

ESRI Policy Forum: US. Fiscal Situation

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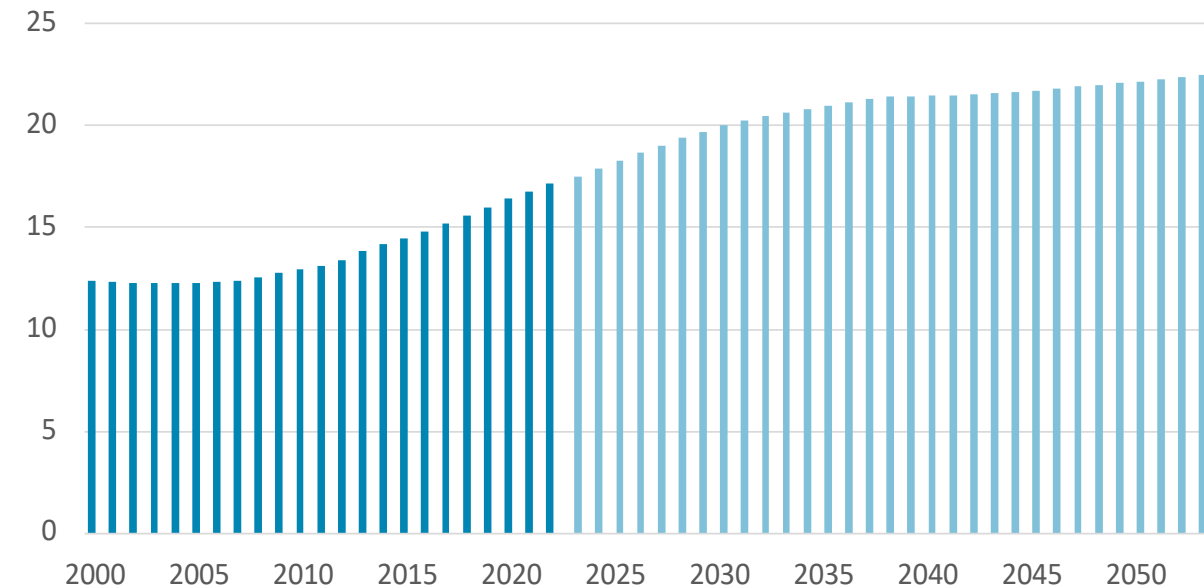
“More debt leads to less private investment, which probably lowers future output and income”

- What are possible underlying mechanisms?
- Elmendorf and Mankiw (1999)
 - The parable of debt fairy
 - $S + (T - G) = I + NFI$
 - S: Private saving
 - I: Domestic investment
 - T: Taxes less government transfer payments
 - G: Government purchases of goods and services
 - NFI: Net foreign investment (investment by domestic residents in other countries less domestic investment undertaken by foreign residents)
- Elmendorf and Sheiner (2017)
- Other possible mechanisms? Can we draw lessons from the Japanese experience?

Japan had aged rapidly in the 2000s and 2010s

Share of US Population 65 and Older

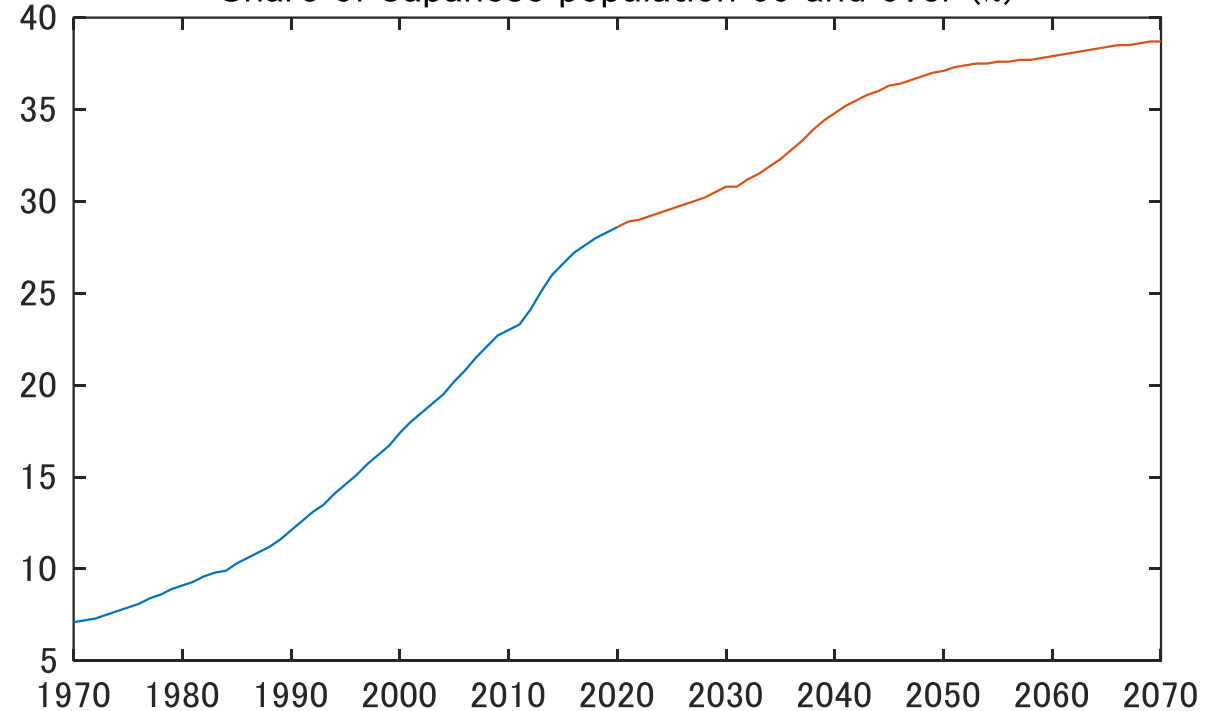
Percent



Source: CBO Long-term Budget Outlook (2023).

Taken from Prof. Elemendorf's slides

Share of Japanese population 65 and over (%)

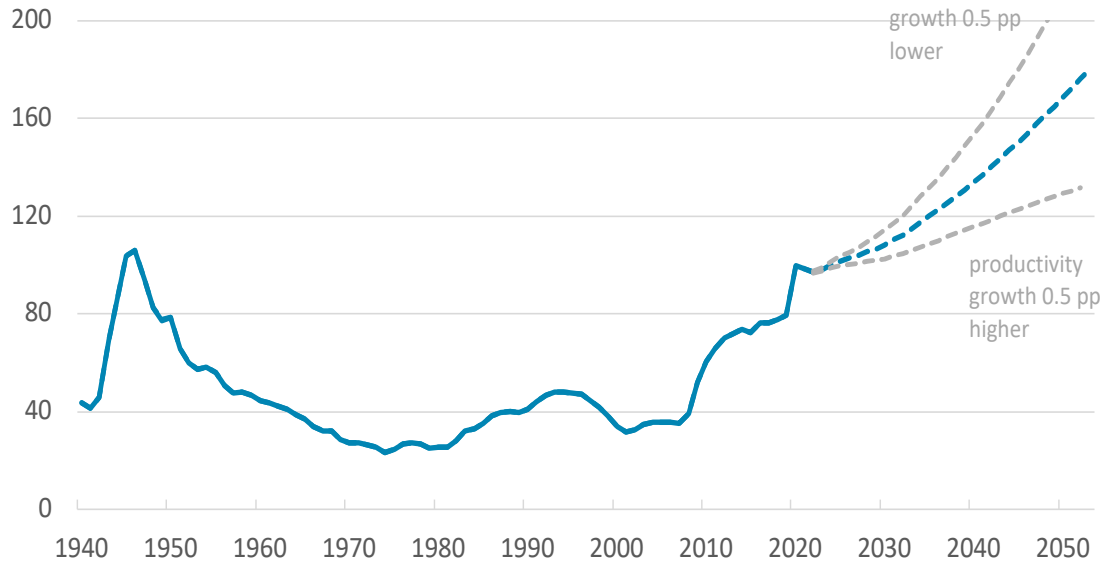


Data source: National Institute of Population and Social Security Research

While it accumulated of huge amount of government debt

US Federal Debt

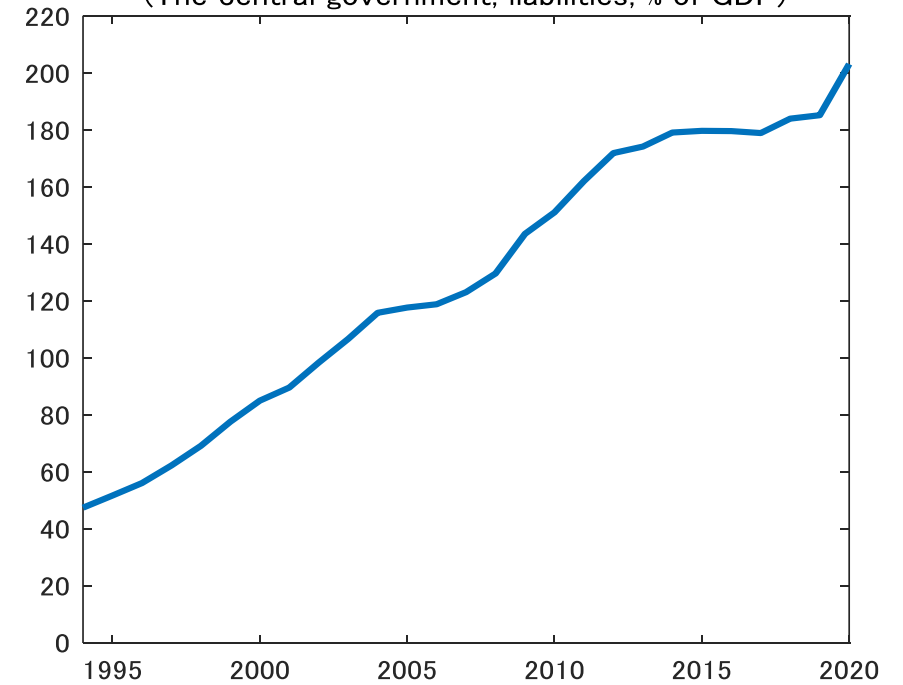
Percent of GDP



Source: CBO Long-term Budget Outlook (2022 and 2023).

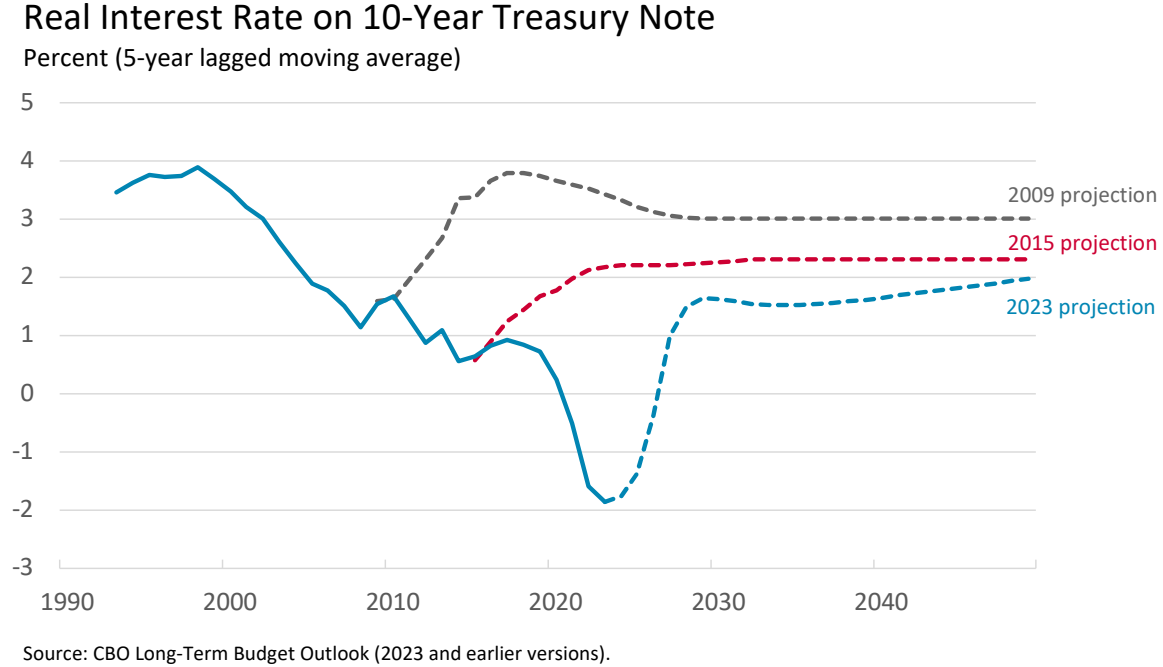
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Debt securities (The central government, liabilities, % of GDP)

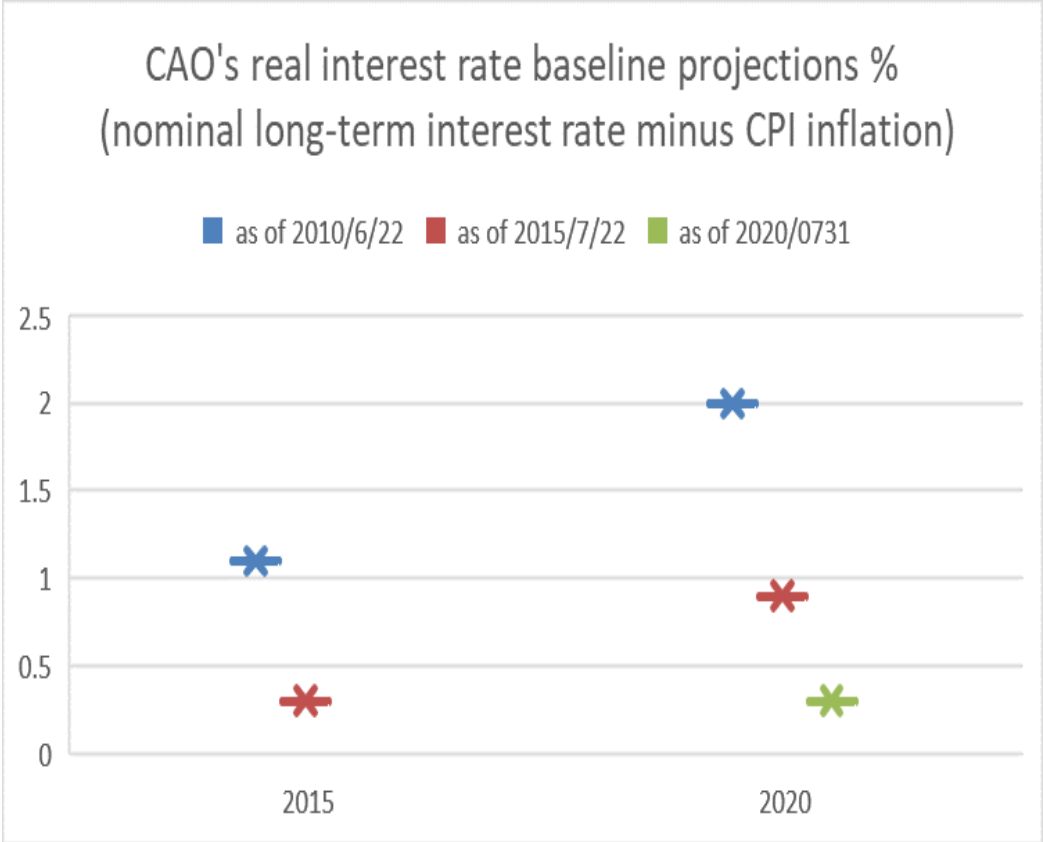


Data source: Bank of Japan and Cabinet office of Japan (CAO)

Meanwhile, real interest rate projections have been revised downward under long-lasting unconventional monetary policy in Japan

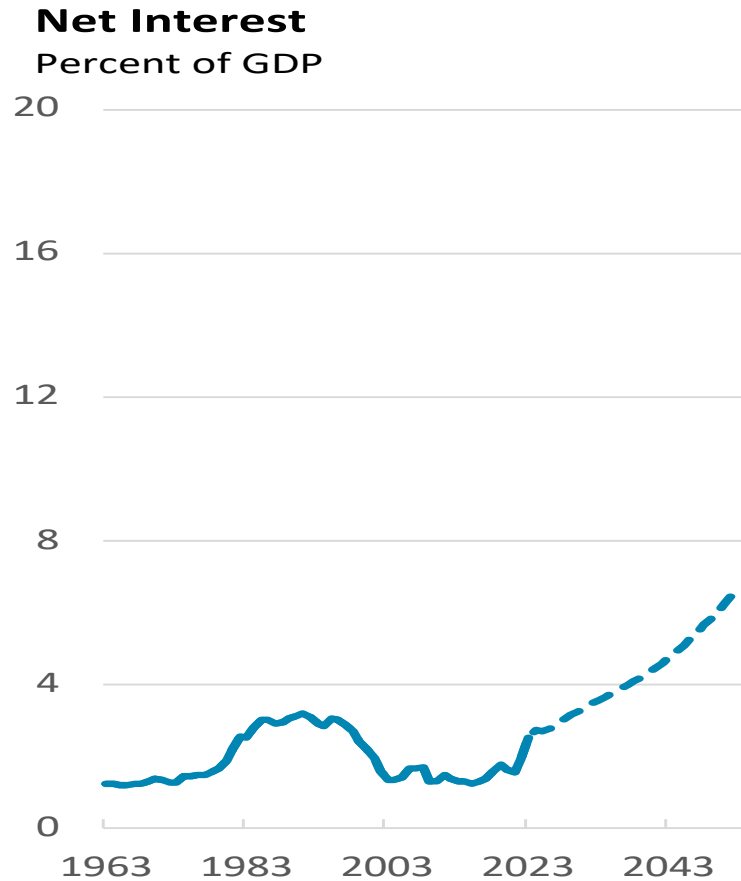


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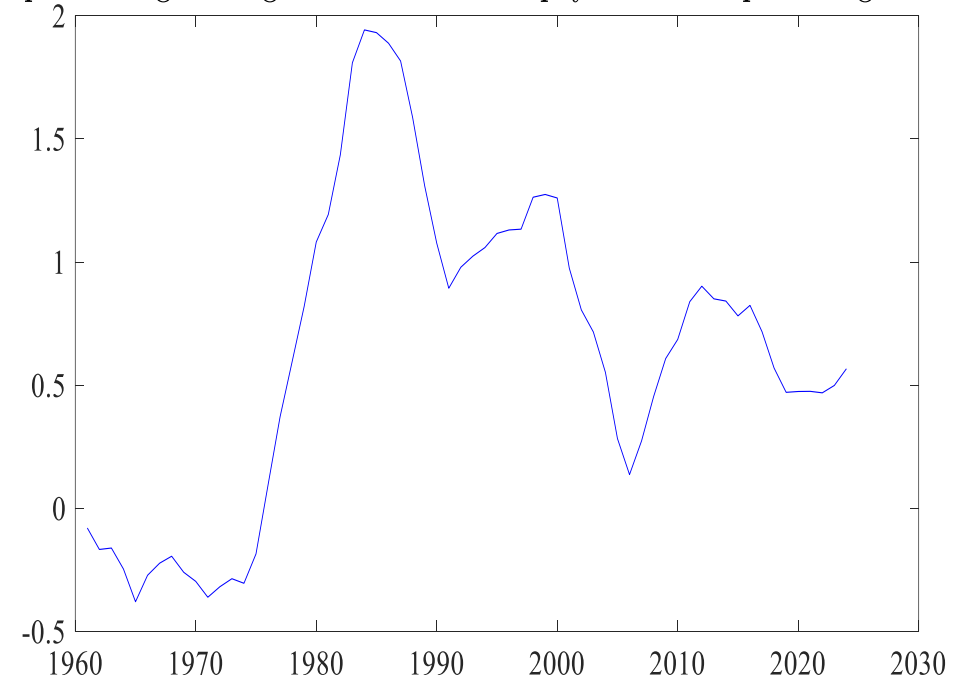
Data source: CAO

The net interest has been contained in Japan



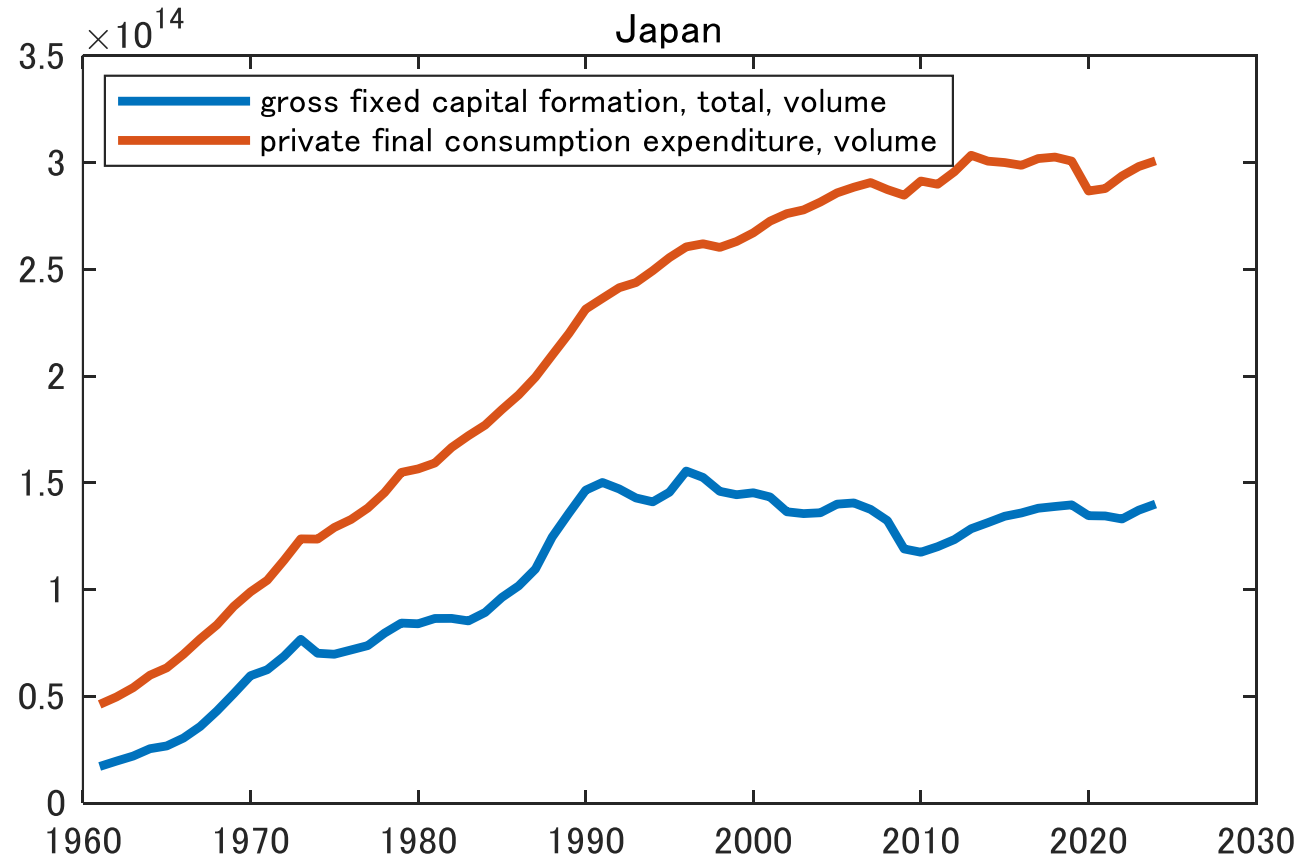
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Japan: Net general government interest payments as a percentage of GDP



Data source: OECD

The volume of gross investment did not grow over the last two decades in Japan



Data source: OECD

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- Secular stagnation? Reverse causality in case of Japan?
- International capital flows?

Additional remarks

- In my short discussion, I have focused on the macroeconomic effect of government debt and lessons from the Japanese economy
 - There are many related academic studies on Japan
 - Other effects of government debt should also be discussed
 - e.g., Elemendorf and Mankiw (1999): “government debt can affect monetary policy”
 - The US economic and fiscal outlooks can be compared with the latest medium- and long-term projections from the Cabinet Office of Japan