



Deficit Reduction and Economic Growth: Are They Mutually Exclusive Goals?

Tuesday, May 1, 2012; 2:30 PM - 3:45 PM

Moderator:

[Gillian Tett](#), U.S. Managing Editor, Financial Times

Speakers:

[Jared Bernstein](#), Economic Policy Fellow, Milken Institute; Senior Fellow, Center on Budget and Policy Priorities; former Chief Economist to Vice President Joe Biden

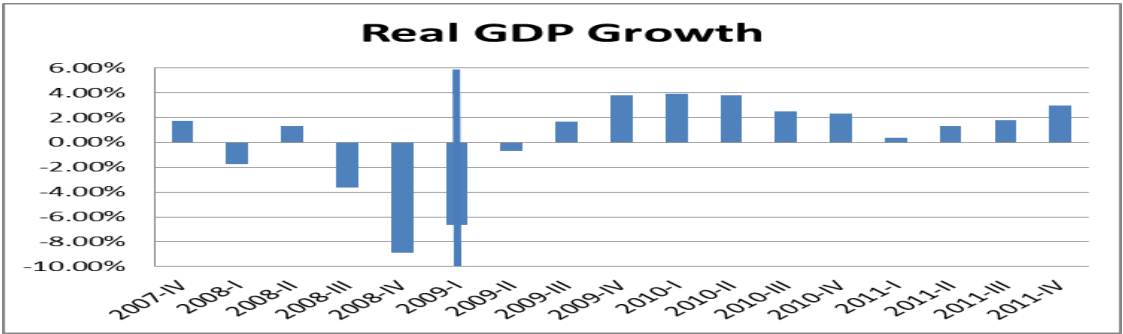
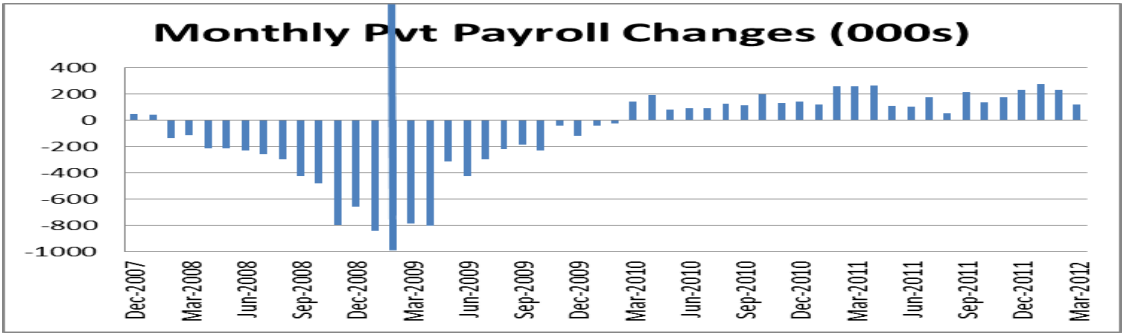
[Douglas Holtz-Eakin](#), President, American Action Forum; former Director, Congressional Budget Office; former Chief Economist, Council of Economic Advisors

[Edward Lazear](#), Professor, Stanford University; Senior Fellow, Hoover Institution; former Chairman, Council of Economic Advisors

[Steven Rattner](#), Chairman, Willett Advisors; former Counselor and Lead Auto Advisor to the U.S. Secretary of the Treasury



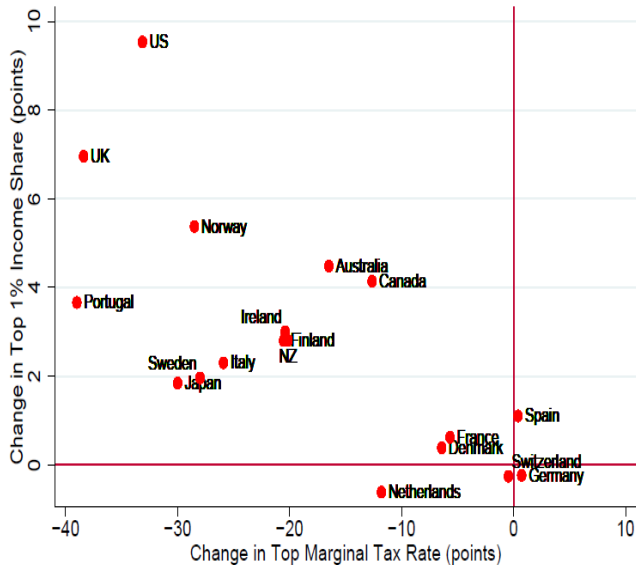
Jared Bernstein's slides



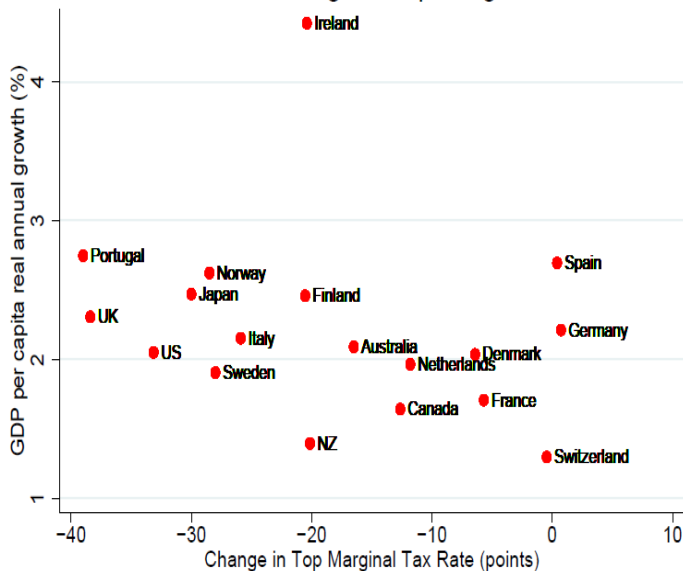
Saez et al: Lowering top marginal tax rate associates with greater ineq, not faster growth



A. Changes Top 1% Share and Top Marginal Tax Rate



B. Growth and Change in Top Marginal Tax Rate



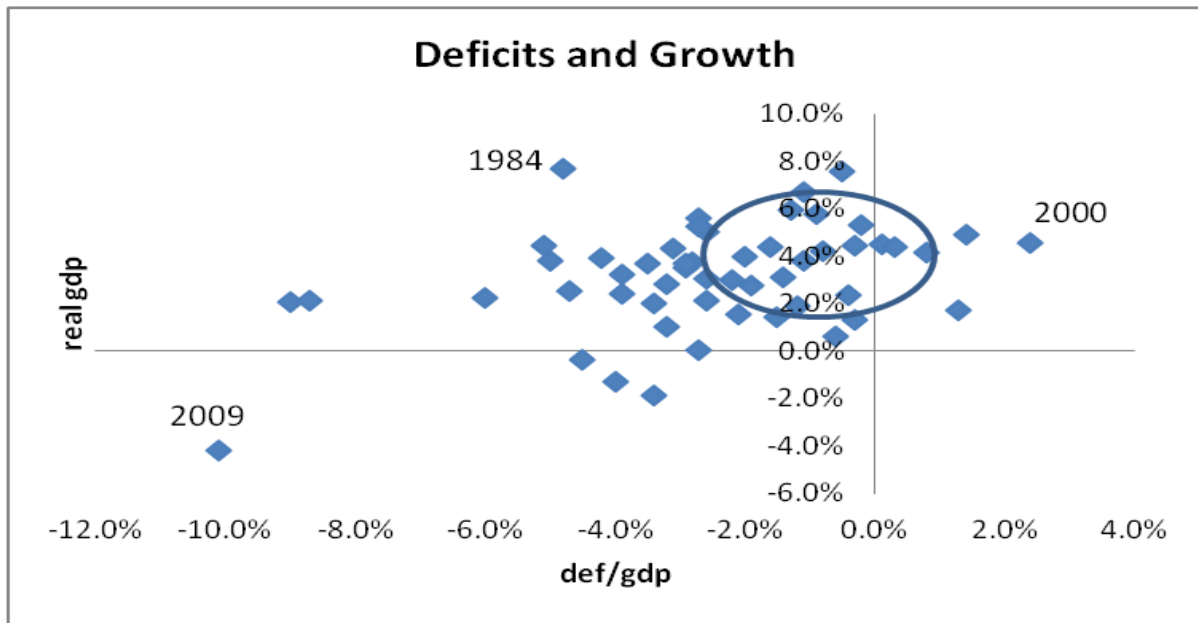
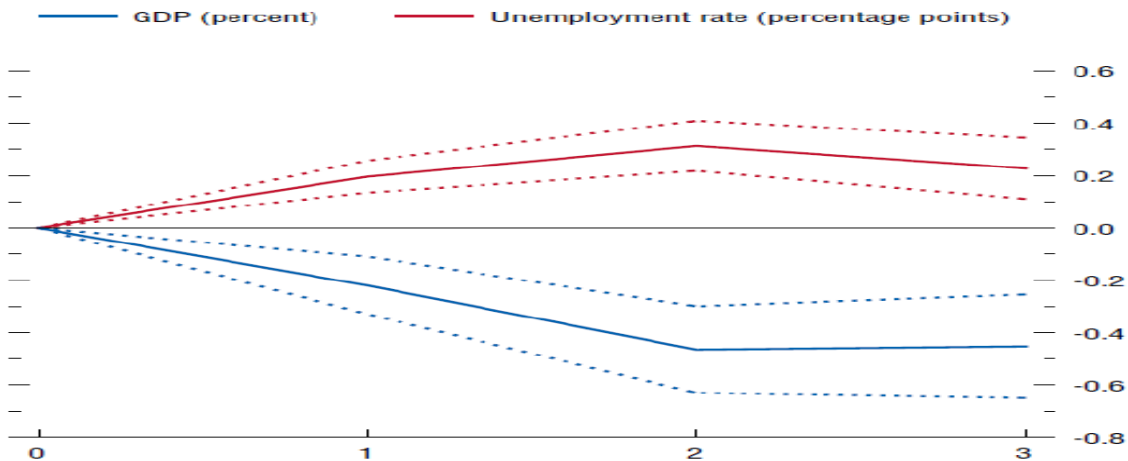


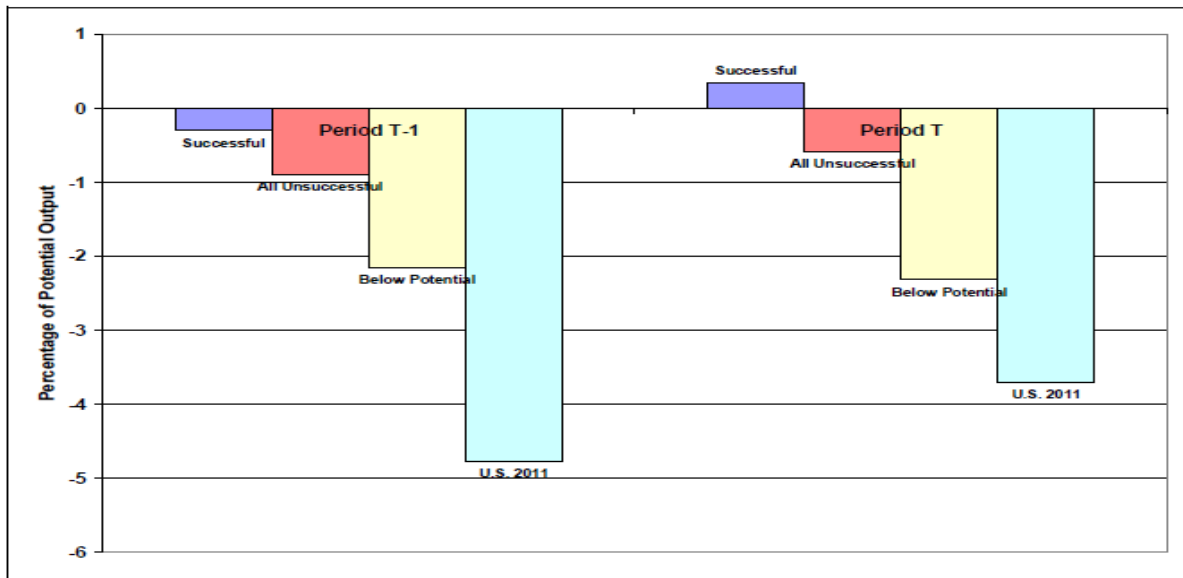
Figure 3.2. Impact of a 1 Percent of GDP Fiscal Consolidation on GDP and Unemployment

Fiscal consolidation is normally contractionary. A fiscal consolidation equal to 1 percent of GDP typically reduces real GDP by about 0.5 percent and raises the unemployment rate by about 0.3 percentage point.



Source: International Monetary Fund (2010)

Figure 3. Average Output Gaps for Successful and Unsuccessful Fiscal Adjustments Compared to the Current U.S. Output Gap



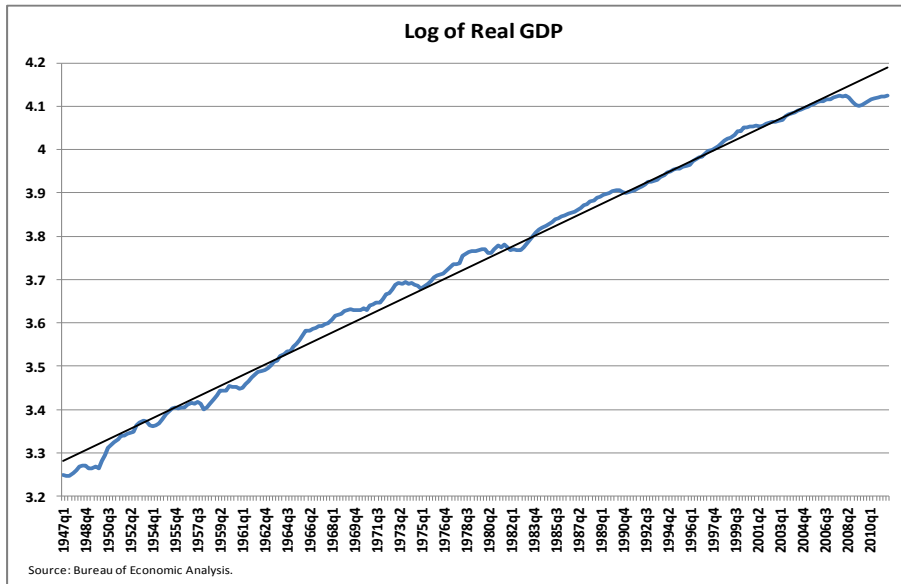
Source: CRS calculations based on IMF data.



Edward Lazear's slides

GDP trend in the United States

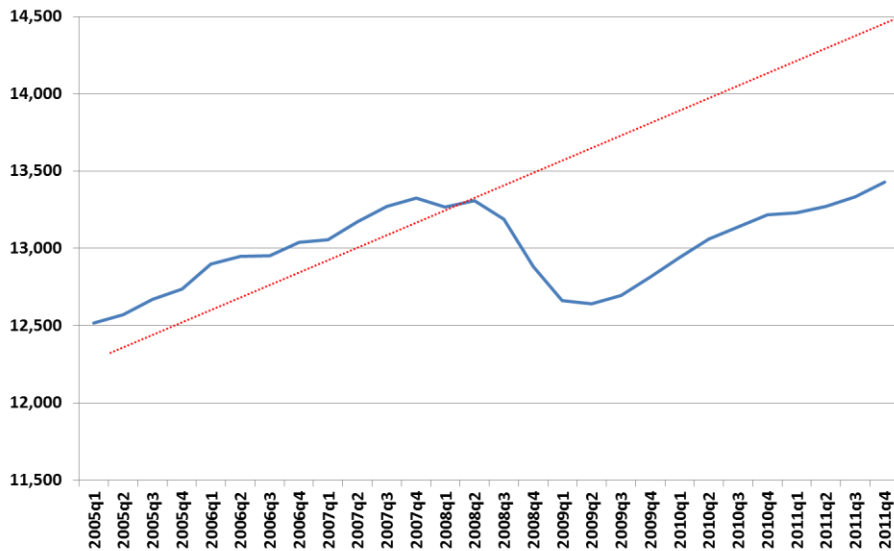
1947-2011



The recent trend

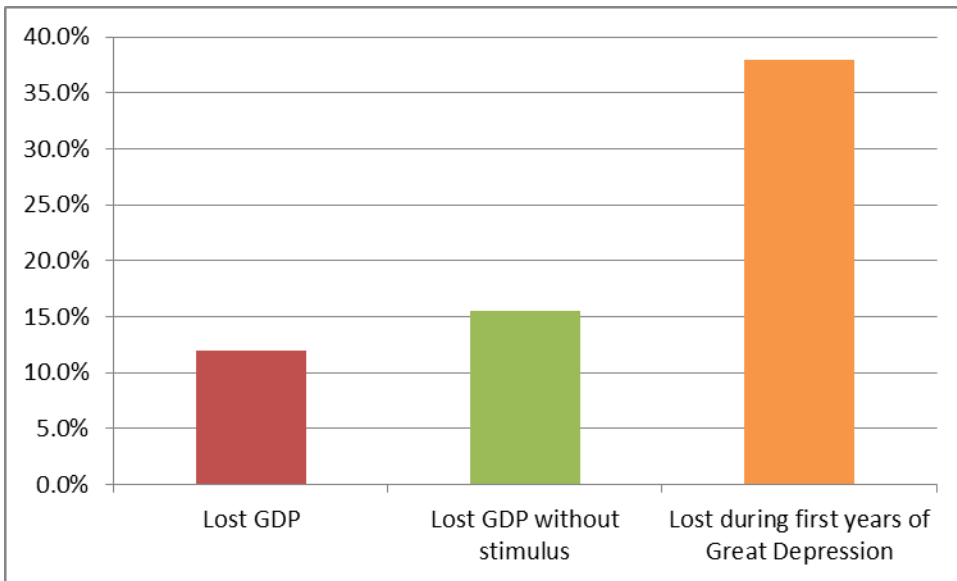
The Current Recovery

Real GDP





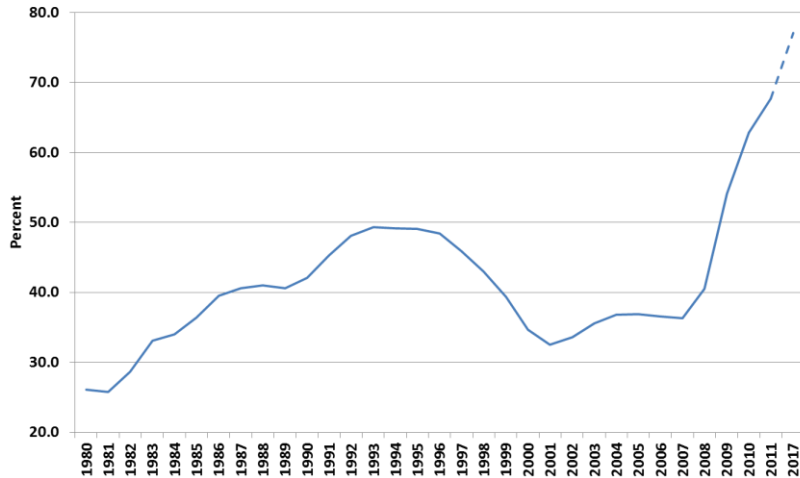
The effect of the stimulus



The US debt

Growth in the US Public Debt

US Public Debt to GDP Ratio



Source: Office of Management and Budget.



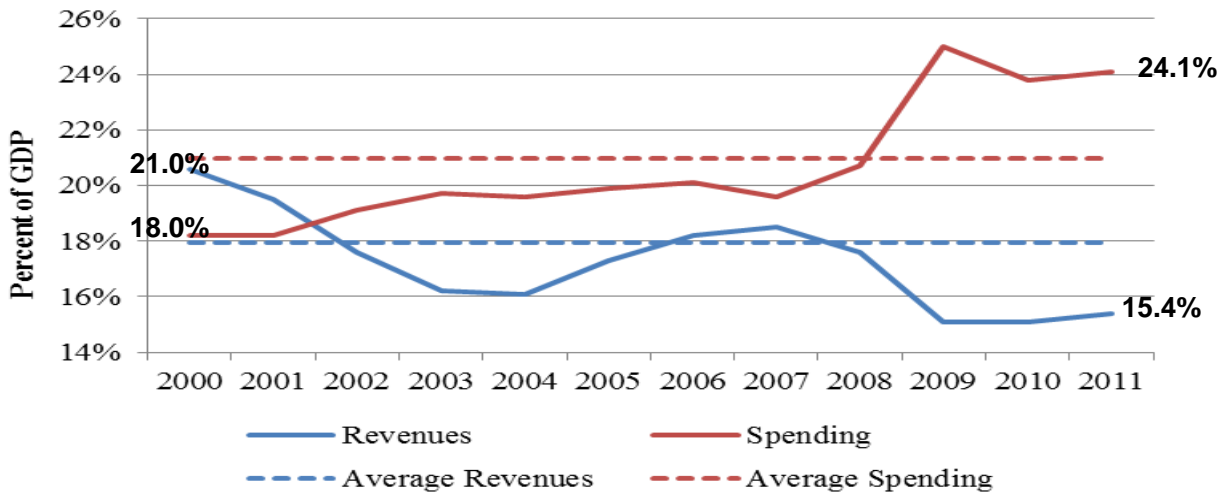
Steven Rattner's slides

Federal revenues vs. spending

(% of GDP)



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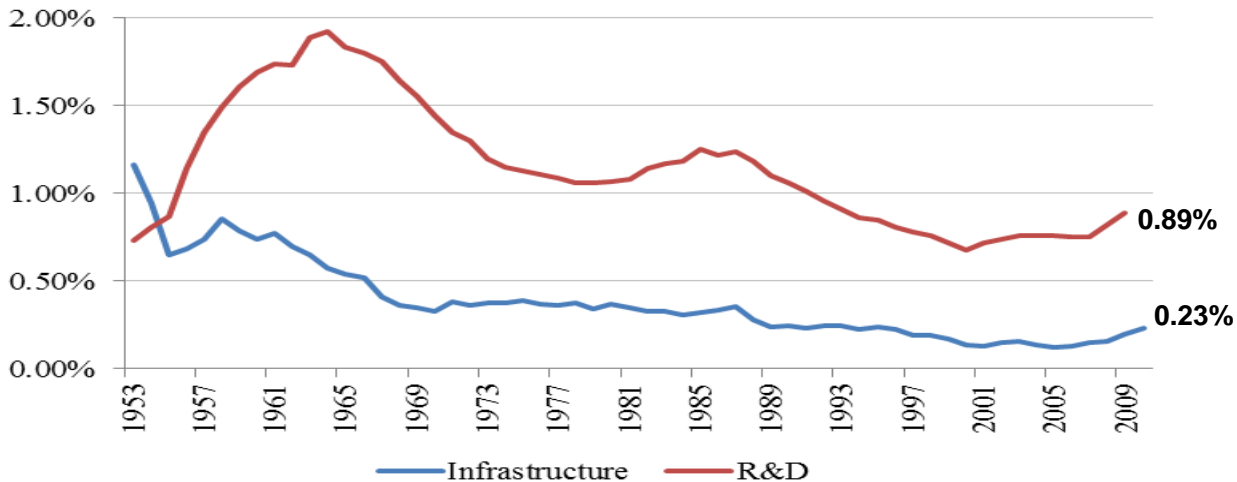
Source: CBO

Federal spending on infrastructure and R&D

(% of GDP)



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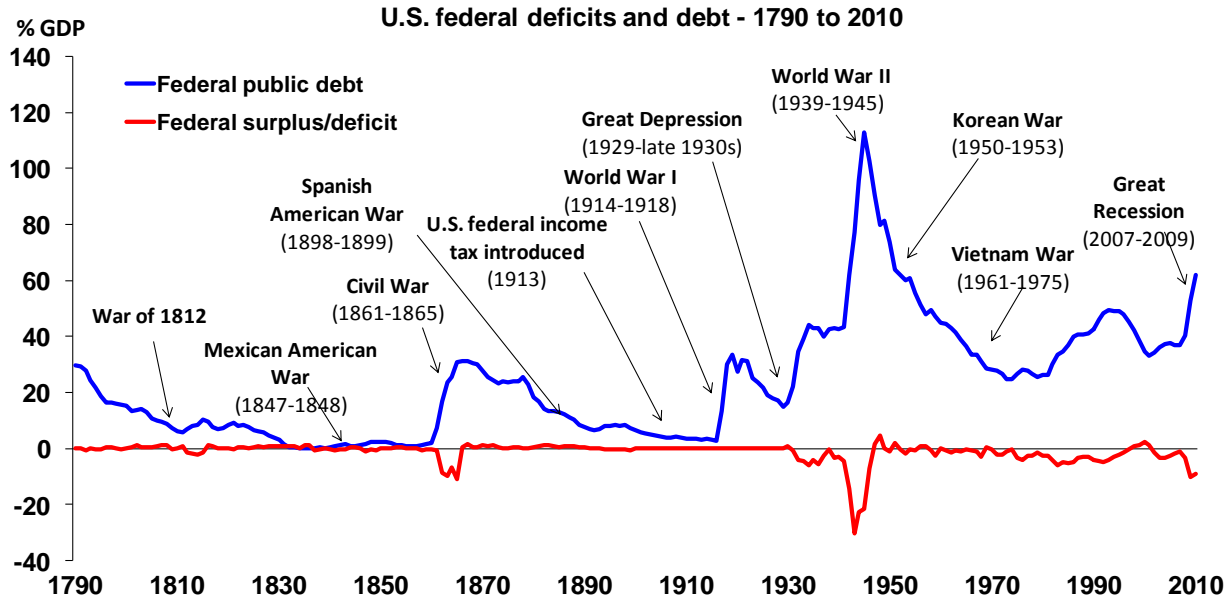
Source: BEA, National Patterns of R&D Resources



Additional slides

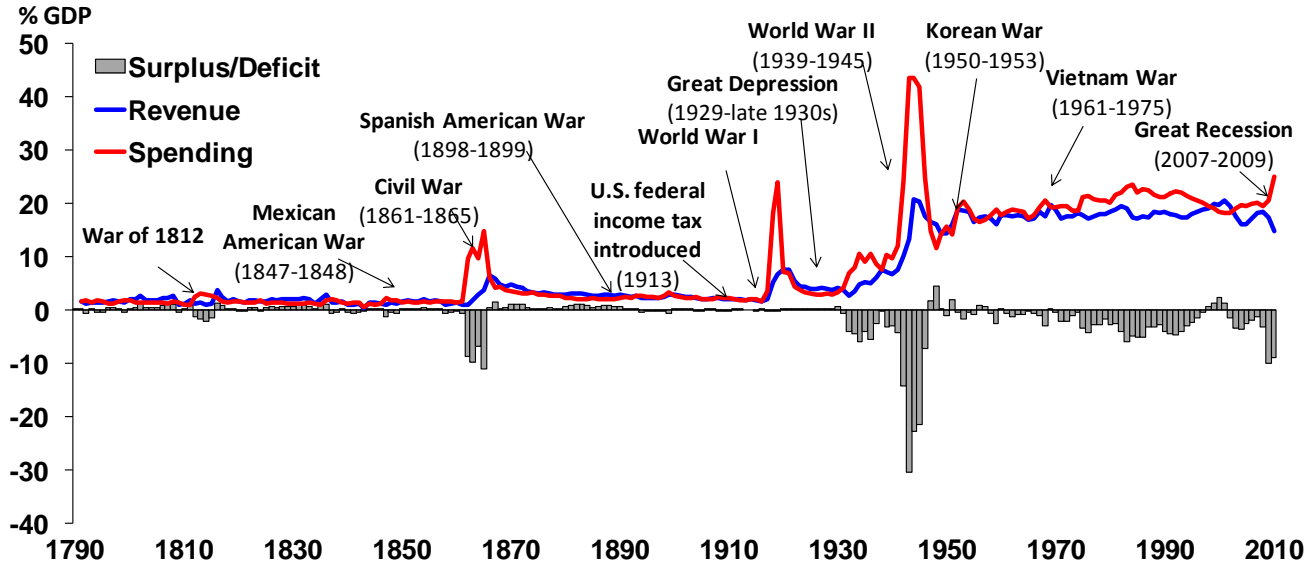
U.S. debt and deficits

Historical perspective

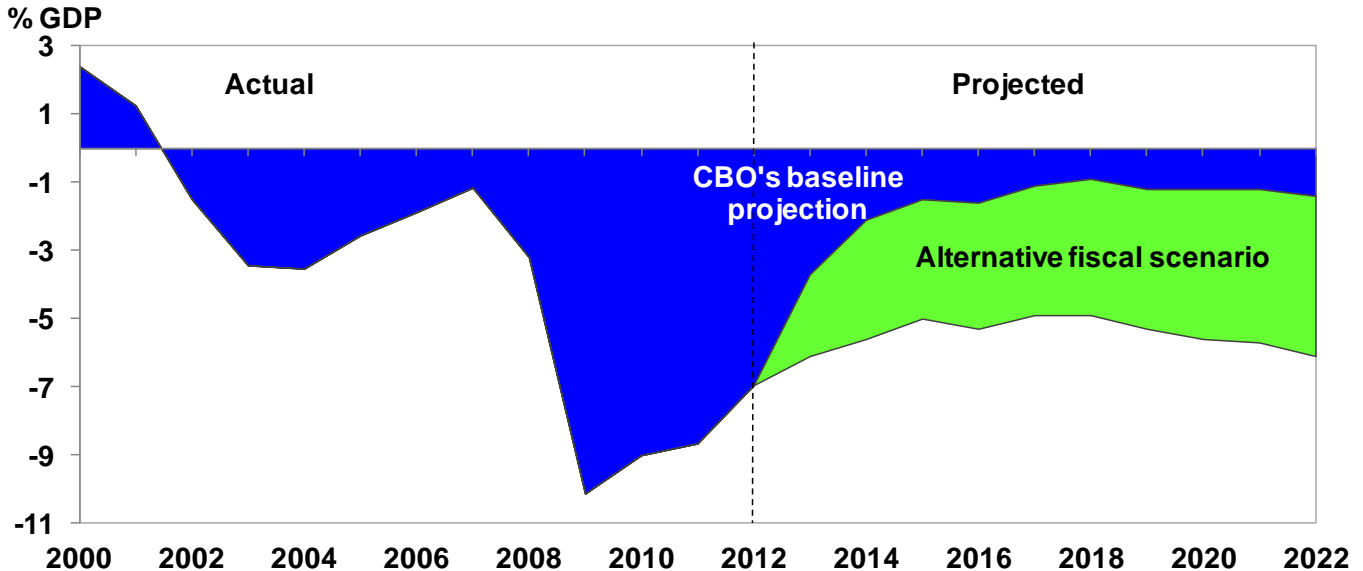


U.S. government spending, revenue and deficits *Historical perspective*

U.S. federal government spending and revenue - 1790 to 2010

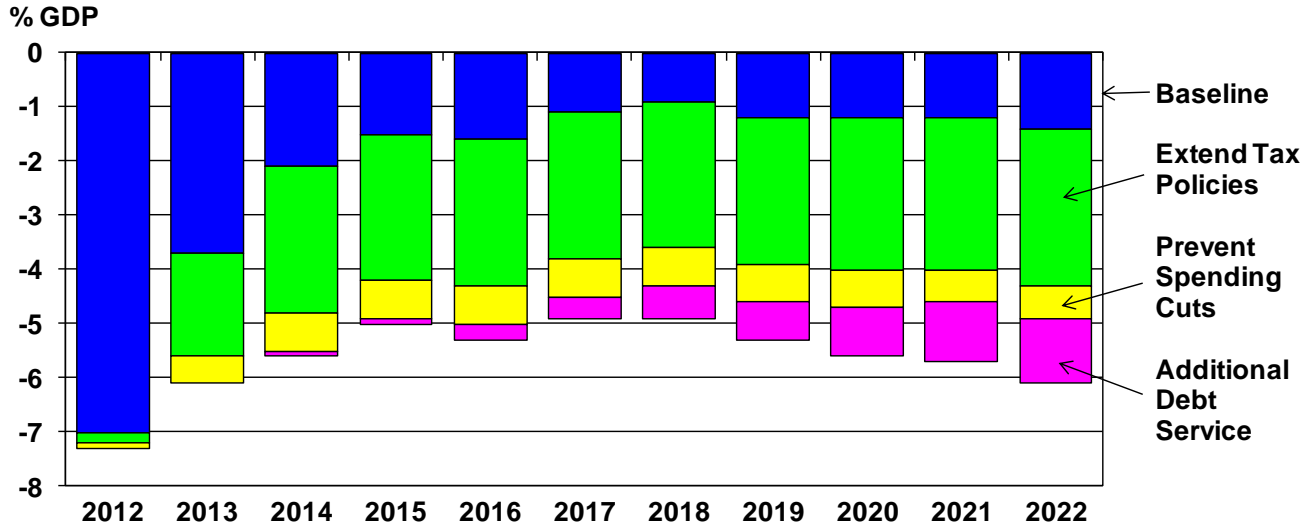


Deficit is projected to decline remarkably under the baseline scenario



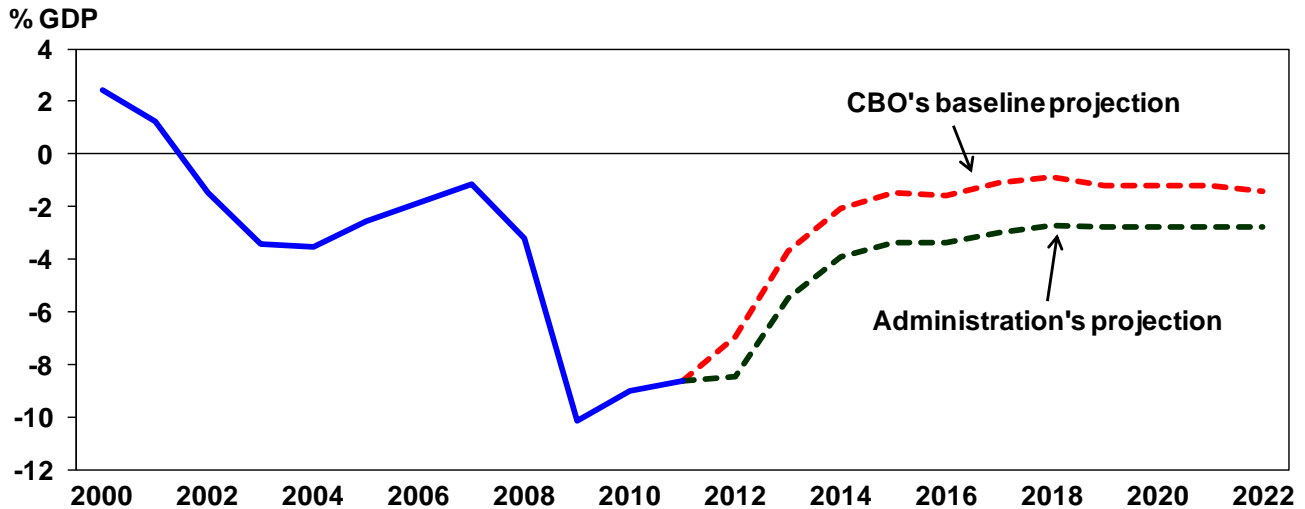
Source: U.S. Congressional Budget Office.

Deficit projected under CBO's baseline and alternative fiscal scenario



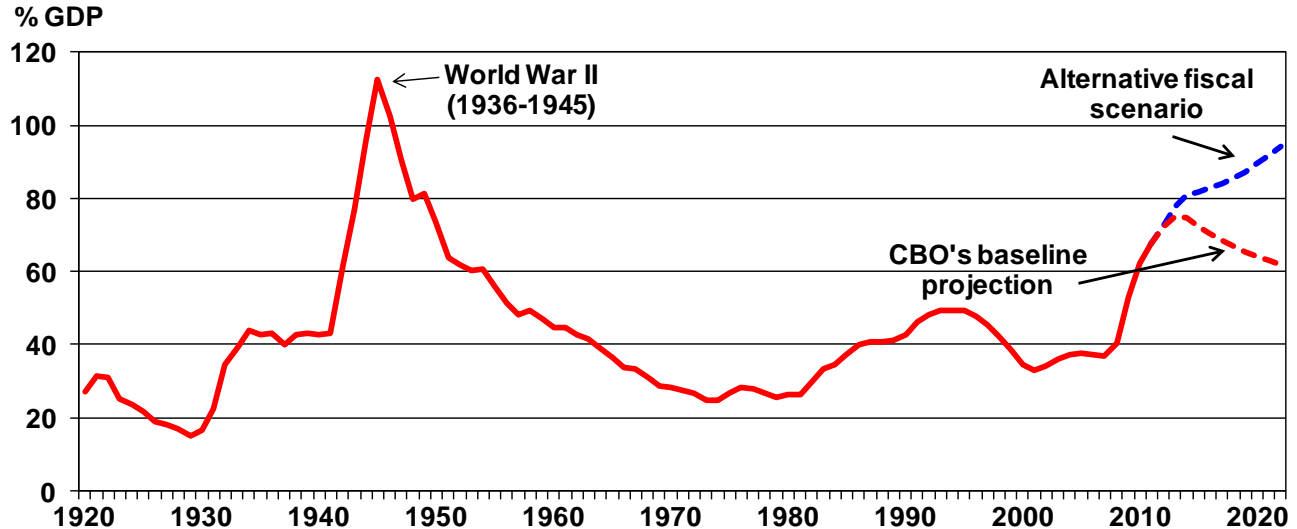
U.S. budget deficits/surpluses

CBO versus Administration projections



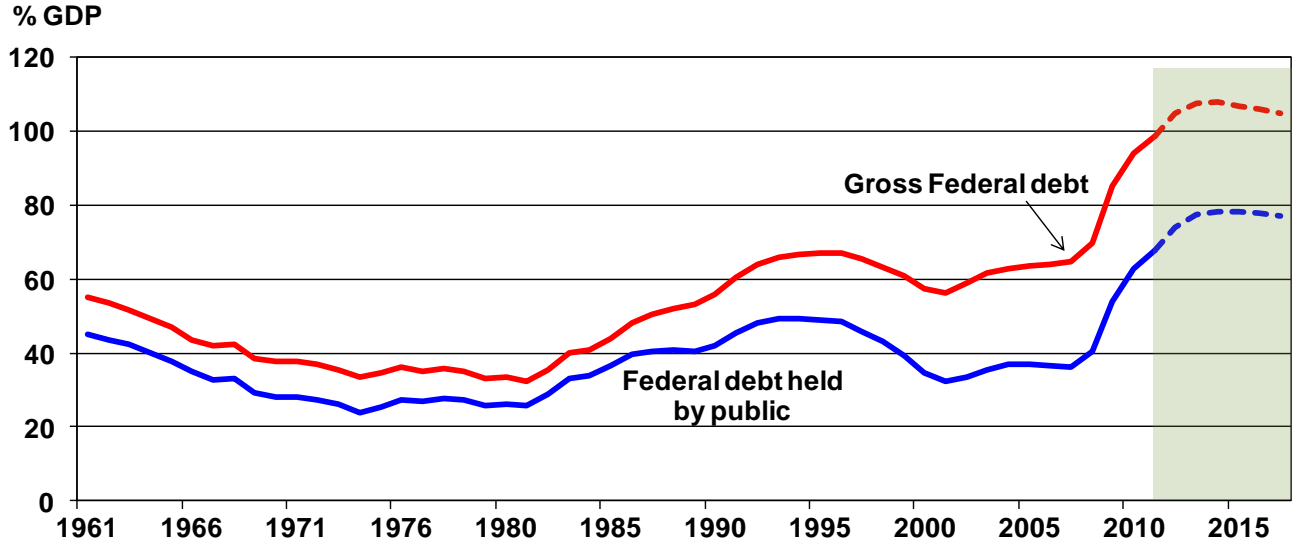
Sources: U.S. Congressional Budget Office, Office of Management and Budget, White House.

Federal debt held by the public rises to the WWII level under alternative fiscal scenario



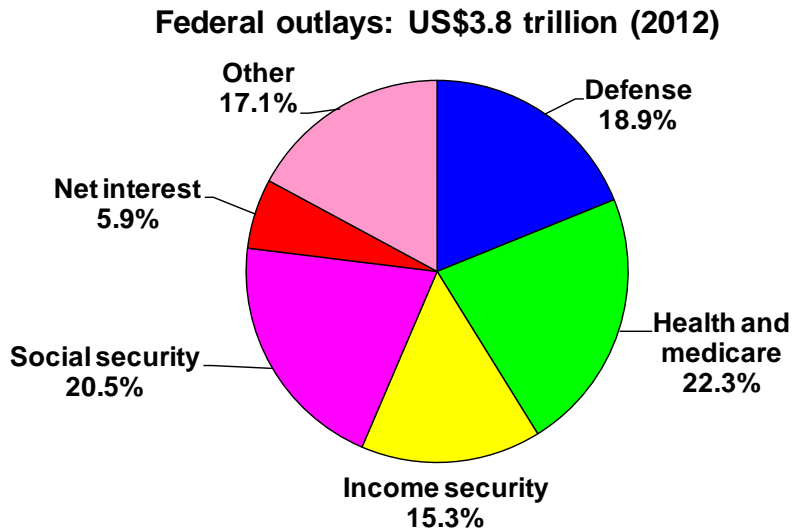
Source: U.S. Congressional Budget Office.

U.S. gross public debt is roughly equal national income



Source: White House.

Federal outlays by major category

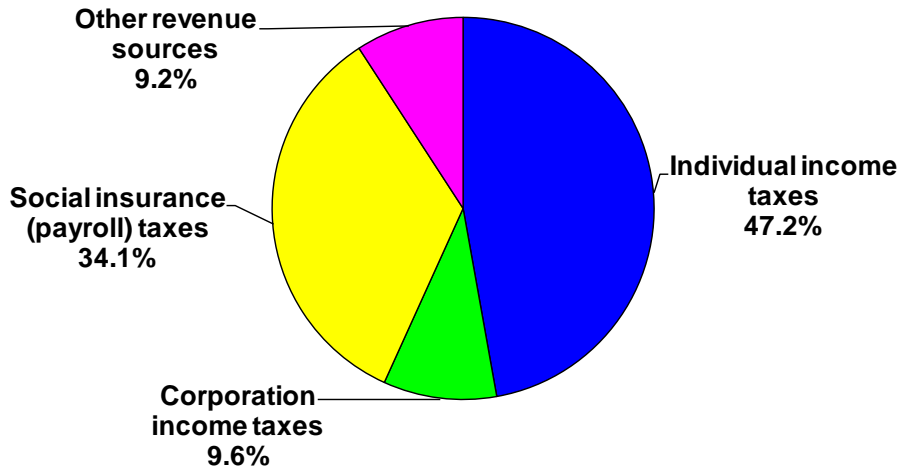


Source: Department of the Treasury and Office of Management and Budget.



Federal revenues by major category

Federal revenues: US\$2.5 trillion (2012)



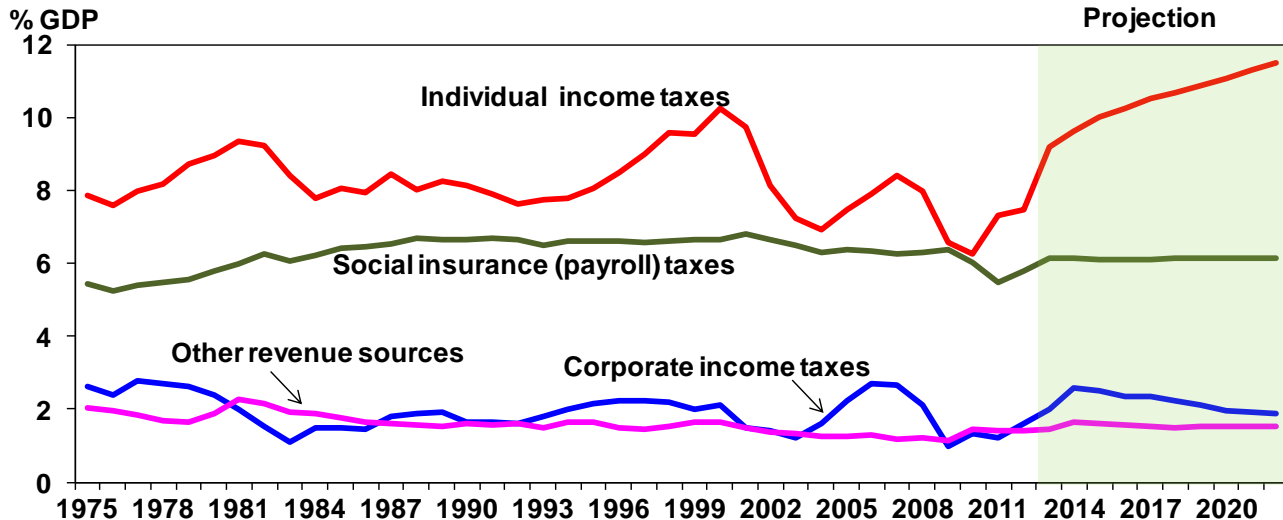
Source: Department of the Treasury and Office of Management and Budget.

Federal revenues by category

Actual and projection

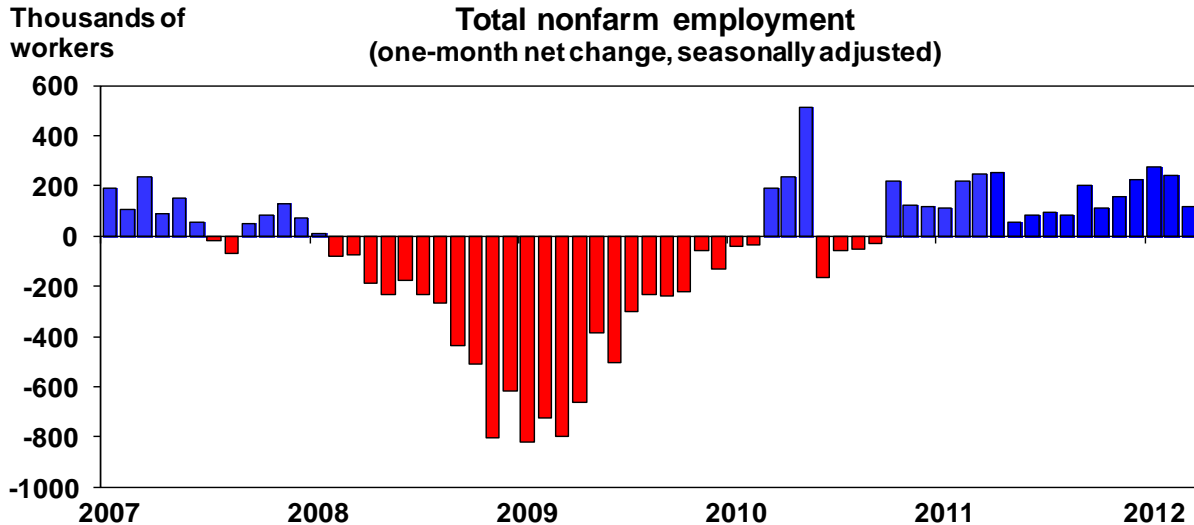


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Source: U.S. Congressional Budget Office.

U.S. labor market conditions are improving



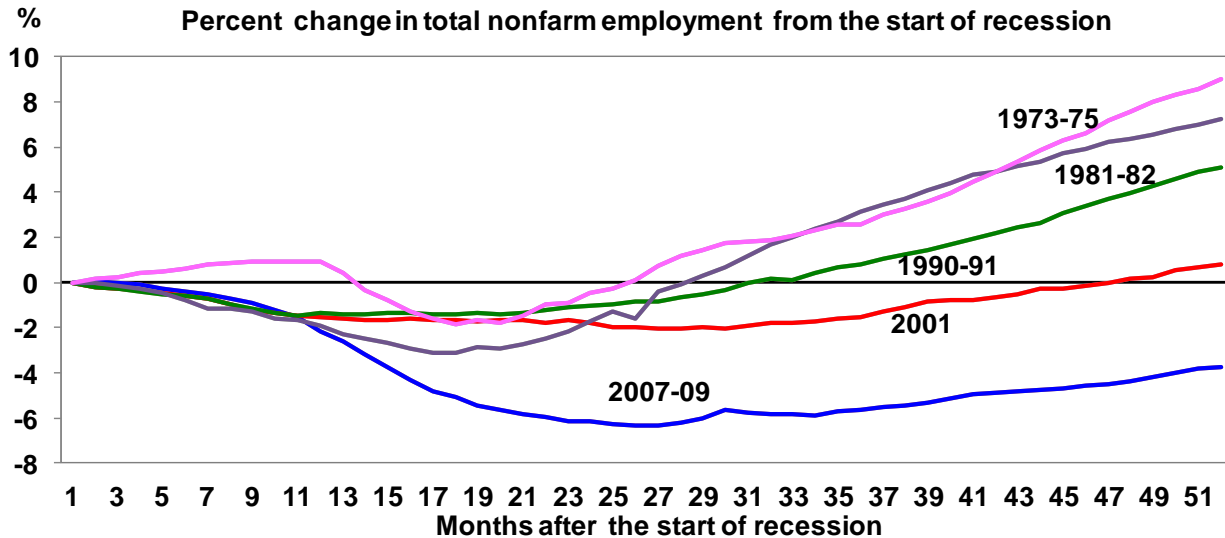
Source. Bureau of Labor Statistics.

Unemployment rate remains high



Source. Bureau of Labor Statistics.

Weak recovery compared with previous recoveries



Sources: U.S. Bureau of Labor Statistics, Milken Institute.

Weak economic recovery?

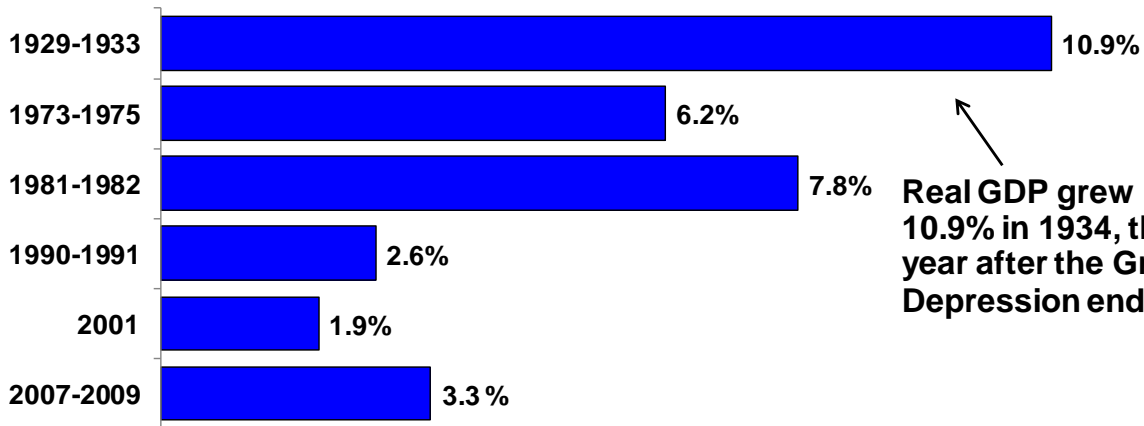
Compared with previous recoveries



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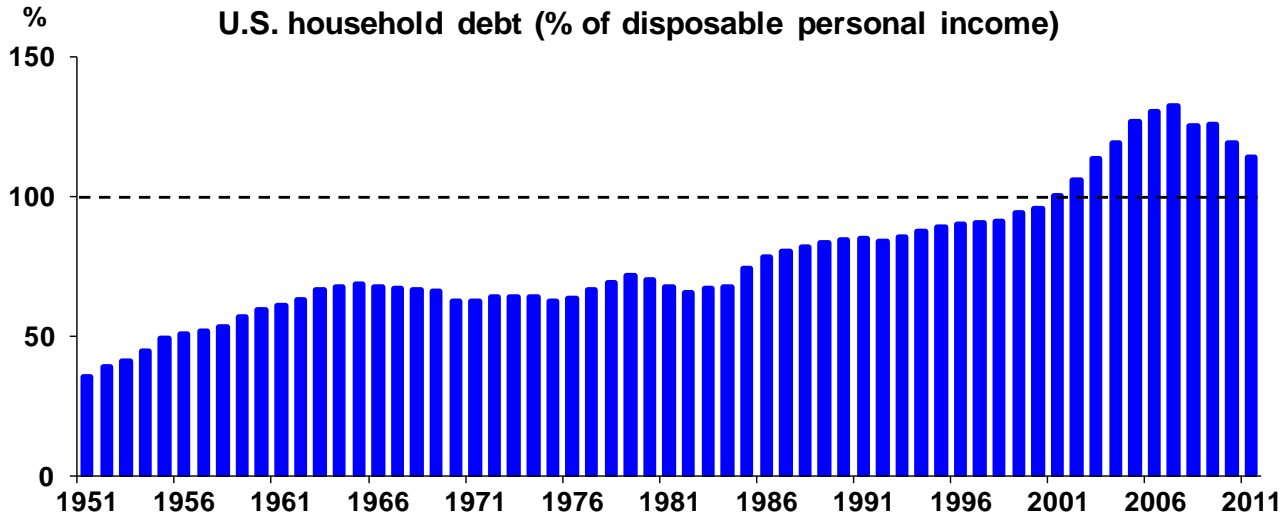
Average real GDP growth rates (%) in the four quarters following each recession

Periods of Recession



Real GDP grew 10.9% in 1934, the year after the Great Depression ended.

U.S. households still carry too much debt, but continue deleveraging



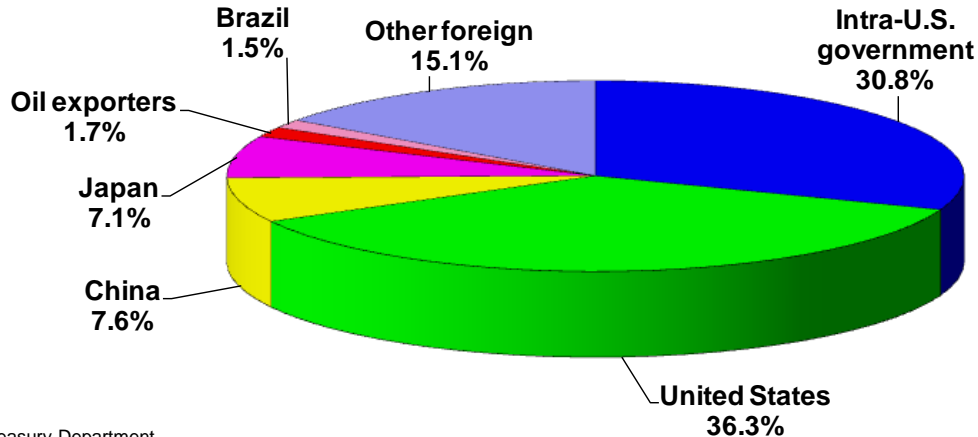
Source: Federal Reserve.

Ownership of U.S. Treasury securities

% of gross Treasury debt



Total gross federal debt: US\$15.5 trillion (February 2012)

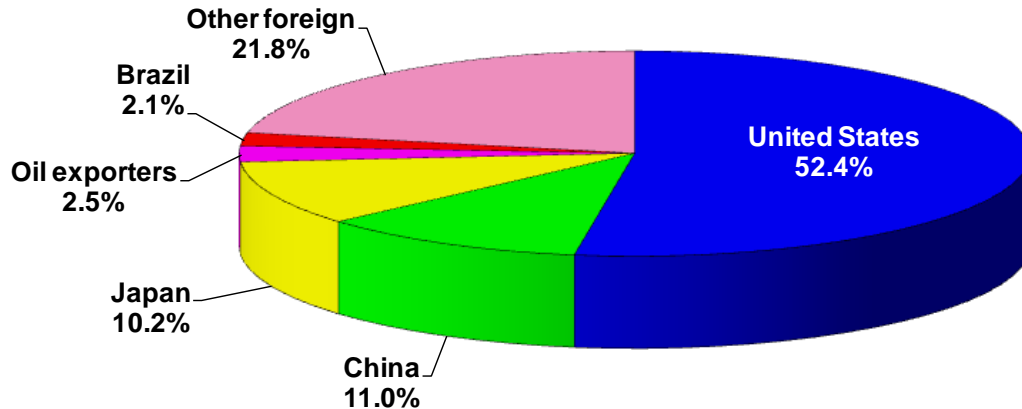


Source: Treasury Department.



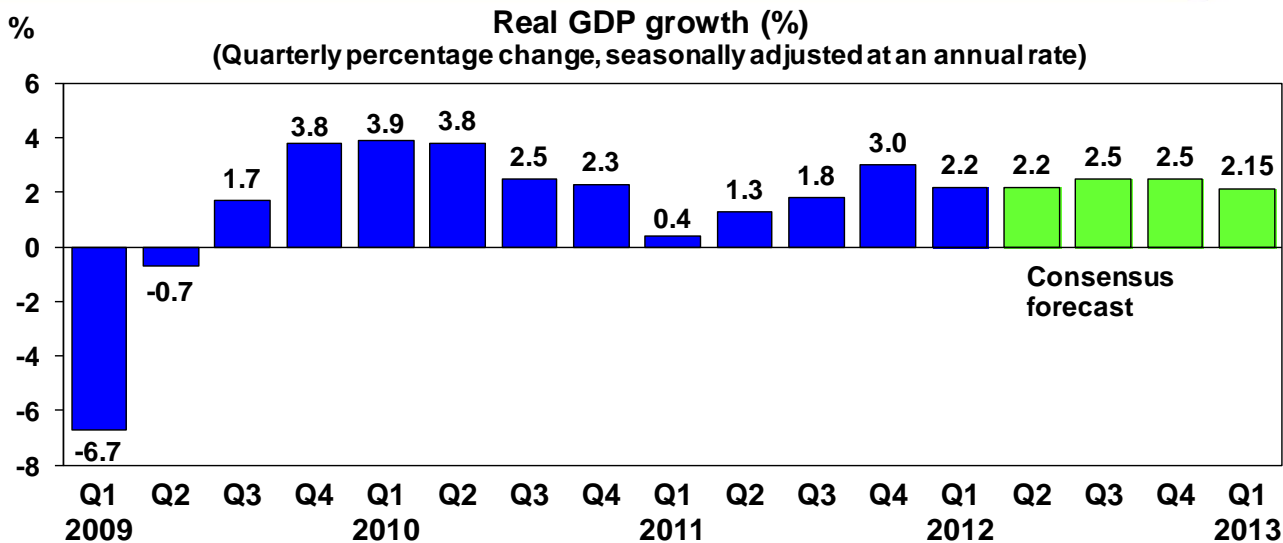
Ownership of publicly held U.S. debt

Total federal debt held by the public = US\$10.7 trillion (February 2012)



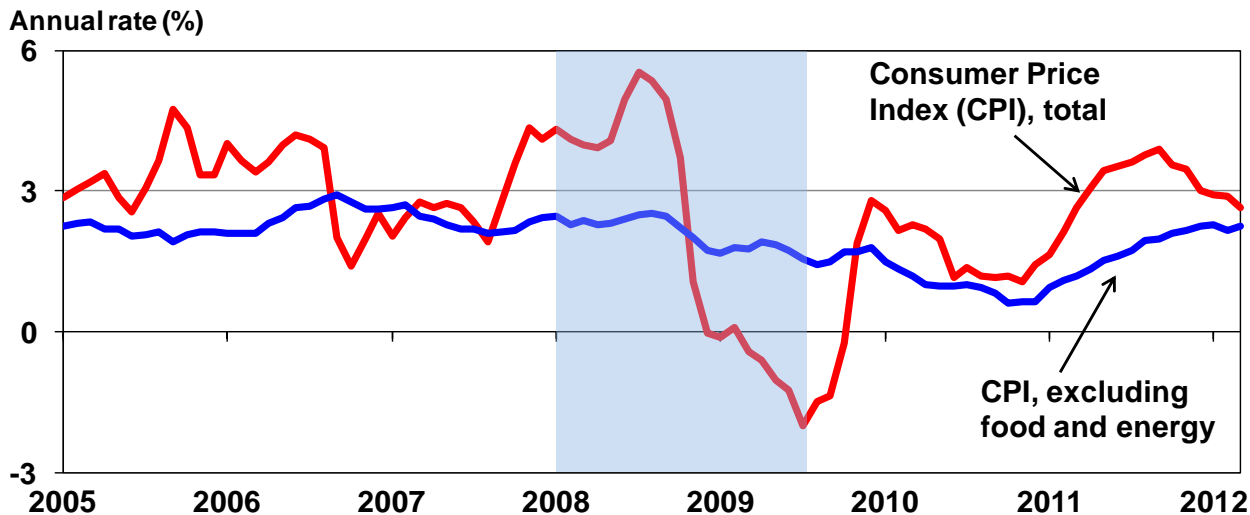
Source: Treasury Department.

U.S. economy expands at a slow rate



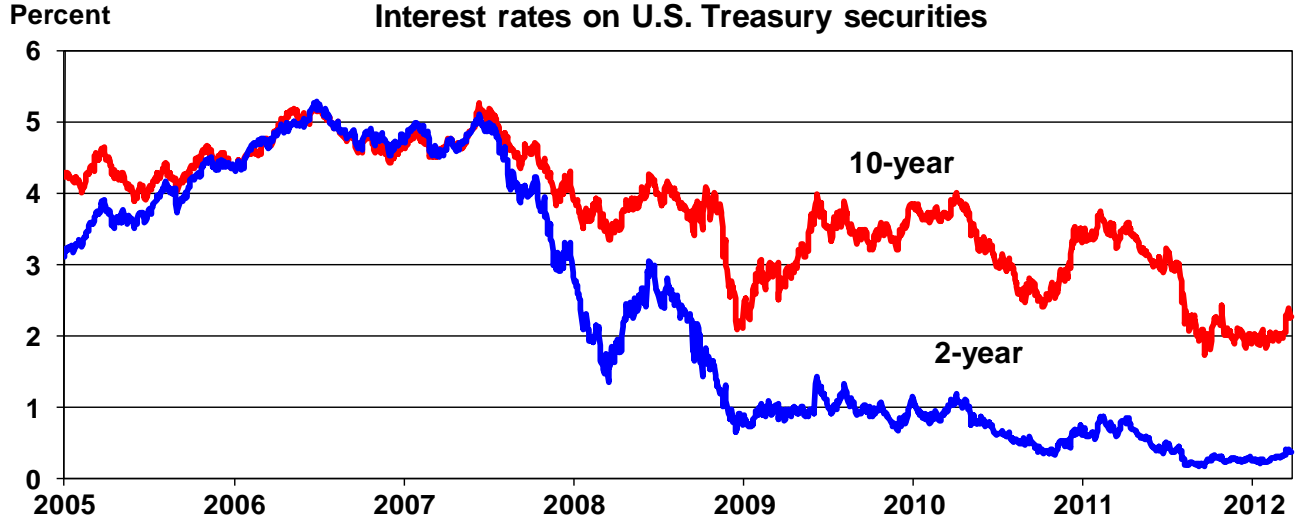
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Annual inflation has declined, but core inflation continued to rise



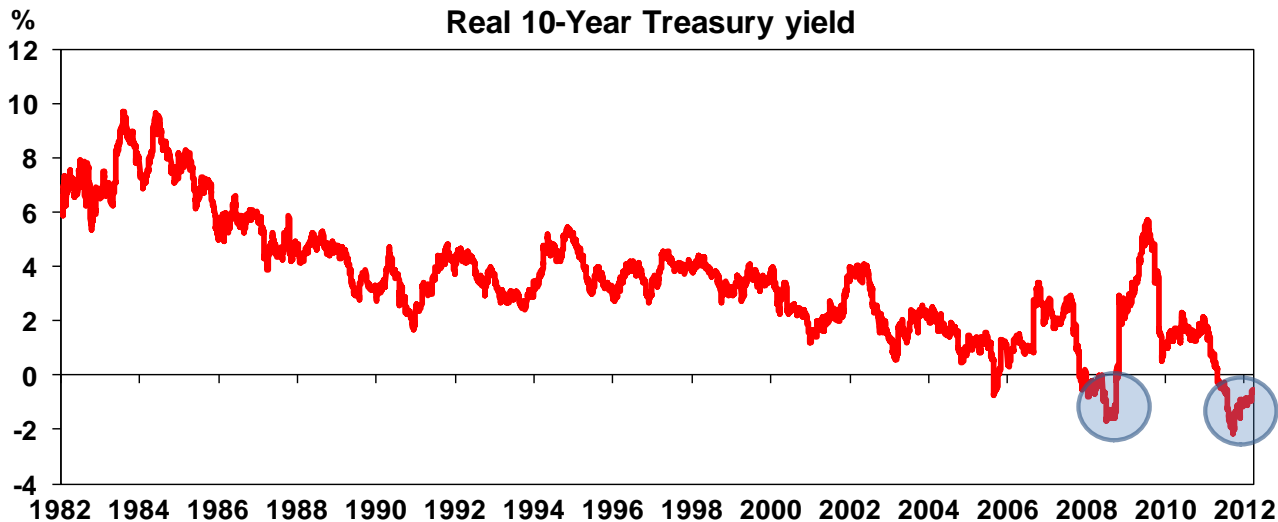
Source: Federal Reserve Bank of St. Louis.

U.S. Treasury yields remained low by historical standards



Source: Federal Reserve.

Real interest rate is near zero; negative in some periods



Sources: Federal Reserve, Federal Reserve Bank of St. Louis.



U.S. economic indicator watch

	2011	2012(F)
Real GDP growth (%)	1.70	2.30
Inflation (%)	3.17	2.40
Unemployment (%)	9.00	8.20
Budget balance (% GDP)	-8.20	-7.20
Federal funds rate (%)	0.25	0.25
10-year Treasury yield (%)	1.88	2.57

High public debt-to-GDP ratios in many advanced countries

