



SUSTAINING CAPITALISM

A series focused on nonpartisan reasoned solutions in the nation's interest to the central challenges we face in order to provide prosperity for all Americans.

CED FISCAL HEALTH SOLUTIONS BRIEF

Containing the Pandemic Public Debt

In early 2020, the COVID-19 pandemic presented the entire world with its worst public health threat in at least a century. The precise seriousness of the pandemic, of course, could not be known at the outset; and in fact, the pandemic is not yet vanquished as this statement is written. The extent of the damage the virus and its mutations will ultimately cause is not yet fully known. But the near-miraculous efforts to develop vaccines, contain the infection, and treat the infected provide much-needed hope that a return to “normal” is not out of reach.

The pandemic had economic consequences as well. And like the public health impact, the shock to the economy was large but impossible to assess accurately at its outset. And like the damage to public health, the economic fallout is still impossible to assess today with complete accuracy. For the first time in 100 years, stay-at-home orders to protect the public health spurred an economic downturn and dramatic job losses—leaving a wide swath of businesses in hospitality, travel, leisure, dining, and retail nearly shut down, with entire occupations, such as personal service workers, facing extended layoffs or even permanent job loss. The fates of these businesses and workers are unpredictable, depending on the uncertain course of the pandemic itself.

Another similarity between the public health and the economic threats is that prudent public policy required strong and immediate responses. With the ultimate extent of the damage unknown but potentially catastrophic, executive and congressional policymakers deemed it essential that government react swiftly and robustly. Policymakers and commentators repeated often that the nation should err on the side of action—that it would be better to do too much rather than too little.

Although the public health response is vigorously debated, the economy has recovered more quickly and energetically than most forecasters anticipated, and the magnitude of the policy response has been credited by some for that welcome outcome.

There is another potential analogy between remedies for health or the economy. Strong treatments (and of course major surgeries) for dangerous diseases commonly entail either the certainty or the risk of serious side effects. (Chemotherapy for cancer is just one obvious example.) The imperative for the treatment does not obviate the side effects. Medical personnel must remain vigilant for lingering problems and prepared to counteract them.

The same is true for the economic policy responses for the pandemic downturn. Policymakers have employed extreme remedies, including enormous increases in spending, that are without precedent in peacetime. The resulting budget deficits have forced a substantial increase in borrowing and public debt. Like chemotherapy or any other extreme medical remedy, the fact that relief and stimulus spending is necessary does not make it benign for all time. The debt will have consequences, and those consequences must be addressed.

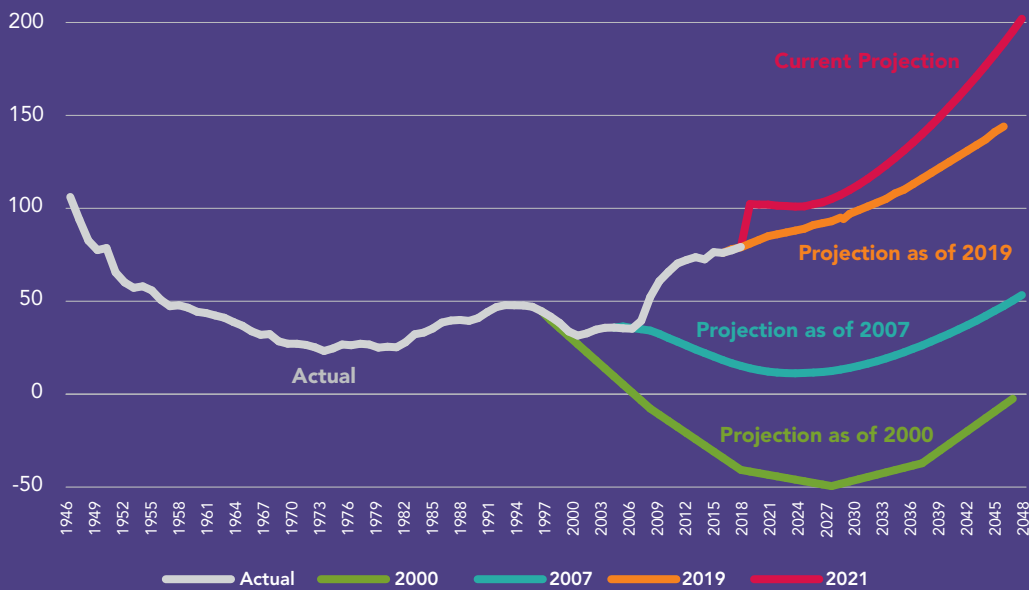
Even though the economy is still finding its feet and the virus has not been defeated, it is by no means too early to state our nation's resolve to address the problem in good time and formulate a plan. In fact, an assurance that the debt buildup will not be allowed to grow out of hand will give continuing confidence to financial markets and greatly simplify the formation of monetary policy in the coming months and years. The nation has too often suffered in recent decades from cavalier analyses of and approaches to important public policy problems. This impending buildup of enormous public debt cannot become another occasion for casual policymaking, or worse still, ignoring the issue entirely. The following brief assesses the situation, considers the options, and formulates a plan to set the nation's finances on a sustainable course for the future.

Before the pandemic: a massively deteriorating outlook for public debt

Even before COVID-19 struck, the United States had a serious public debt problem. This problem had roots back to the early 1980s but seemed to have been conquered. As recently as the year 2000, using the consistent methodology of the Congressional Budget Office (CBO) baseline (which assumes no changes in policy), the federal government was projected to have paid off the public debt¹ in the decade of the 2000s and then remain net-debt-free for almost half a century (as the chart below illustrates).²

However, by 2007, just before the financial crisis, the projection had deteriorated (see blue line in Chart 1). The federal government was no longer projected to ever pay off the debt, which had doubled since 1980, and debt was expected to return to 50 percent of GDP by 2050. The financial crisis of 2008 worsened even that dismal outlook. In the CBO's 2019 projection (orange line), the public debt in 2049 (the last year included in that forecast) was projected to reach 144 percent of GDP. This was a chilling prospect, and more than one-third over the previous high of 106 percent of GDP at World War II's end.

Chart 1
The public debt outlook has deteriorated massively
 Debt held by the public, percent of GDP



Source: The Conference Board

Thus, even before the pandemic hit, the debt was projected to gain enormous leverage over the federal government’s finances. At 5.7 percent of GDP by 2049, the federal government’s interest bill would already be more than triple what it was in 2019, and interest rates could easily rise higher in the face of such a massive increase in the federal government’s supply of debt and increase debt service costs still further.³ Interest costs would crowd out public spending on infrastructure, research, and education essential for economic growth, while the federal government’s borrowing would crowd out private investment as well. There would be little budgetary flexibility to deal with any future contingencies.

The devastating impact of the pandemic

However dismal the public debt outlook was in first days of 2020, the COVID-19 pandemic has wreaked true havoc on the federal budget. The impact is twofold: 1) the decline in revenues and increase in spending which would have occurred *without* any federal action to reverse the economic downturn; and 2) the additional spending increases and tax cuts incurred to help the economy rebound and cushion the hit on the millions of Americans whose livelihoods were interrupted. These two impacts due to the pandemic can be defined as the “pandemic debt.”

In its current projection (red line in Chart 1), CBO sees the public debt rising to 202 percent of GDP in 2051. That is almost double the previous record, and again, more than one-third over what was anticipated just two years ago before the pandemic. The federal government’s projected interest bill is proportionately larger than the previous

projection, and now stands at 8.6 percent of GDP. That is almost one dollar out of every two dollars of federal revenues (which CBO projects at 18.5 percent of GDP in 2051). The average effective interest rate on the public debt is assumed to be barely higher than it was in the previous projections, at less than 4.3 percent. But this assumption could prove highly optimistic: historical patterns indicate that the interest “bill” could be much, much larger—to much worse effect on the nation.

What is at risk

The long-run outcomes that CBO projects are all but unthinkable. The only precedent that approximates this outlook is the public debt at the end of World War II, but that situation was fundamentally different. At that time, the nation had built enormous productive capacity while the rest of the developed world was flattened; the troops were coming home and looking for jobs; and for the vast majority of households, balance sheets were robust from full wartime employment and consumption constrained because of rationing. The US economy was poised for an economic boom that would quickly work off the public debt burden. Today, in stark contrast, the global economy is intensely competitive. The US workforce is rapidly aging into retirement, and although some households have benefited handsomely from a liquidity-driven stock market boom, many have reduced incomes and substantial debt. As the CBO projections indicate, the outlook is for a burgeoning debt burden for as far as the eye can see, with the debt growing far faster than the economy. There is absolutely no relief in sight.

This growing debt burden may very well be the root cause of a wasting disease for the economy. The US economy is already labor-constrained because of the preordained and unalterable demographic pressure of population aging.⁴ Offsetting that constraint with capital investment for improved productivity and expanded capacity is the only realistic way out.⁵ But adding massively to the public debt will reduce the financing available for private investment: if the nation’s own saving or its borrowing from overseas are at all constrained—and the more borrowing by the United States and other nations, the higher interest rates will become—then the greater the discouragement of private investment.

At the same time, greater interest costs will crowd out all other federal government outlays (including grants to states and localities), thereby reducing productive investments in education, infrastructure, and research (as well as national security, the rule of law, benefits to the elderly and other dependent populations, and quality-of-life spending for the environment and civil society, among other purposes). Thus, while raising the cost of private investment, the debt disease will reduce complementary public investment as well. Those who choose to ignore the problem and trust in American ingenuity to accelerate productivity growth and bail us out of debt must understand that the deterioration of the federal budget is the very enemy of productivity and cannot continue indefinitely.

Thus, the massive increase in debt will condemn future generations to lower economic growth and lower standards of living. Higher taxes will be essential to pay the interest on the debt—which is the one category of government spending that truly qualifies as “mandatory.” Our nation’s children and their children will be the inevitable victims of this generation’s failure to confront reality.

And like all wasting diseases, this budget deterioration, if untreated, will someday take a sudden turn for the worse. When investors begin to sense a decreasing willingness or ability of the US taxpayer to fund an exponentially rising debt-service bill, they will demand higher interest rates. Higher interest rates will degrade US prosperity, living standards, and world leadership. Higher rates will squeeze both private and public investment even tighter, reduce economic growth further, and thus both increase the cost of servicing the debt and decrease the nation's collective income out of which that debt must be serviced. An already impossible outlook will become, somehow, even worse. This deterioration might not come soon. It might not be cataclysmic but rather just an increase in interest rates above the anticipated trend. But with the debt-service burden already projected to drain both public and private investment enormously, any worsening will be painful.

Further action to revive today's economy may well be justified (depending on both economic and public health developments). However, the extraordinary pandemic increment to the public debt, on top of the already extraordinary debt that predated and then grew because of the financial crisis, will have consequences that must be addressed if US prosperity and world leadership are to be maintained. Notably, the United States enjoyed consistently low inflation and low interest rates for almost a decade and a half, from the early 1950s through the mid-1960s—until (note well)—a deficit and debt binge frightened the financial markets. The same could easily happen again. Or looking on the other side of the coin, to bet US leadership and prosperity on the proposition that interest rates and inflation will *never* rise again is surely the height of folly.⁶

What should the nation do?

Taken together, the debt accumulated before the pandemic and the massive increment in response to it are daunting. So much so, in fact, that policymakers would most likely (based on recent decades of experience) recoil from even touching the problem. Why even attempt an incremental improvement when it appears impossible to achieve a complete solution? There would most likely be no political credit for trying, only blame for failing.

However, the following approach to this problem could maximize the chances of action and would make that action as manageable as such painful action can be.

The pandemic debt

Rather than agglomerating the massive, combined debt and cowering before its imposing size, the problem can be segmented. First and foremost, policy makers should start by tackling "the pandemic debt": 1) the increment to the debt arising from the loss of revenue and increases in spending that would have resulted from the pandemic (even without the federal government's policy response); and 2) the cost of that policy response. (After the pandemic debt is under control, the nation still will need to address its pre-pandemic debt problem, as we will discuss below.)

The amount of the pandemic debt so defined will be subject to judgment, and cannot be known yet in any event, because the public health and consequent economic crises are not yet over. However, there is reason to hope that with an economic rebound and the nation's vaccination program both well underway, it may be possible to close the book on

the budgetary impact of the pandemic in the foreseeable future. At the current pace of vaccinations, 70 percent of Americans will have at least one injection by the first of July, all of those could be fully vaccinated less than one month later, and more persons will have the regimen begun by that time.⁷ That could achieve what some experts believe will be effective “herd immunity,” at which time the rate of new infections should begin to recede. (Uncertainty around the attainment of “herd immunity” remains, especially as the virus continues to replicate and mutate in the United States and around the world, and some Americans exhibit an unfortunate degree of “vaccine hesitancy”).

Why isolate, and then address, the pandemic debt? It is a definable and doable first step in addressing the totality of the debt and a clear indication of responsible intent to other nations and financial markets around the world. This step would be highly beneficial for the US economy. If the United States demonstrates it can manage the additional debt responsibly and affordably, then the debt markets will be more willing to finance future issues of public debt while also maintaining the stability and confidence needed to continue private risk taking and investment. And policymakers can be more confident in undertaking further essential recovery expenditures, if necessary.

Furthermore, the recovery effort has no connection to the everyday activities of government. When the pandemic is over, that spending will end. If the federal government had a specific plan to manage this extraordinary one-time expense, financing it in the markets would be much easier. Therefore, it makes perfect sense to segregate the financing of this debt from normal government finances and create a fully dedicated mechanism to pay for it.

Finally, this first step would be understandable and manageable. The US public debt as a whole is subject to enormous uncertainty. Future revenues are predictable only with considerable margin for error; the same is true of outlays for entitlements and national contingencies. These outcomes then influence the interest rates at which we service our pre-existing debt and our new deficits; those interest rates are further driven by financial developments all around the world. Thus, the overall budget bottom line, and the debt, are almost a matter of speculation. In contrast, although it is a somewhat arbitrary concept, the pandemic debt increment can be defined once and for all after viral infections tail off, and the economy can build on that stable foundation. (Interest rates at which the pandemic debt is financed can also be set for the long term, which is discussed later.) The total debt is an erratically moving target; the pandemic debt is a veritable sitting duck. As a first step toward reestablishing the nation’s fiscal responsibility, attacking the pandemic debt is far more achievable.

What is the likely eventual size of the pandemic debt?

Congress has enacted six pieces of legislation as relief and stimulus responses to the coronavirus pandemic with bipartisan support (except for the most recent \$1.9 trillion bill, which was more controversial regarding the programs included) but included no offsetting spending cuts or tax increases. The combined cost of those six bills is \$5.335 trillion.⁸ That amount would fit within our definition of the pandemic debt.

The administration has proposed or discussed two additional legislative packages, the “American Jobs Plan”⁹ and the “American Families Plan.”¹⁰ The connection of these bills

to the pandemic debt is less clear. The administration's own discussion of the American Jobs Plan has indicated it is generally directed toward problems that predated the pandemic—problems the pandemic revealed rather than created. The self-described purpose of the plan is to make the economy grow faster in the future, not to address losses of output caused by the pandemic. Perhaps reinforcing this description, the eight-year, one-time increases in spending in the American Jobs Plan are proposed to be paid for with permanent tax increases over 15 years. The American Families Plan is identical in these respects to the American Jobs Plan. Assuming that any legislation enacted follows along these lines, its spending would not be appropriately included under our concept of pandemic debt. Any other future legislation would need to be evaluated by the same standards.

The changes in the CBO's economic and budget projections since early 2020 increase the projected public debt by \$1.3 trillion through 2025, by which time CBO anticipates that the unemployment rate will have declined to 4 percent, which is a reasonable definition of economic recovery (though many Americans will still be suffering losses of income and wealth at that time). Adding that to the legislation passed to date indicates that a reasonable definition of the pandemic increment to the public debt would be (in round numbers) \$6.5 trillion.

Financing and attacking the pandemic debt

How can the nation borrow that much money on top of the already daunting rise in public debt? And how can the Treasury service that debt—that is, pay the interest on it, and redeem it when due?

The novel coronavirus outbreak and the public policy response are of a scale unknown to any living American. It has gone far beyond SARS and MERS and the annual flu in its combination of communicability and virulence.¹¹ It has been described as a "once-in-a-lifetime pathogen." For this reason, it would make perfect sense to finance the extraordinary recovery efforts over a lifetime period.

Interest rates are very low, and the financial markets have shown themselves willing to consider very long-term securities. There is merit to consolidating all of the pandemic debt in a single separate financial entity (probably organized as a public corporation) and financing it with fixed-rate bonds with a 40- or even a 50-year maturity (or even longer if the markets will accept it)—longer than the 30-year Treasury bonds that are the longest the federal government sells today.

Proposals to "refinance the national debt" using exclusively, or largely, very-long-term securities to "lock in" historically low rates are not well founded. For one thing, investors in the financial markets want a range of maturities. Some investors in Treasury securities want a safe, long-term return on their money, but others are looking for security along with the opportunity to reallocate their funds just a few years—or even a few months—down the road. The Treasury cannot force-feed the markets with long-term bonds that it does not want to buy—without paying a large premium on interest rates to convince investors to change their minds.¹² And for that matter, yields on longer-term securities today are much higher than those on shorter maturities; as of the second quarter of 2021, three-month Treasury bills yield close to zero, but 30-year Treasury bonds yield close to

2.5 percent. Thus, going all-in on lengthening Treasury maturities would carry a very large short-term cost on a bet that rates will rise significantly in the not-too-distant future. That bet could prove expensive.

However, there is a different purpose in financing the pandemic debt with very-long-term securities. This portion of the debt—not the entire public debt—has been incurred to address a once-in-a-lifetime contingency and would be appropriately financed over a similarly long time horizon. We see a public value in locking in the cost over such a time horizon to provide certainty that the obligation has been addressed. That very certainty is a public value; it is that very certainty that we believe will reassure and therefore stabilize financial markets and allow US business to undertake risks, invest, and grow. Thus, financing the pandemic debt lends itself to uniform long-term financing in a way that the total public debt does not.

Furthermore, other than in their maturity, these bonds should be identical to all other US Treasury bonds. Treasury financing is at the lowest possible rates in part because all Treasury securities are identical and interchangeable, making the market deep and efficient. Investors know that there will be active trading in Treasury securities of any given effective maturity should they ever need to sell. To carry that advantage to the financing of the pandemic debt, the bonds issued for that purpose should, 10 or 20 years hence, be interchangeable with new, long-term Treasury bonds with the same maturity issued at that time.

What would that mean in dollar terms? The estimate of the pandemic debt, as defined in this brief, is about \$6.5 trillion. At 3.5 percent rates, that would incur interest costs of roughly \$225 billion, which as of 2025 would be about 1 percent of GDP. For credibility with the financial markets—but only after the economy is fully recovered—the nation must set aside the additional, incremental funds to pay that interest bill to accomplish our core objective of financing the pandemic debt without increasing the total public deficit or debt.

The bill for pandemic debt can be paid, effectively and credibly, only through the imposition of a dedicated tax. The ability of the political process to deliver promised future spending cuts is subject to well-deserved skepticism in the financial markets. There are two well-known episodes that document this concern. In 1997, Congress passed, and the president signed, legislation that would trigger automatic Medicare spending cuts if the cost of the program should exceed specified levels.¹³ Spending grew, and the automatic spending cuts were triggered. New legislation was then passed each year to postpone the cuts, even under a penalty specified in the law that would increase the size of the spending cuts in the next year by a corresponding amount. Eventually, in April of 2015, the Congress ended the charade, and the supposedly automatic spending cuts were repealed altogether, without ever having taken effect.

Similarly, as a condition for the enactment of an increase in the debt limit, the Congress passed and the president signed the Budget Control Act of 2011, which created a Congressional Joint Select Committee on Deficit Reduction (known commonly as the “super committee”) and charged it with achieving \$1.5 trillion of future deficit reduction. If the super committee failed to save at least \$1.2 trillion, the law called for automatic future reductions in annually appropriated (also known as “discretionary”) spending

totaling \$1.2 trillion. The super committee failed to agree on any savings,¹⁴ and then the supposedly automatic spending cuts were suspended year after year until they eventually expired without ever having had any effect.

These examples illustrate how easy it would be for the Congress to schedule future spending cuts but then fail to follow through or perhaps even cut spending for one program but then turn around and increase spending for another, to zero net budgetary effect. The mere appearance of sleight of hand would be enough to destroy the confidence and credibility in financial markets essential for ultimate success—meaning financial stability, risk taking, and investment.

Changes to revenues could easily be subject to similar nonfeasance or manipulation. Promises of future revenue increases would have no more credibility than promises of future spending cuts. With tax law changes—including tax cuts—occurring virtually every year, an increase in one tax that might nominally be dedicated to the debt could be lost through other tax cuts, at the same time or shortly thereafter. All good intentions could be lost in the fungibility of money. In the best of all worlds, policymakers would face up to the debt problem and deal with it in a comprehensive way. In this world, however, seeing no such action, extraordinary means that isolate the debt and its financing are needed to provide maximum public transparency and scrutiny.

There are numerous current proposals for tax increases (to finance additional spending programs and some other tax cuts). Importantly, while those proposals are merely that—proposals—the pandemic debt (and the prepandemic debt problem) are already painfully real. It would surely be tempting to think of new initiatives and their “pay-fors” first, and servicing the debt later, if at all. But servicing the pandemic debt is not a matter of choice; it is mandatory. Sound policymaking must address first the reality and the imperative of servicing the debt, and then consider spending initiatives (and their revenue cost offsets) in light of the resulting financial environment.

Therefore, the pandemic debt should be serviced by a dedicated tax explicitly and solely for the purpose of servicing the pandemic debt. The public corporation that issues the bonds to cover the cost of recovery must have the sole claim to the additional revenues. With that tax so identified with the servicing of the pandemic debt, any change in the tax would be a clear violation of the nation’s commitment to service and retire the pandemic debt and so would most likely be subject to careful scrutiny. Such a financing commitment could be undermined by Congress raising spending or cutting other taxes, but that could be deterred by separate information reporting on the need to control the prepandemic portion of the debt, which will remain a crucial and daunting challenge. And at least the commitment to the servicing of the pandemic debt would be fully transparent.

The revenues should be collected starting only after the economy recovers, but an early commitment to responsible stewardship of the pandemic debt would keep the financial markets comfortable with low interest rates in keeping with the rate of growth of the economy rather than generate panic over an exploding public debt.

The cost of servicing the pandemic debt, with the long-term, fixed-rate financing that we recommend, would be a fixed number of dollars each year. We recommend that the

dedicated financing revenue source be calibrated to overproduce its target somewhat, not only for safety, but also to allow for gradual retirement of the pandemic debt. If the funding source grows with the economy over time, that would further aid in retiring the pandemic debt by the time the bonds mature. So, for example, a revenue stream that began at 1 percent of GDP and then grew in step with the GDP (under current forecasts, at about 4 percent per year at a nominal rate, adding 2 percentage points per year for productivity growth and 2 percentage points per year for inflation), could comfortably retire the pandemic debt before 40- or 50-year (or longer-term) Treasury bonds matured.

Beyond the pandemic debt

Action on the pandemic debt could be an important first step not only substantively but also in policymaking more broadly. The pandemic increase to the debt is a cause of clear concern. If policymakers acknowledge that reality and work together to address it, any progress will lay an important foundation for addressing the nation's other important problems—of which the growing debt burden that the nation faced even before the pandemic is by no means the least.

CED has written extensively on the worsening buildup of debt.¹⁵ Although under such extraordinary pressure every dollar in the budget must be husbanded carefully, the budget problem has two major causes. First and by far the more important issue, the cost of health care to the federal government—and to state and local governments, employers, and households, for that matter—is growing unsustainably.¹⁶ Quality health care for all is an enduring American value, but an unaffordable promise of health care will not meet that standard. CED has long recommended cost-responsible consumer choice among competing private health insurance plans to drive innovation and efficiency, and thereby keep cost down and quality up.

A lesser cost driver is Social Security, whose cost is pushed by the same underlying demographic forces as those that drive health care (but without the rising costs of delivering each service within health care). Social Security's finances must be made sustainable in the long term by a combination of higher contributions and reduced benefits, without harming either low-income senior beneficiaries or low-wage working families.

Other federal spending programs, including other much smaller entitlement programs and the annual appropriations for national security and domestic programs, are not the source of the problem and are growing more slowly than the economy (which is to say, are shrinking as a percentage of the GDP¹⁷). These minor components of the budget are too small to provide the solution. However, they must be disciplined to avoid making the problem worse. Meanwhile, individual and corporate income taxes must be reformed to provide adequate revenue without raising tax rates to levels that would encourage tax avoidance and distort economic choices. That requires the elimination of preferences for particular forms of income or expenditure, which reduce the tax base and encourage inefficient forms of behavior by businesses and households. Policymakers should look back to episodes of true tax reform in the United States and follow those models.

Conclusion

Some say that the United States has a privileged, invulnerable place in world financial markets because every other nation is even worse off—we are “the best-looking horse in the glue factory.” Perhaps true—but now, the entire glue factory is underwater.

Out of justice to future generations, the nation today must tackle its ongoing expanding debt. A first step would be to prevent the struggle against the pandemic from undermining the federal government’s fiscal standing. Segregating the cost into long-term debt and providing for its servicing with new, separable revenues is the best way to do that. But it is only a first step; true and comprehensive fiscal responsibility must follow.

Endnotes

- 1 Some investors presumably would choose not to sell their Treasury bonds despite the federal government's offer to purchase them to formally retire the debt. However, the federal government was projected to be able to hold net assets in excess of the value of all outstanding Treasury securities, and so the government would be free of debt on a net basis.
- 2 By which point the pressures of population aging were assumed by CBO to push the federal budget back into annual deficit and net accumulated debt. In contrast, the projections of the Office of Management and Budget (OMB) in the executive branch indicated that surpluses could continue in perpetuity.
- 3 The assumed average effective interest rate on the public debt in 2019 was under 4 percent, with the total debt held by the public almost half again as much as its historical record. The average interest rate on the debt exceeded 9 percent in the early 1980s, with the total debt burden at about one-sixth of that level.
- 4 The nation should do all it can to assist older Americans to continue to participate in the labor force. (See CED, [Solutions Briefs: The Aging Workforce—Tackling the Challenge](#).) This is necessary, but not sufficient. The nation should also encourage skills-based immigration and immigration that will meet the need for basic labor that our native-born population cannot possibly supply because of its limited numbers. (See CED, [Boosting Immigration: Harnessing Global Talent to Increase US Competitiveness, Innovation, and Prosperity](#).) But that again cannot possibly make up for the entirety of the demographic constraint on the size of the working-age population.
- 5 The nation should of course pursue research to develop new technologies and increase productivity. But the benefit of such research is speculative and may or may not yield greater production within any limited time frame. Betting the nation's future financial stability on the outcome of basic research would be irresponsible in the extreme. And for that matter, increased public debt-service cost is likely to crowd out public investment in research, as discussed below.
- 6 CED, [Solutions Briefs: US Fiscal Health: Is There Life After Debt?](#) We would also note the irony of current developments in such close proximity to the rise of "Modern Monetary Theory" as an extreme political cause. See Stephanie Kelton, *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*, PublicAffairs, 2020. This view, held by a very small minority in the economics profession, was used before the pandemic to argue for a massive increase in public spending to pursue a range of programmatic objectives. Now, the federal budget is already very much testing the premises of Modern Monetary Theory because of the response to the pandemic, without the increases in the programs that were assumed to benefit.
- 7 CED, [Solutions Briefs: Vaccinating America](#)
- 8 Peter G. Peterson Foundation, [Legislation Enacted to Combat the Coronavirus Pandemic](#).
- 9 The White House, [Fact Sheet: The American Jobs Plan](#), March 31, 2021.
- 10 The White House, [Fact Sheet: The American Families Plan](#), March 31, 2021.
- 11 MERS was in fact far more lethal than COVID-19; about three to four of every 10 patients known to have contracted MERS have died, whereas a crudely calculated death rate among confirmed US cases of COVID-19 would be between 1 and 2 percent. However, MERS was not so easily transmissible, and so faded out before it could do nearly as much damage as the current pandemic. See Centers for Disease Control and Prevention, [Middle East Respiratory Syndrome \(MERS\)](#) and [COVID-19 Highlights](#).

- 12 For example, in the most recent auctions for the Treasury's standard 91-day bills and 30-year bonds, investors submitted \$62.9 billion in bids for the 30-year bonds, but \$181.8 billion in bids for the 91-day bills. If investors were yearning unsatisfied for longer-term securities, they would have bid more for the bonds and less for the bills. See Department of the Treasury, Bureau of Fiscal Service, [Treasury Auction Results, April 13, 2021](#), and [Treasury Auction Results, May 3, 2021](#).
- 13 Robert Steinbrook, MD, [The Repeal of Medicare's Sustainable Growth Rate for Physician Payment](#), JAMA 313 no. 20 (April 17, 2015): 2025-2026.
- 14 Joint Select Committee on Deficit Reduction, [Statement from Co-Chairs of the Joint Select Committee on Deficit Reduction](#), Press release, November 21, 2011.
- 15 CED, [Time to Face Up: The Growing Urgency for Tackling Our Nation's Debt](#); and CED, [Solutions Briefs: US Fiscal Health: Is There Life After Debt?](#)
- 16 CED, [Adjusting the Prescription: Committee for Economic Development for Health Care Reform](#); [Adjusting the Prescription: Improving the ACA](#); and [We Need a New Path on Health Care](#).
- 17 Those programs grew temporarily in response to the pandemic but are projected to begin shrinking again relative to the GDP—depending upon the composition of any new legislation that might be enacted after this date.

SUSTAINING CAPITALISM

Achieving prosperity for all Americans could not be more urgent. Although the United States remains the most prosperous nation on earth, millions of our citizens are losing faith in the American dream of upward mobility, and in American-style capitalism itself. This crisis of confidence has widened the divide afflicting American politics and cries out for reasoned solutions in the nation's interest to provide prosperity for all Americans and make capitalism sustainable for generations to come. In 1942, the founders of the Committee for Economic Development (CED), our nation's leading CEOs, took on the immense challenge of creating a rules-based postwar economic order. Their leadership and selfless efforts helped give the United States and the world the Marshall Plan, the Bretton Woods Agreement, and the Employment Act of 1946. The challenges to our economic principles and democratic institutions now are equally important. So, in the spirit of its founding, CED, the public policy center of The Conference Board, will release a series of 2021 Solutions Briefs. These briefs will address today's critical issues, including health care, the future of work, education, technology and innovation, regulation, China and trade, infrastructure, inequality, and taxation.



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