



Does Federal Government Debt Affect Interest Rates?

Thursday, July 8, 2004, 9:30–11:30 a.m.
Wohlstetter Conference Center, twelfth floor, AEI
1150 Seventeenth Street, N.W., Washington, D.C. 20036

The recent resurgence of federal budget deficits has rekindled debates about the effects of government debt on interest rates. While the effects of government debt on the economy can operate through a number of different channels, many of the recent concerns about federal borrowing have focused on the potential interest rate effect. Higher interest rates caused by expanding government debt can reduce business investment spending, inhibit interest-sensitive household spending, and decrease the value of assets held by households, thus indirectly dampening spending. The magnitude of these potential adverse consequences depends on the degree to which federal debt actually raises interest rates. Despite a substantial body of empirical analysis, the answer based on the past two decades of economic research is mixed. While some studies suggest, at most, a small rise in interest rates when government debt increases, others either estimate much larger effects or find no effect.

Using a standard set of data for the United States and a simple economic framework, AEI's Eric M. Engen and R. Glenn Hubbard reexamine the effect of federal government debt and interest rates. Using an economic model and empirical analysis to derive the effect of government debt on the real interest rate, they calculate that an increase in government debt equivalent to 1 percent of GDP—currently equal to about \$110 billion—would increase the real interest rate by about two to three basis points.

9:15 a.m. Registration

9:30 Speaker: ERIC M. ENGEN, AEI

Discussants: DARREL COHEN, Federal Reserve Board
PETER ORSZAG, Brookings Institution

Moderator: ALLAN H. MELTZER, Carnegie Mellon University

11:30 Adjournment

I will attend the federal government debate event on Thursday, July 8.

Name: _____

Title: _____

Affiliation: _____

Address: _____

City/State/Zip: _____

Telephone: _____ Fax: _____

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Please check if this is a new address.

Please register online at www.aei.org/events or by faxing this form to 202.862.7171. Shortly after the event occurs, a video webcast will be available on the AEI website at www.aei.org/events/eventvideo_list.asp.

For additional information, please contact Gordon Gray at 202.862.4873 or ggray@aei.org. For media inquiries, please contact Veronique Rodman at vrodman@aei.org.