Committee for a Responsible Federal Budget

CRFB Holds Fortuitous Conference on Fiscal Crisis Scenarios
May 6, 2010

Yesterday, the Committee for a Responsible Federal Budget held a timely conference, "What a Fiscal Crisis Would Look Like in the U.S." which discussed with an all-star group of participants: what a fiscal tipping point might be for the U.S.; how a crisis might unfold; and what policies would be best to avoid and/or respond to a crisis. While a diversity of viewpoints was represented at the conference, the group agreed that the budget deficit would negatively affect the economy within three years without changes to the federal borrowing trajectory.

The stock sell-off on Wall Street today due to fears of sovereign debt contagion is an eerie foreshadowing of what could happen here, and should convince policymakers in the United States that we must address our mounting debt. Moody's warned today of sovereign debt contagion stemming from the problems in Greece and is specifically keeping an eye on Portugal, Spain, Ireland, Italy, and the U.K.

"Being separated by an ocean will not protect us if investors lose confidence in sovereign debt," stated Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "We are deeply dependent on the confidence of markets in our ability to manage our debt. We will not maintain that confidence if we continue down the current path of rising red ink. Investors are fickle, there is no way to predict when they may lose confidence, but when they do we will definitely feel it. The longer we wait to act, the greater the number of things that could set off a crisis."

Moody's also recently signaled that U.S. debt could threaten its AAA credit rating in the not-so-distant future. The credit rating service indicated that debt service of 18 to 20 percent of federal revenue represents the maximum for maintaining its preferred status, and that level could be surpassed by 2013.

A fiscal crisis in the U.S. could take many forms. A recent CRFB paper, *A Preventable Crisis: Exploring Fiscal Crisis Scenarios for the United States*, laid out several scenarios. Moody's pointed out that the countries it placed on the watch list face different challenges, but that a sovereign debt contagion poses a common threat.

1899 L Street NW • Suite 400 • Washington, DC 20036 • Phone: 202-986-2700 • Fax: 202-986-3696 • www.crfb.org

While it is impossible to precisely predict the "tipping point" for a crisis, taking credible steps now is the best way to prevent it. Developing a credible plan would reassure investors. The Peterson-Pew Commission on Budget Reform recommended setting a goal of reducing the debt to 60 percent of GDP by 2018 in the report, *Red Ink Rising*.

"Just because we can't pinpoint exactly when a crisis will hit, doesn't make it less likely it will occur," added MacGuineas. "It is clear that we must craft a credible plan now and educate Americans as to what is at stake and what needs to be done."