LECTURE 25
CAUSES AND CONSEQUENCES OF THE U.S. BUDGET DEFICIT
APRIL 25, 2013

I. FEASIBLE AND INFEASIBLE BUDGET POLICIES
   A. The distinction between the debt and the deficit
   B. Do we have to pay off our debt eventually? Are there any constraints on fiscal policy?
   C. Examples of feasible and infeasible fiscal policies

II. THE MAGNITUDE AND SOURCES OF THE UNITED STATES’S FISCAL CHALLENGE
    A. The nature and size of the problem
       1. Complications in defining “current” fiscal policy
       2. Our unsustainable path
       3. Quantifying the magnitude of the problem
          a. Auerbach’s framework
          b. Results
    B. The sources of the problems
       1. The leading candidates
       2. The role of long-term trends in demographics and health care costs
       3. The role of policies adopted from 2001 to 2008
       4. The role of the Great Recession and the Recovery Act
    C. Is this a reasonable forecast?

III. THE CONSEQUENCES OF PERSISTENT BUDGET DEFICITS
    A. The usual slogans
    B. Sustainable deficits
    C. Unsustainable deficits
       1. When do things break down?
       2. What happens when they do?
    D. How much truth is there in the slogans?