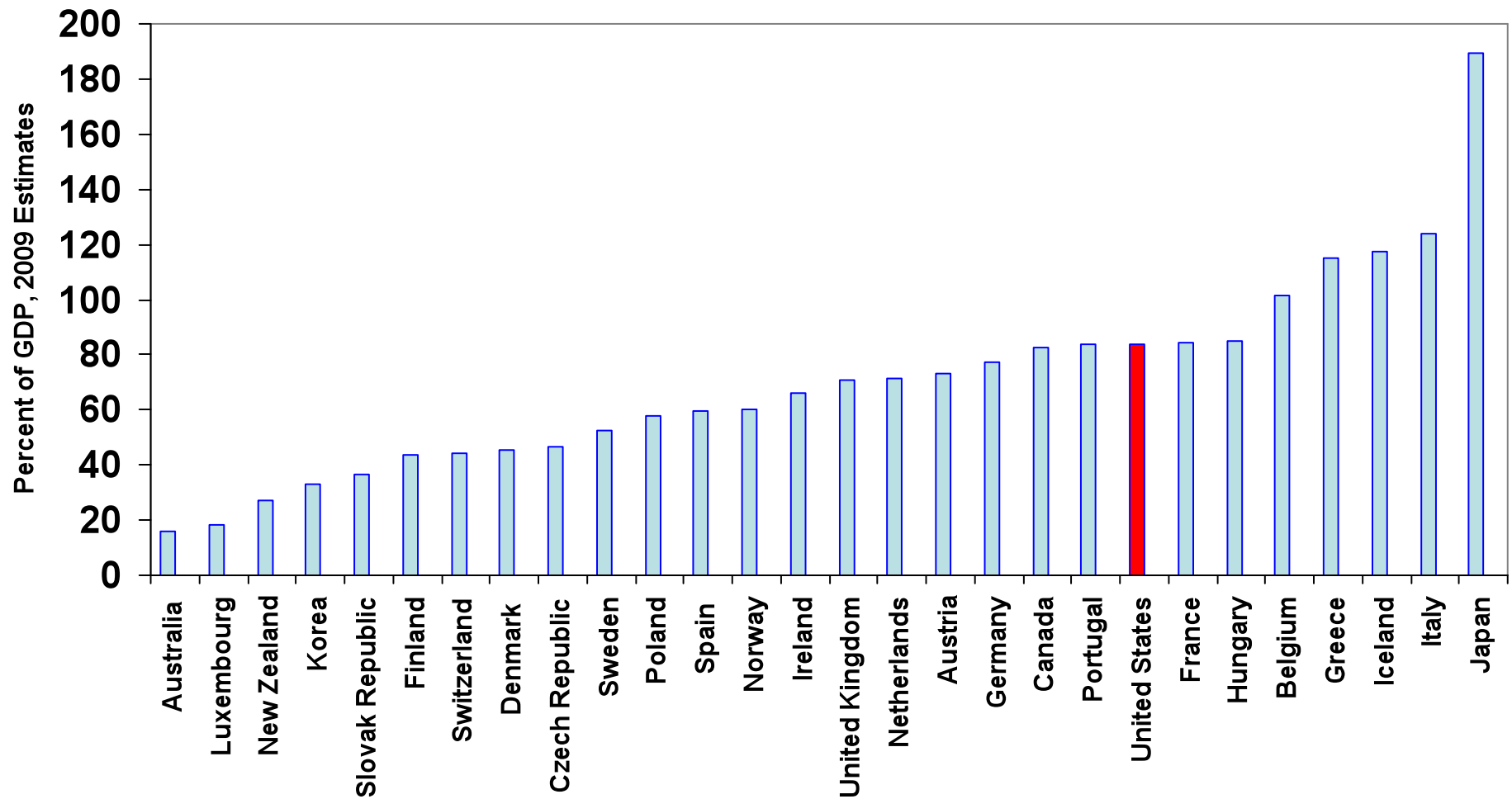
Public Debt Matures Quickly (Privately Held Marketable Debt, September 2009)



Foreign Investors Have Purchased Most New U.S. Debt

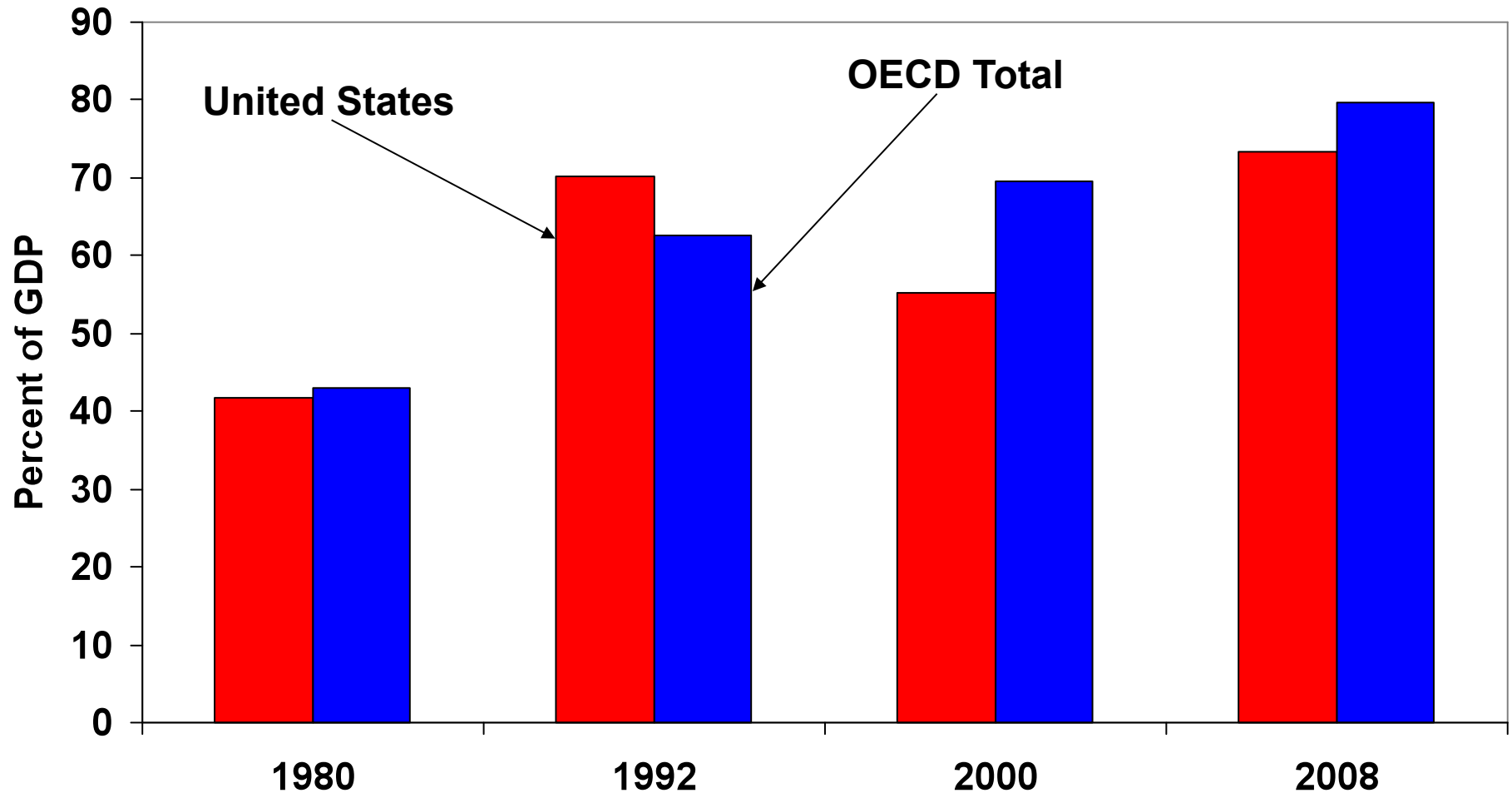


U.S. Already Ranks High in Debt Relative to the Developed World

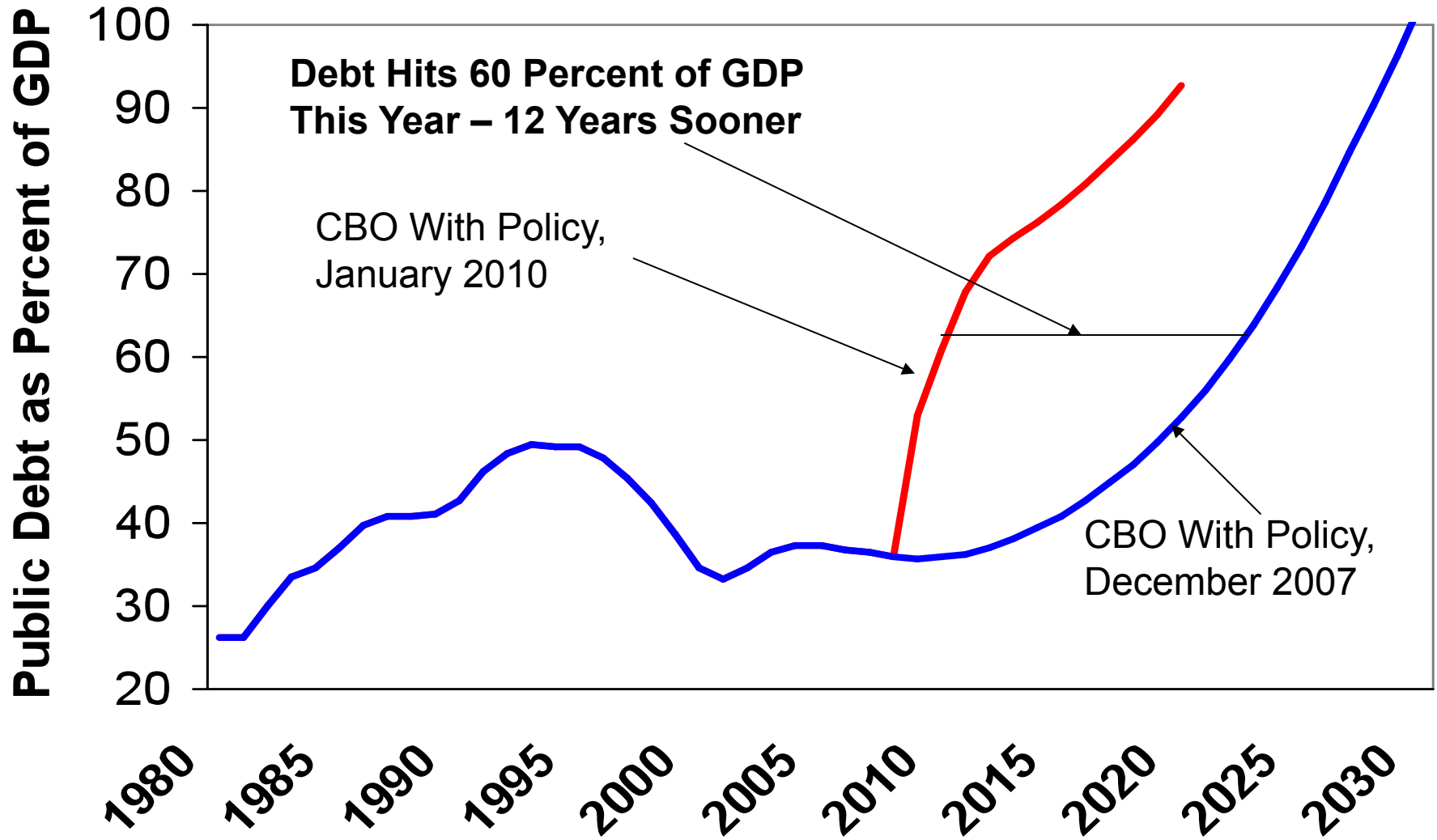


Source: OECD – Economic Outlook No. 86, Annex Table 32, General Government Gross Financial Liabilities

U.S. Loses Debt Advantage Over Rest of Developed World



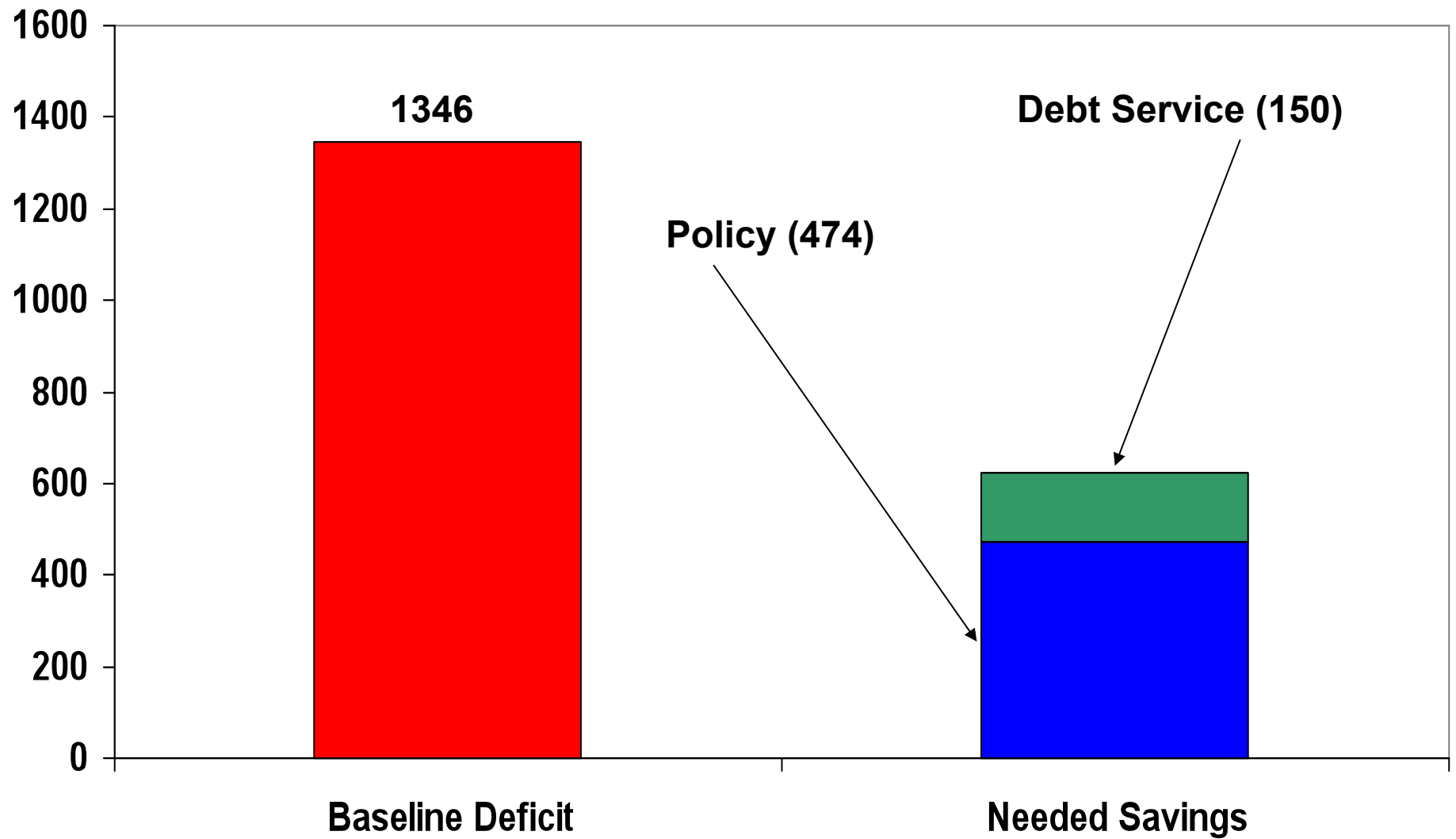
The “Lost Decade”



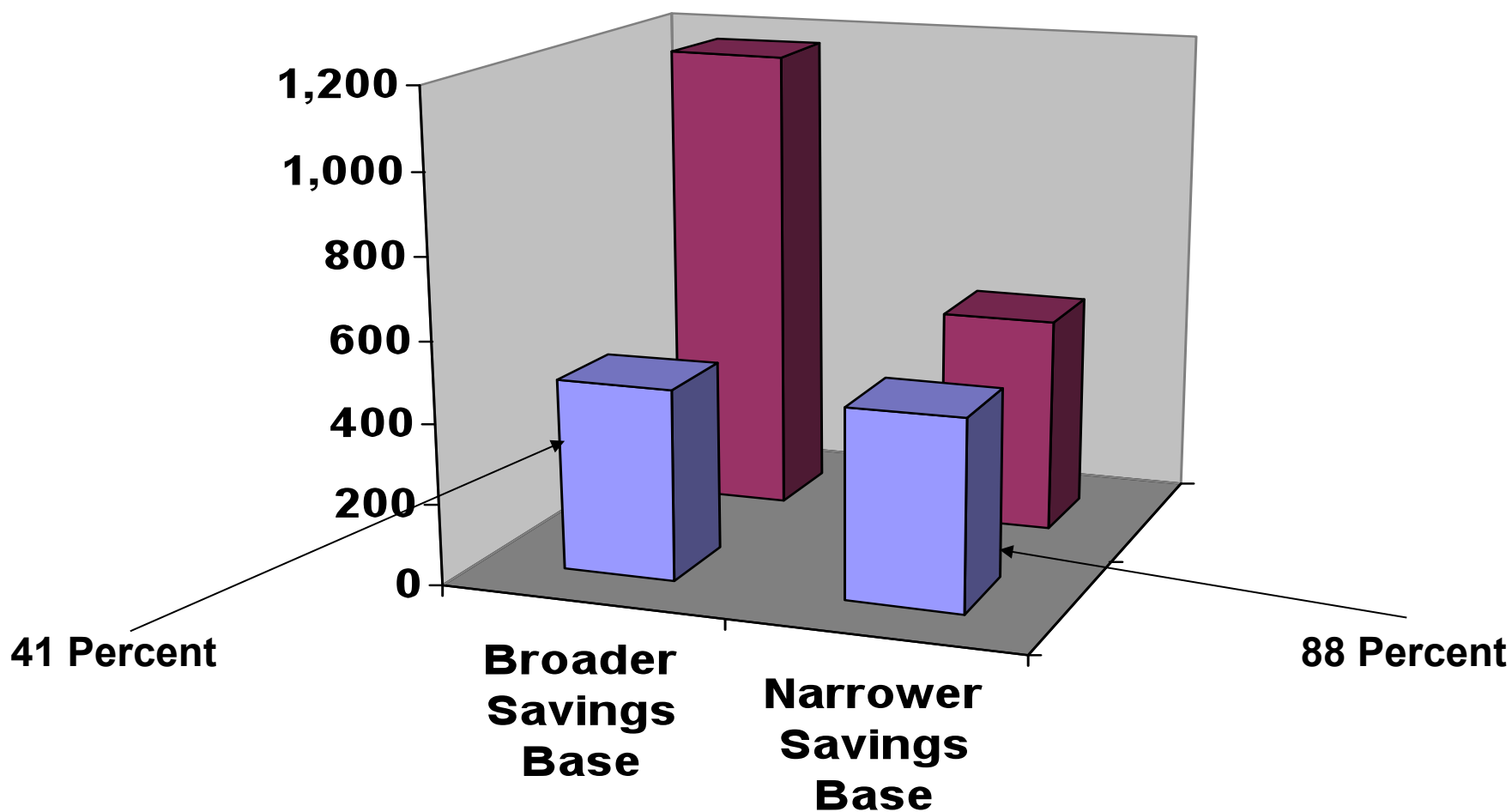
Reducing the budget deficit is the second-highest priority of every Member of Congress.

Rep. Lee Hamilton

Needed 2020 Deficit Reduction



Necessary Spending Cuts



“If we make it, it’s half a bottle of beer for each.”

