



# Comment on “Public Debt Sustainability”

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# Background

I have two qualifications for commenting on this paper:

- Some contributions to the research literature on fiscal policy, and
- Six years of advising the U.S. Congress about fiscal policy, during which U.S. federal debt more than doubled.

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I will use my eight minutes to extend the authors' discussion in three directions.

# 1: Uncertainty is the central challenge in assessing debt sustainability

First: Forecasts of budget deficits conditional on current policies are often poor, because of the difficulty of predicting both economic growth and tax revenues and government spending given economic growth.

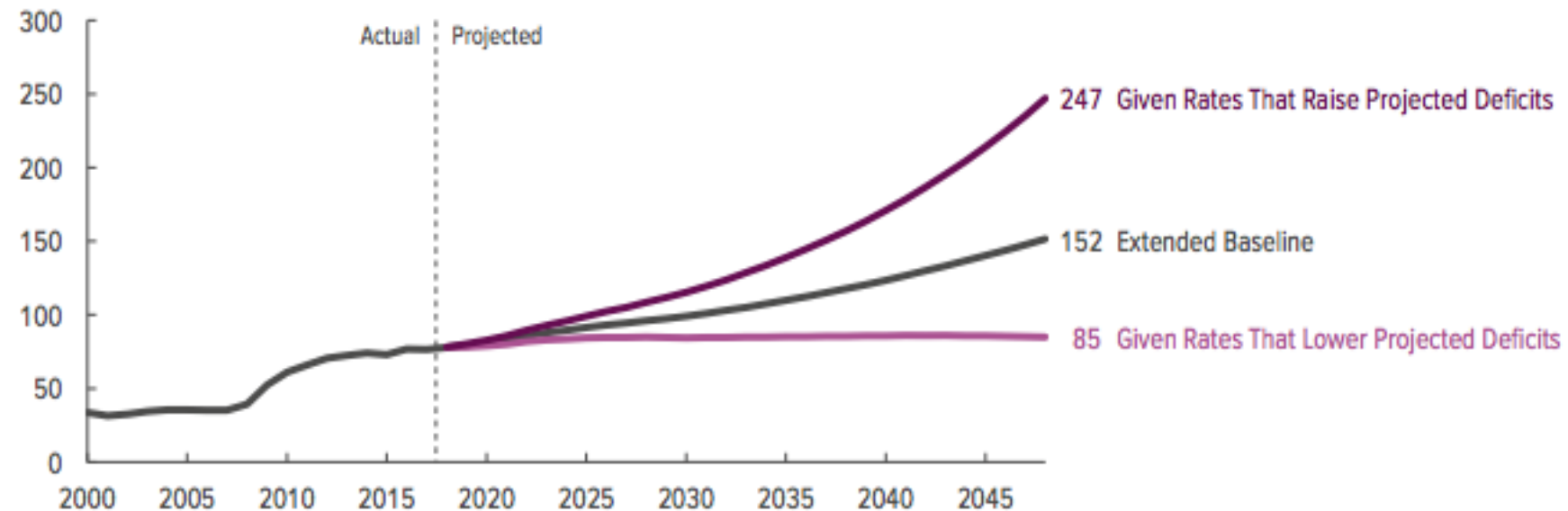
→ Assessments of sustainability generally involve tremendous uncertainty.

# Uncertainty of U.S. debt outlook under current law

Figure 11.

## Federal Debt Given Different Rates of Labor Force Participation, Productivity Growth, Federal Borrowing, and Excess Cost Growth for Federal Spending on Medicare and Medicaid

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

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Second: Forecasts of changes in budget deficits in response to changes in policies are complicated by the effect of budget policies on economic growth—which varies depending on the budget and economic circumstances.

→ Assessments of the impact of policy changes on sustainability generally involve significant uncertainty.

## 2: Persistent changes in interest rates can make a big difference in assessing debt sustainability

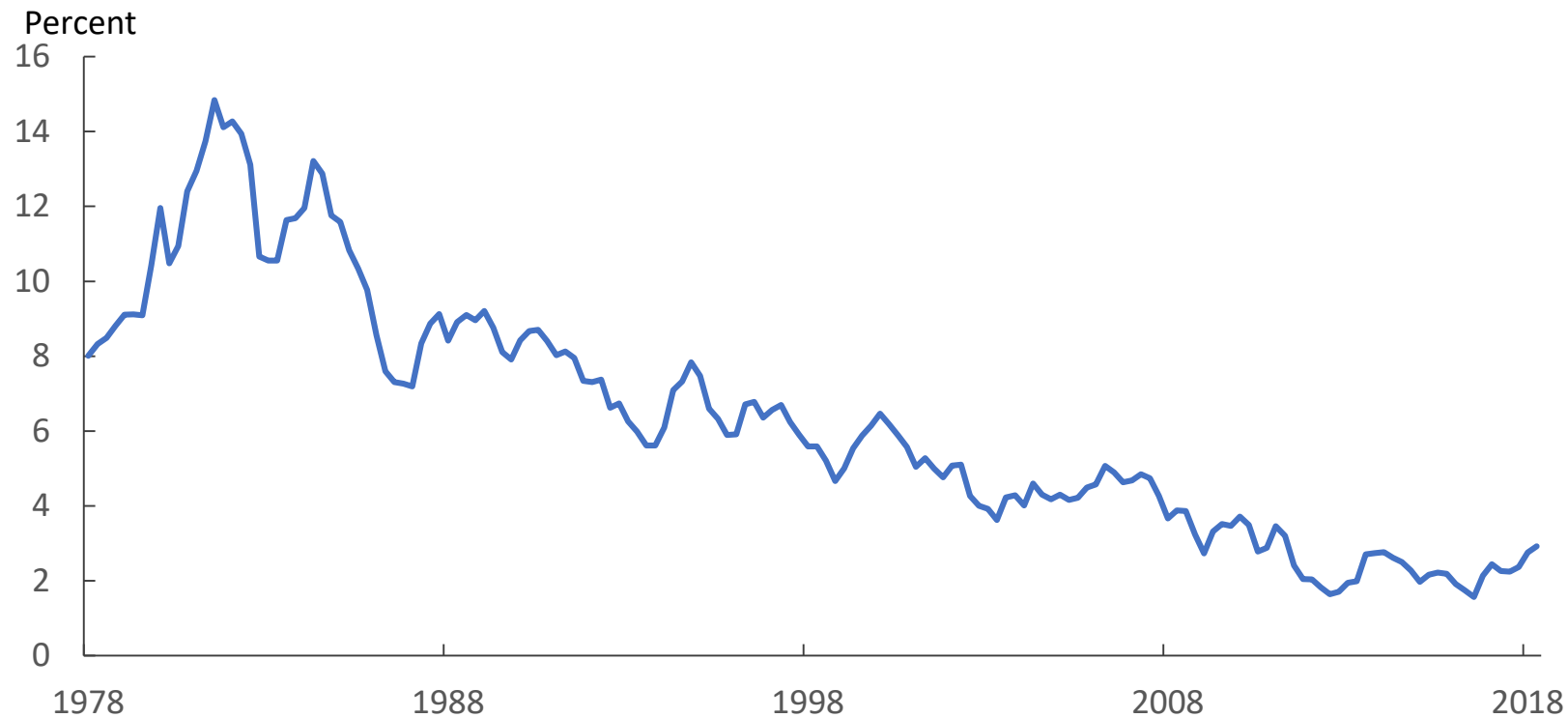
Persistently **low** interest rates are relevant today. I will focus on the United States.

The interest rate on federal debt has generally been below the growth rate of the economy—as shown by Ball, Elmendorf, and Mankiw (1998), and remaining true in the past few decades.

Moreover, Elmendorf and Sheiner (2017) argue: “Both market readings and detailed analyses by a number of researchers suggest that Treasury interest rates are likely to remain well below their historical norms for years to come.”



# Long-term decline in 10-year Treasury rate



Source. Federal Reserve Board.

## **2: Persistently changes in interest rates can make a big difference in assessing debt sustainability**

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Second: As Elmendorf and Sheiner show: “Many—though not all—of the factors that may be contributing to the historically low level of interest rates [in the U.S.] imply that both federal debt and federal investment should be substantially larger than they would be otherwise.” That is, the amount of debt the United States should be trying to sustain is larger than it would have been before.

**Assessments of debt sustainability should neither assume permanence of changes in interest rates nor ignore the implications of persistent changes.**

### 3: Communicating debt sustainability to policymakers and the public is difficult and crucial

One perspective on sustainability is to **assess** whether a country will be able to meet its debt obligations using evidence on historical adjustments to government spending and taxes.

A related but different perspective on sustainability is to **advise** countries about the adjustments to government spending and taxes they should make in the future.

I find the latter perspective more useful—in part because I have served as an adviser, and in part because historical political reaction functions may not provide much information about future political behavior. **But if the focus is changing future behavior, then communication is key.**

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Second: Focus on straightforward calculations that can be easily explained. Present values of infinite future streams do not resonate as well with most policymakers as simpler annual figures.

Third: Be open about uncertainty and discuss the value of insurance—but focus numbers on point estimates. The temptation for each policymaker to choose the side of a confidence region that provides the greatest support for their preconceived position is nearly irresistible.