



2022 Coolidge Cup Qualifier Brief

Resolved: The United States federal government should make reducing the national debt a fiscal priority.

“Faster growth and returns on public investment yield higher tax revenues, and a 5% to 6% return is more than enough to offset temporary increases in the national debt.”

—Economist Joseph Stiglitz, 2010

“I’m not saying that we shouldn’t worry about debt at all, because there may be future contingencies when real interest rates rise and debt becomes an issue. But debt is way, way down on the list of things to worry about...”

—Economist Paul Krugman, 2018

“Our federal extravagance and improvidence bears a double evil: first, our people and our business cannot carry its excessive burdens of taxation; second, our credit structure impaired by the unorthodox federal financing made necessary by the unprecedented magnitude of these deficits.”

—Presidential Candidate Franklin Roosevelt, address at Forbes Field, October 1932.

“The budget idea, I may admit, is a sort of obsession with me. I believe in budgets. I want other people to believe in them. I have had a small one to run my own home; and besides that, I am the head of the organization that makes the greatest of all budgets—that of the United States Government.”

—President Calvin Coolidge, 1924

ABOUT THE COOLIDGE FOUNDATION

The Calvin Coolidge Presidential Foundation is the official foundation dedicated to preserving and promoting the legacy of America's 30th president, Calvin Coolidge, who served in office from August 1923 to March 1929. Coolidge values include civility, bipartisanship, and restraint in government, including wise budgeting. The Coolidge Foundation sponsors the renowned Coolidge Scholarship and Senators program for academic merit, along with a national debate program culminating in the Coolidge Cup, an invitational tournament held each July at the President's birthplace in Plymouth, Vermont. The Foundation was formed in 1960 by a group of Coolidge enthusiasts, including John Coolidge, the president's son. The Coolidge Foundation maintains offices in Plymouth, Vermont, where it works in cooperation with the Calvin Coolidge State Historic Site, and in Washington, D.C. The Foundation seeks to increase Americans' understanding of President Coolidge and the values he promoted.

BACKGROUND

An important responsibility of the federal government each year is to create and pass a budget for the upcoming year. The budget is a detailed spending plan that designates how much money will be spent on each of the numerous programs and functions of the government. Everything from Medicare and retiree benefits to the military and our space program needs to be accounted for somewhere. Although the President can submit recommendations in the form of a budget proposal, Congress is the body that is officially in charge of coming up with the budget. Only Congress has the power to collect taxes, borrow money, and come up with spending bills that appropriate money for various purposes.

For every dollar that the federal government plans to spend in a given year's budget, it must collect a dollar in taxes or borrow a dollar from a lender. During the 2021 fiscal year, the federal government spent \$6.8 trillion and collected \$4.0 trillion, resulting in a deficit of approximately \$2.7 trillion.¹ The deficit from the current year gets added to all the other deficits that were run in other years, and is referred to as the national debt. The national debt currently stands at about \$28 trillion, which is the largest it has ever been.²

The National Debt

The national debt, or federal debt, does not only grow from the accumulation of deficits. It also grows because lenders charge *interest*, which is the money that must be repaid over and above the *principal* amount. Interest payments provide the incentive for lenders to loan money to debtors in the first place. If the government borrows \$1 at a 3 percent interest rate, it doesn't just have to pay back the \$1. It has to pay back roughly \$1.03—or maybe even a little more, depending on the exact terms of the loan. In fiscal year 2021, the federal government spent about \$413 billion on interest alone.³

The question of how much money to spend, and thus whether to run a deficit or a surplus, is a perennial debate in government. Some people worry that the practice of chronically spending more than we collect puts our country too far into debt. They see the national household as like a family household, which can run out of money. Countries with large debts are often forced to use a large share of their budget to pay off debts, have less to spend on benefits. The deficit hawks, as they are known, point out that the more debt we have, the more expensive new debt becomes as lenders demand higher interest rates to compensate for the risk that the government might not be able to pay its bills. Deficit hawks also note that paying back government debt is only possible through the collection of taxes which, all else equal, hinder

¹ [Monthly Budget Review: September 2021](#), Congressional Budget Office. September 2021.

² [Federal Debt and the Statutory Limit](#). Congressional Budget Office. July 2021.

³ [Monthly Budget Review: September 2021](#), Congressional Budget Office. September 2021.

economic growth by taking money out of the hands of individuals and businesses. For those concerned with budgetary shortfalls, the national debt is too big and reducing it is not just a fiscal priority but an overall priority.

Other people do not worry as much about annual deficits contributing to a large national debt. They reject the analogy between a family household and the government household. They point out that as long as a nation has a stable and effective government and a productive economy, it is possible to service (i.e., pay the interest on, and therefore maintain) a high level of debt. For them, the national debt is not too big and reducing it need not be a priority. The deficit doves, as they sometimes are known, argue that America is such a country.

Economic Growth

A big part of the debate about whether to focus on reducing debt is the question of whether doing so will hurt or help the economy.

Some economists believe that government spending can stimulate the economy to grow. This is sometimes called a Keynesian view, after the 20th century British economist John Maynard Keynes. Keynesians argue that increasing government expenditure puts money back into the economy, stimulating the economy, creating jobs and giving people money to spend. Of course, greater government spending (more money going out) and lower taxes (less money coming in) can quickly mean budgetary shortfalls, and thus the growth of government debt, but many Keynesian economists would argue that the short-run benefits of growth outweigh the long term costs of debt. Keynesians might quote Keynes who famously once said, "In the long run, we are all dead."

Other economists argue that while greater government spending tends to boost Gross Domestic Product, or GDP, in the short run, the associated budgetary shortfalls simply kick a can down the road and impose costs in the long run. These hawks argue that deficit spending is simply a tax on future generations, since the money will someday have to be paid back through taxes. Those concerned with deficits are skeptical that government spending for the sake of economic growth is a good thing. They argue that growth as a result of government expenditure, the Keynesian model, is often distortionary and unsustainable because it comes from the government spending other people's money rather than from consumers making their own fiscal decisions. A modern example would be in a town when a government builds a road through the town. The town might not need the road, yet on the books, the road project counts as growth. A more famous example of the inefficiency of government-directed stimuli comes from the philosopher Frederic Bastiat ("BAST-yaht"). Bastiat noted that when someone breaks a shop window, the shop owner must pay a craftsman to replace the window, stimulating the window industry. But the same shop owner then lacks the money to buy what he otherwise

might have bought: a machine to increase his shop's output. The former gain may not create as much work or goods for all as the latter.

Does Reducing Debt Come at the Expense of Economic Growth?

Scholars such as Carmen Reinhart and Kenneth Rogoff, have argued that it is possible to pursue a policy of debt reduction while also enjoying economic growth.⁴ In the 1920s, Coolidge's decade, the government reduced the national debt and experienced strong growth. Over the decade, from 1920 to 1929, GDP grew by 43 percent while the federal debt was simultaneously decreased by 30 percent. Even with reduced government expenditure, economic growth was exceptional.

Contrast this with the 1930s. From 1930 to 1939, GDP grew by 20 percent—less than half the rate of the 1920s—despite the national debt increasing by 150 percent.⁵ If debt reduction and economic growth are truly at odds with each other, how can we explain the high growth and debt reduction of the 1920s and the low growth and debt explosion of the 1930s?

A note about crises: Whenever a crisis arrives, your debate topic moves to the very center of all national debate. That is because crises usually provoke massive spending increases. In the case of COVID-19, for example, the federal spending has come not only on health care but also on a large group of other projects: money to families because they cannot work ("payroll protection") or infrastructure spending to revive the economy after the crisis. A good question is whether general spending is the wisest response to a crisis.

⁴ Carmen Reinhart and Kenneth Rogoff, "[Growth in a Time of Debt](#)" NBER Working Paper No. 15639. Issued in January 2010, Revised in December 2011.

⁵ Author's calculations, based on data from the [United States Census Bureau](#).

THE COOLIDGE CONNECTION

Of all the United States presidents, the one who took debt most seriously, and did the most about it, is our thirtieth president, Calvin Coolidge. President Coolidge, who served from 1923 to 1929, was not merely interested in budgets, he was passionate about them. Coolidge told philanthropists that “the budget idea is a sort of obsession with me.”⁶ He believed that the federal budget ought to be kept in balance, that tax rates should be low and reasonable, and that the best way to achieve economic growth is to “let those who earn money keep more of it for themselves and give less of it to the government.”⁷

In the 67 months that he was president, Coolidge managed to cut taxes, reduce government spending, *and* reduce the national debt by about 30 percent, all while overseeing a booming economy.⁸ Growth was palpable during this period with the economy growing about 3.5 percent per year. Coolidge-era unemployment was low. Some skeptics of Coolidge’s approach argued that cutting government spending would threaten the economy. Other economists argued that the dual goals of cutting taxes and reducing the national debt were incompatible. Year after year, however, Coolidge’s policies produced economically healthy results.

For Coolidge, prudent governing started with responsible spending. “Economy in the cost of government is inseparable from reduction in taxes. We cannot have the latter without the former.”⁹ Good peacetime governing meant running budgets in balance or at a surplus, not a deficit, and it meant paying down the national debt if possible.

It is worthwhile noting that Warren Harding and his vice president, Calvin Coolidge came to Washington in 1921 after national crises. In the 1910s, American fought in World War I and endured a pandemic, the influenza. The response to these challenges was not spending but rather to cut the budget. Harding and Coolidge sought not to hype the crisis and called for “normalcy.” When Harding passed away in 1923, Coolidge continued to push for normalcy, by which Coolidge and his party meant: less spending and lower taxes.

Now almost 95 years since Coolidge’s assumption of the Presidency, what do you think the most prudent approach is in government budgeting? Was Coolidge correct in viewing reducing the national debt as a priority? Was Coolidge right in viewing debt reduction as compatible with growth, and not contrary to it? Or were Coolidge’s views somehow particular to his time and circumstances, and not directly applicable to today’s world?

⁶ Calvin Coolidge, “[Discriminating Benevolence](#)” October 26, 1924.

⁷ Calvin Coolidge, “Address of the President at the Meeting of the Business Organization of Government, June 22, 1925, Washington, D.C.,” Commerce Papers, File Treasury Department, Bureau of the Budget.

⁸ Shlaes, Amity. *Coolidge*. Harper Perennial, 2014.

⁹ Hendrickson, John. “[Budget and Tax Lessons from President Calvin Coolidge](#)” Coolidge Foundation. Dec. 10, 2014.

KEY TERMS

Overview for Fiscal Year 2021

Total Federal Outlays: \$6.8 trillion

Total Federal Receipts: \$4.0 trillion

Federal Deficit: \$2.7 trillion

Total Federal Debt: \$22.2 trillion

Source: U.S. Department of the Treasury, [Monthly Report](#), September 2021

Federal budget – The federal budget is the annual spending plan for the United States government. Not unlike the budget that a family or a business might have, it has two main components: revenue (sometimes called receipts) and spending (sometimes called outlays). Revenue is the money that the government takes in, and spending is the money that the government spends on various agencies, programs, and financial obligations. It is often said that the budget represents the priorities of the government.

Surplus – The amount by which revenues, or moneys coming in, exceed expenditures in the federal budget.

Deficit – The amount by which expenditures exceed revenues in the federal budget.

Balanced budget – A budget in which total revenues and total expenditures are equal in a fiscal year. A balanced budget creates neither a surplus nor a deficit. Sometimes people talk about passing a balanced budget amendment. A balanced budget amendment would amend the U.S. Constitution to require that the federal government spend no more than it takes in.

Revenues – Revenues are funds that flow to the government (specifically the U.S. Treasury). The main categories of revenues are individual and corporate income taxes, payroll taxes, excise taxes (i.e., taxes on specific goods such as gasoline), customs duties (i.e., taxes on imported goods), and user fees. The government can also borrow money, but any money that it borrows it eventually has to pay back, with interest.

Mandatory spending – Expenditures where the amount that is to be spent is stipulated by a specific law (i.e., by an appropriation made by Congress). Because these expenditures are set by law, they are more difficult to increase or decrease, and are thus said to be “mandatory.” Examples include spending on programs such as Social Security, Medicare, and Medicaid. Mandatory spending is greater today than defense spending.

Discretionary spending – Expenditures where the amount is decided and/or renewed annually as part of the budget process. Because the amounts to be spent are not stipulated by law, these expenditures are easier to increase or decrease, and are thus said to be “discretionary.” Examples of defense spending include military spending and the funding of executive departments (e.g., the Department of Energy) and federal agencies (e.g., the Federal Communications Commission).

National debt (or Federal debt) – The national debt is the debt held by the federal government. It is the sum of all past federal budget deficits, minus what the federal government has repaid.

Debt ceiling – The United States debt ceiling is a legislative limit set by Congress on the amount of debt the federal government allows itself to hold. The debt ceiling constrains the executive branch from spending more than legislative branch believes is appropriate.

Interest – Money paid to a lender for the use of money, or for delaying the repayment of a debt. The interest rate is the rate or percentage of the loan (e.g., 3 percent or 9 percent) that is charged periodically (e.g., monthly, annually) over the duration of a loan.

Sequestration – A term for an automatic, across-the-board cut in discretionary spending. It is triggered if Congress approves spending that exceeds the cap. Under sequestration, all executive departments and federal agencies would be required to cut their budgets by some percentage (e.g., 3 percent or 5 percent) for the coming year.

Gross Domestic Product (GDP) – The total market value of all finished goods and services produced within a country’s borders during a specific period of time (usually one year). The GDP is a synonym for “the economy.”

Debt overhang – When an organization has so much existing debt that it cannot easily borrow more money, even when new borrowing is a good investment and would pay for itself. This can occur with governments, corporations, or any other type of organization that is allowed to borrow money. As a convention, economists sometimes use 90 percent of GDP as the threshold for whether a nation is in the condition of debt overhang.

Congressional Budget Office (CBO) – A non-partisan agency formed in 1974 that produces independent analyses of policy proposals and spending plans to help Congress arrive at a budget. CBO “scores” (i.e., estimates the costs of) the policies and programs that legislators design. It does not come up with its own policy recommendations or ideas for spending.

AFFIRMATIVE ARGUMENTS

"[I regard] a good budget as among the noblest monuments of virtue." –Calvin Coolidge

1. We should reduce the debt because excessive debt hinders economic growth.

When a government takes on too much debt, economic activity slows. A large amount of debt makes lenders worry that the government might not be able to repay its loans, so lenders start to demand higher interest rates on new loans. When interest rates rise, the cost of borrowing money becomes very expensive for the government. With high interest rates, the purpose to which the government is putting that borrowed money needs to be very important for it to be worth it for the government to keep borrowing.

A 2010 study found that when national debt rises above 90 percent of GDP, economic growth tends to be 1.2 percent lower.

Source: Reinhart, Carmen, and Kenneth Rogoff. "[Growth in a Time of Debt](#)" NBER Working Paper Series. January 2010.

To stop interest rates from rising indefinitely (or to avoid the situation in which lenders stop being willing to lend the government money at all), the government has to collect money from taxpayers in order to pay down its debt obligations. Individuals and businesses are the main taxpayers in the United States. The more money that they are required to pay in taxes, the less money they have to invest in the economy. It is individuals and businesses who are the drivers of economic growth, through their entrepreneurial activities such as producing goods and services, building offices and factories, and so on.

In a study on the relationship between debt and growth, economists Carmen Reinhart and Kenneth Rogoff found that when a nation's debt level rises above 90 percent of its GDP, that nation's economic growth tends to be 1.2 percent lower (2.3 percent versus 3.5 percent).¹⁰ The authors also found that the effects of having high national debt can affect a country for many years—"in 20 out of 26 cases of debt overhang... the period of reduced growth lasted a quarter-century, substantially reducing GDP and living standards."

¹⁰ Carmen Reinhart and Kenneth Rogoff, "[Growth in a Time of Debt](#)" NBER Working Paper No. 15639. Issued in January 2010, Revised in December 2011.

2. The interest we pay on the debt is high, and future interest rates are unpredictable.

In fiscal year 2021, the federal government spent approximately \$413 billion just to pay the interest on the national debt.¹¹ Paying off the interest does not reduce the principal amount of the loan—interest goes merely to the cost of *carrying* that debt. The more we pay in interest, the less we have available to spend on infrastructure, social programs, education, scientific research, and other things.¹² Looking at it another way, it is money that the government would not have needed to collect in the first place and could have remained in the pockets of private individuals and businesses.

As expensive as the interest on the national debt is right now, the burden could be much heavier. We are enjoying relatively low interest rates of less than 4 percent. At times in our nation’s history, interest rates have risen far above current levels, even reaching above 10 percent or 20 percent in late 1970s and 1980s.¹³ High interest rates affect everyone: in the 1980s, mortgages, which were based on interest rates, became so expensive that people had to buy smaller houses—or no house at all. Today the average interest rate paid on a house is 2.75%. In January 1982 the average interest rate on a traditional mortgage paid by an American family was 17.5%, up from 7.44% in the same month in 1972.¹⁴ In this example, the debt of the federal house literally affected the house of the average American family – in a bad way.

“If federal debt as a percentage of GDP continued to rise at the pace that CBO projects it would under current law,” the debt path would “raise borrowing costs, reduce business investment, and slow the growth of economic output over time.”

Source: Congressional Budget Office, “[The 2021 Long-Term Budget Outlook](#)” March 2021.

Rapid increases in the debt ratio can make lenders nervous and can lead to rapid increases in interest rates.¹⁵ If the national debt is too high, there is risk that interest rates will rise, future debt will become more expensive, and an ever larger portion of the federal budget will have to go toward paying off the interest on the debt.

In fiscal 2020 the federal debt accounted for 5.3% of total spending.¹⁶ As the Committee for a Responsible Budget notes, the roughly \$300 billion the government was spending in the past

¹¹ [Monthly Budget Review: September 2021](#), Congressional Budget Office. September 2021.

¹² Puentes, Robert. “[Why Infrastructure Matters: Rotten Roads, Bum Economy](#)” Brookings Institution. January 20, 2015.

¹³ [Interest Rates, Discount Rate for the United States](#). Federal Reserve Economic Data (FRED). June 1, 2017.

¹⁴ “[30-Year Fixed-Rate Mortgages Since 1971](#)” FreddieMac. Accessed November 15, 2021.

¹⁵ Foster, J.D. “[The Many Real Dangers of a Soaring Debt](#)” The Heritage Foundation. June 18, 2013.

¹⁶ “[Federal Net Interest Costs: A Primer](#)” Congressional Budget Office. December 2020.

fiscal years was more than spent on veterans services and military retirement, transportation, or food stamps.¹⁷ And the debt is likely to go up, if not in the short term, then later.

3. It is wrong to make future generations pay for today's spending choices.

By spending more than we have today and promising to pay our lenders back later, we are passing the bill of our current choices along to future generations. This is unfair and wrong. Children, who do not participate in the political process, have little to no say in these choices, yet they will be responsible for the cost.

Younger generations are already weighed down with the mistakes of previous generations. Policy decisions in education, housing, and healthcare have already created intergenerational inequities in which many of today's young people make less money and enjoy less independence than their parents did at the same age.¹⁸ Carrying a high national debt that necessitates high interest payments imposes even more pain on these future taxpayers.¹⁹ Nobody disputes that as a legal matter, Congress has the power and authority to make such spending decisions, but in terms of evaluating what is ethical behavior, saddling future generations with the bill for today's lavish expenditures should offend our moral sensibilities.

4. The higher the debt, the less able the government is to respond to unexpected situations, national security needs, and economic downturns.

Unforeseen events are inevitable. Geopolitical events, war, terrorism, economic recessions, natural disasters, and other incidents can all stress the economy. Maintaining a high level of national debt is risky enough when times are good. It could be outright devastating when the next emergency hits. Governments, like families, need to set aside money for emergencies.

In times of crisis, it is important that government policymakers have the flexibility to be able to respond appropriately. For example, following the terror attacks of September 11, 2001, the United States unexpectedly needed to increase military spending again, committing nearly \$2 trillion to the War on Terror between 2001 and 2017. The relative fiscal health at the time of those events at least made it possible for government officials to evaluate their options and choose how to respond. By contrast, following the debt crisis experienced by Greece starting in

¹⁷ ["Interest Payments in the Federal Budget"](#) Committee for a Responsible Federal Budget. May 19, 2021.

¹⁸ Chetty, et al. ["The Fading American Dream: Trends in Absolute Income Mobility Since 1940"](#) NBER Working Paper No. 22910, Issued in December 2016, Revised in March 2017.

¹⁹ Edwards, Chris. [Testimony to Committee on the Budget United States House of Representatives](#). June 17, 2015.

2009, Greek officials had few options and Greeks were forced to accept strict austerity measures, leading to impoverishment, the loss of income, and social instability.²⁰

If America is deeply in debt, then its strength and leadership abroad will be undermined. Other countries will sense our weakness. As Kenneth Lieberthal and Michael O’Hanlon from the Brookings Institution explain,

“If this perception becomes more widespread, and the case that we are in decline becomes more persuasive, countries will begin to take actions that reflect their skepticism about America’s future. Allies and friends will doubt our commitment and may pursue nuclear weapons for their own security, for example; adversaries will sense opportunity and be less restrained in throwing around their weight in their own neighborhoods. ... Major war will become more likely.”²¹

Reducing national debt is therefore not just a priority for economic reasons, but for national security reasons, too.

5. The debt could end America’s status as a world leader.

In the past, America always enjoyed a great protection: the protection of being the world’s currency of reserve (or “anchor currency”). As long as the dollar was king, America was king among other nations, even if it was experiencing high unemployment and large debts. To this day, foreigners help us cover our debt. Roughly 25 percent of debt is held by people or countries outside the United States.²²

Roughly \$7 trillion (or 25 percent) of the 2021 U.S. national debt is held by people or countries outside the United States.

Source: [Monthly Budget Review: September 2021](#), Congressional Budget Office. September 2021.

Today, however, there are new challenges to nations currencies, such as cryptocurrencies like the bitcoin. If America is mired in debt, the world may decide to trade in different currencies, newer currencies, or a combination of other currencies and cryptocurrencies. Then the United States will no longer enjoy the status of possessing the world’s currency of reserve. Like other nations, our country will have to compete for investors in its currencies, and give the world’s investors more of a return. That means raising interest rates, which will hurt all American

²⁰ Galbraith, James K. [“The Greece Bailout’s Legacy of Immiseration”](#) *The Atlantic*. August 20, 2018.

²¹ Kenneth Lieberthal and Michael O’Hanlon, [“The Real National Security Threat: America’s Debt”](#) Brookings Institution. July 10, 2012.

²² [“The depth and breadth of the federal debt”](#) Federal Reserve Economic Data (FRED). March 2, 2017.

borrowers, from students to families that have taken out mortgages on their homes. America's general status will decline, which will have implications for international security.

6. High national debt lowers confidence and can result in lower savings and income.

If the national debt becomes too high, people will lose confidence in the ability of the government to pay its obligations. This will cause the value of outstanding government bonds to fall, which affect the savings of individuals who own these bonds in their retirement portfolios.

The CBO projects the national debt will cause the average four-person family to lose \$4,000 in income per year by 2028, \$8,000 in income by 2038, and \$16,000 in income by 2048.

High national debt can also hurt people's income by hurting the companies that they work for. As the CBO notes, "Because wages are determined mainly by workers' productivity, the reduction in investment would reduce wages as well, lessening people's incentive to work."²³ One CBO projection suggest the national debt will cause the average four-person family to lose \$4,000 in income per year by 2028, \$8,000 in income by 2038, and \$16,000 in income by 2048. If this were allowed to occur, it would result in economic stagnation rather than growth.

According to the CBO, "Stagnating wages and growing disparities in income and wealth are very concerning trends. The federal government should not allow budget imbalances to harm American citizens."²⁴

7. Economic growth is currently relatively strong. Now is not the time for the government to engage in more stimulus spending if its means further running up the national debt.

Responsible stewardship of almost any fund, private or public, typically entails some sort of saving during abundant times so that one can continue to meet one's obligations during lean times. State governments, for instance, use reserve funds called "Rainy Day Funds" to manage unexpected shortfalls and cover unplanned expenditures.²⁵ In a similar way, when the national economy is strong, such as it is at present, the federal government does not need to continue to stimulate the economy if it comes at the cost of large deficits.

²³ ["The 2014 Long-Term Budget Outlook"](#) Congressional Budget Office. July 15, 2014.

²⁴ Ibid.

²⁵ ["States Make More Progress Rebuilding Rainy Day Funds"](#) Pew Trusts. August 29, 2018.

There is no need at present to boost consumer spending (i.e., “aggregate demand”). Rather than engaging in stimulus, the government in good times should pay down the national debt. The federal government does not maintain a rainy day fund, but paying down the debt when economic growth is strong is the next best thing.

NEGATIVE ARGUMENTS

“Reducing government spending is a risk not worth taking.” –Joseph Stiglitz

1. Rather than reducing the debt, we should focus on growing the economy so that the debt can be more easily managed and eventually paid off.

Many people assume that the only way to improve the federal debt situation is to raise taxes and cut spending, but a country’s debt-to-GDP ratio consists of both a numerator *and* a denominator. If the goal is to have a better debt-to-GDP ratio, it is just as valid to seek to increase GDP as it is to decrease debt. If the economy (i.e., GDP) grows faster than the debt, the debt does not look so ominous and does not pose such a big threat.

Countries with higher GDP will have an easier time paying off their national debt because they have a wider revenue stream to draw from. This means that countries with higher GDP can afford to borrow more

If the US economy experienced 4 percent GDP growth each year for ten years, the government would collect more than \$3 trillion in tax revenues.

than countries with lower GDP. In 2013, economist Ike Brannon estimated that if the US economy experienced 4 percent GDP growth each year for ten years, the government would collect more than \$3 trillion in tax revenues, which would contribute to a 30 percent reduction in the ten year budget deficit.²⁶ In other words, if we prioritize growth, then the government will bring in more in taxes and future deficits will be smaller.

According to a 2015 report from the International Monetary Fund, “the distortive cost of policies to deliberately pay down the debt is likely to exceed the crisis-insurance benefit from lower debt.” Instead of paying down the debt, the IMF authors argue, “debt-to-GDP ratios should be reduced organically through growth, or opportunistically when less distortionary sources of revenue are available.”²⁷

Rather than hurting the economy, deficit spending can be a good thing for overall debt-to-GDP health, as long as it helps the economy keep growing. As economist John Maynard Keynes argued, deficit spending raises aggregate demand and increases consumption. When individuals are reluctant to spend their savings, the government can step in and purchase goods

²⁶ Brannon, Ike. “[What 4% Growth Would Mean for America](#)” George W. Bush Presidential Center. March 21, 2013.

²⁷ Ostry, et al. “[When Should Public Debt Be Reduced?](#)” International Monetary Fund. June 2015.

that might otherwise go unsold or hire labor that might otherwise go unused.²⁸ This smooths the economy—especially in times of uncertainty—and keeps the private sector booming.

2. Running a surplus to pay off the debt would require the government to raise taxes.

If the U.S. federal government makes reducing the national debt a priority, then it must find a way to run a budget surplus. Since Congress has limited flexibility in cutting spending, that leaves tax increases as the main way to make sure that receipts exceed expenditures.

Some countries, such as Sweden, Finland, and Germany, manage their debt in part by having high tax rates. High taxes help Germany, for example, maintain a relatively low debt-to-GDP ratio of about 43

percent.²⁹ However, the problem with raising taxes and keeping them high for many years in a row is that eventually this takes money out of the hands of individuals and businesses, hurting economic growth.³⁰ In the early 1930s, President Herbert Hoover attempted to continue Coolidge’s emphasis on debt control, but also opted to raise taxes dramatically. This played a role in depressing the economy.

“Each tax reduction has been followed by a revival of business. If there is one thing above all others that will stimulate business it is tax reduction. If the Government takes less, private business can have more. If constructive economy in Federal expenditure can be assured it will be a stimulation to enterprise and investment.”

—Calvin Coolidge, 1925

The negative effect on economic growth could be greater than the benefit that we get from reducing the debt. According to the Keynesian school of economics, running a budget surplus to pay down the debt would hurt the economy, since people would have less money with which to buy goods and services.³¹ If the Keynesian view is true, then making debt reduction a priority is a bad strategy.

3. Using debt to improve our standard of living isn’t a bad thing—it is a healthy thing.

Businesses borrow money to acquire new equipment and build new factories. Individuals borrow money to purchase large-ticket items such as cars and homes. These uses of debt are generally considered wise. Debt enables businesses to stay competitive and increase

²⁸ Keynes, John Maynard. *General Theory of Employment, Interest and Money* (1936)

²⁹ Bofinger, Peter. “[German Example Shows Way Out of Debt Crisis](#)” Spiegel. August 12, 2011.

³⁰ Ferrara, Peter. “[Should we pay off the debt?](#)” Heritage Foundation. October 2000.

³¹ Ibid.

production. It enables workers to get to work in the morning, and to afford to live close to a good employer.

As for a company, so also for our government. The borrowing of money by the government to pay for such things as social programs and infrastructure can be a good thing. It smooths the effects of expenditures out over time. Often American households are portrayed as victims of the national debt, but in fact we benefit from it by enjoying a higher standard of living in the present.

If we did not make use of debt, investments in large and expensive projects such as infrastructure (e.g., roads, bridges, dams) would be considerably more disruptive. Taxes would dramatically rise and fall with each new project. The International Monetary Fund praises the use of public debt in part because it “smooth[s] the taxes necessary to finance lumpy government expenditures.”³² In this argument, a federal government is like a family—but one that can afford to take big risks.

4. What matters for public financing is not the level of debt but our ability to service it.

Although it is true that many countries today have high debt-to-GDP ratios compared to the past, this is not necessarily a cause for concern. As long as a country is able to fund itself at low interest rates, taking money out of the economy to deliberately pay down the debt as part of a concerted policy of debt reduction is not necessarily the wisest course of action.

At \$28 trillion, the national debt can sound scary to the average person, but that’s because as individuals we do not routinely deal with numbers on this scale. Our GDP is roughly the same size as the debt (the national debt is about 102 percent of GDP). This puts the country in roughly the same financial position as a hypothetical family that makes \$75,000 in income and owes a total of \$76,500 on, say, a home mortgage and a car loan. The monthly payments on those two items will be easily payable (“serviceable”) with the earners’ after-tax monthly income. This hypothetical family is not in a financial crisis.

The average interest rate paid on federal debt has been 3 percent for over 10 years, which is low. In other words, it is a good time to engage in deficit financing.

The nation’s debt-to-GDP ratio of 102 percent is even less alarming when compared to what the typical household’s debt-to-income ratio would be, if we calculated such a statistic. The average U.S. household has outstanding mortgage debt of \$168,000 and an income of about \$55,000.³³ This would be a debt ratio of about 305 percent, and although some families

³² Ostry, et al. “[When Should Public Debt Be Reduced?](#)” International Monetary Fund. June 2015.

³³ Tepper, Taylor. “[5 Things Most People Don't Understand About the National Debt](#)” *Time Magazine*. April 2016.

genuinely are in financial hardship, few would say that most American families are in a state of financial crisis because most families can still service their debt.

Some people fear a “debt spiral”—a situation in which deficits lead to higher debt, which lead to higher interest payments, which in turn lead to higher debt in a vicious cycle. However, the average interest rate paid on the federal debt has been under 3 percent (i.e., low and relatively stable) for over 10 years—not high or trending upward as the debt spiral theorists fear. Our strong economic performance has held this threat at bay. As economist Paul Krugman notes, “[a] debt spiral can only happen if the interest rate on the debt is higher than the economy’s growth rate.”³⁴

5. Much of the national debt is money that we owe to ourselves.

Contrary to popular belief, debt does not represent money that we have “stolen” from future generations. When it comes to debt, one person’s debt is another person’s asset.³⁵ When one person borrows money and begins making interest payments on it, it becomes an income stream for the lender. Because much of the government’s debt is owned by American institutions (and thus American families through bonds and other investments), much of the national debt simply represents money that we owe to ourselves.³⁶

If debt is money that we owe to ourselves, then it does not necessarily make us poorer to have a lot of it, and nor does it make us richer to pay it off.³⁷ Reducing the national debt is in some ways a neutral action—it eliminates the loan on the borrower’s side of the ledger but also eliminates the income-producing asset on the lender’s side of the ledger.

It may make sense for some individuals or companies to reduce their debt, but if everyone tries to reduce their debt simultaneously—the term for which is “deleveraging”—it could have negative effects on the economy. During the recession in 2009, former Chair of the Federal Reserve Janet Yellen warned about the threat of deleveraging:

“Consumers are pulling back on purchases, especially on durable goods, to build their savings. Businesses are cancelling planned investments and laying off workers to preserve cash. And, financial institutions are shrinking assets to bolster capital and improve their chances of weathering the current storm. Once again, Minsky understood this dynamic. He spoke of the paradox of deleveraging, in which precautions that may be

³⁴ Krugman, Paul. [“On the Debt Non-Spiral”](#) *New York Times*. September 11, 2018.

³⁵ Fatas, Antonio. [“Those Mountains of Debt \(And Assets\)”](#) *Antonio Fatas Blog*. February 5, 2015.

³⁶ *Ibid.*

³⁷ Krugman, Paul. [“Nobody Understands Debt”](#) *New York Times*, February 9, 2015.

smart for individuals and firms—and indeed essential to return the economy to a normal state—nevertheless magnify the distress of the economy as a whole.”³⁸

As Paul Krugman writes, “Why is deleveraging a problem? Because my spending is your income, and your spending is my income, so if everyone slashes spending at the same time, incomes go down around the world.”³⁹

6. Focusing on reducing the debt could push the economy into deflation or depression.

If the U.S. government pursues a policy of reducing the debt rather than encouraging growth, the economy could experience deflation. Deflation occurs when there is a contraction of the money supply and prices fall. Although falling prices might sound good for the consumer who is in the market for a new television or computer, it is actually a dangerous economic condition for two reasons: 1) that same consumer may also see his wages fall, and 2) savvy consumers who see that prices are falling might delay making purchases, which can worsen the economic slowdown (a case of a “self-fulfilling prophecy”).

Not only does deflation contribute to economic slowdown, it means that Americans have to pay back interest on our debt using more valuable dollars (because if prices have fallen, then a given amount of dollars can buy more goods and services). As Krugman notes, “Efforts to reduce debt end up pushing the economy into deflation and depression.”⁴⁰

After the financial crisis in 2008, many Americans warned the government stimuli would cause strong inflation. They proved wrong. Nowadays many economists say we were lucky we did implement those stimuli. These economists contend we would have had a terrible recession in 2008 had we NOT spent money.

7. Interest rates are currently low. The government should take advantage of low interest rates and encourage as much growth as possible before borrowing becomes more expensive.

By historical standards, current interest rates are extremely low. Although nobody knows exactly when they will again rise, it is likely that at some point in the near future they will at least increase, if not fully return to historic averages. Therefore, now is the time for the

³⁸ Yellen, Janet. “[A Minsky Meltdown: Lessons for Central Bankers](#)” Federal Reserve Bank of San Francisco. April 16, 2009.

³⁹ Krugman, Paul. “[Nobody Understands Debt](#)” *New York Times*, February 9, 2015.

⁴⁰ Ibid.

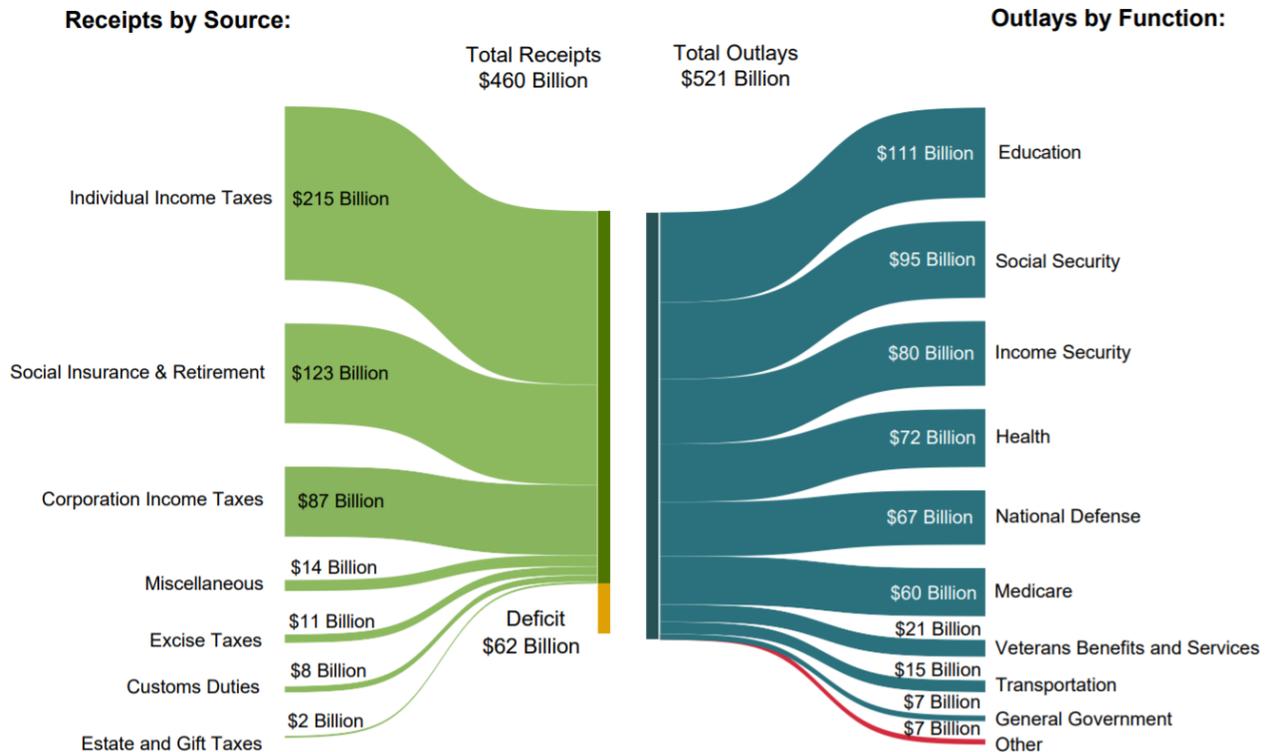
government to attempt to stimulate as much growth as possible. If we wait and interest rates to rise, stimulus spending will cease to be an option, as it will simply become too expensive.

Overseas investors still believe that the U.S. government is highly creditworthy, which means that the federal government can still borrow to make much-needed investments (such as investments in infrastructure) that will keep our productive resources strong.⁴¹ As long as the cost of borrowing is low and the borrowed money can be put to a use with a greater return on investment than the cost, the government should continue spending to encourage growth.

⁴¹ Wolverson, Roy. "[Is More Fiscal Stimulus Needed?](#)" Council on Foreign Relations. July 14, 2010.

APPENDIX A. Receipts, Outlays, and Surplus/Deficit for September 2021

The federal government has many sources of revenues (receipts) and many different expenditures (outlays). The figure below shows where the money comes from and where it goes for a typical month. Note that this depicts the receipts and outlays for just one month.



Source: [Monthly Treasury Statement](#). U.S. Department of the Treasury. October 2021.

APPENDIX B: Detailed Receipts and Outlays

The table below shows detailed receipts and outlays of the U.S. Government.

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period Year to Date	Budget Estimates Full Fiscal Year ¹
Budget Receipts				
Individual Income Taxes	214,788	2,044,377	1,608,664	1,704,919
Corporation Income Taxes	86,713	371,831	211,845	268,482
Social Insurance and Retirement Receipts:				
Employment and General Retirement (Off-Budget)	87,387	952,322	965,428	944,132
Employment and General Retirement (On-Budget)	29,981	299,536	296,222	291,724
Unemployment Insurance	5,663	56,602	43,104	54,557
Other Retirement	453	5,629	5,201	5,766
Excise Taxes	10,624	75,271	86,782	74,092
Estate and Gift Taxes	2,433	27,140	17,624	17,593
Customs Duties	7,857	79,985	68,550	84,834
Miscellaneous Receipts	13,626	133,285	116,538	134,678
Total Receipts	459,523	4,045,979	3,419,957	3,580,777
(On-Budget)	372,136	3,093,657	2,454,529	2,636,645
(Off-Budget)	87,387	952,322	965,428	944,132
Budget Outlays				
Legislative Branch	464	5,263	5,367	6,376
Judicial Branch	690	8,310	8,251	8,700
Department of Agriculture	18,596	235,193	184,223	288,707
Department of Commerce	740	13,134	15,918	16,115
Department of Defense--Military Programs	63,733	717,585	690,419	712,398
Department of Education	108,310	260,381	204,415	231,993
Department of Energy	3,311	33,694	32,046	35,027
Department of Health and Human Services	126,542	1,466,673	1,503,953	1,547,354
Department of Homeland Security	8,649	91,069	91,963	122,714
Department of Housing and Urban Development	3,190	31,779	33,190	55,836
Department of the Interior	2,004	15,788	16,416	17,656
Department of Justice	3,807	39,261	39,607	45,284
Department of Labor	15,283	404,771	477,530	552,567
Department of State	3,981	35,814	32,859	35,771
Department of Transportation	13,173	104,936	100,342	125,747
Department of the Treasury:				
Interest on Treasury Debt Securities (Gross)	37,682	562,388	522,652	484,698
Other	-16,548	1,071,358	629,074	1,197,069
Department of Veterans Affairs	21,199	233,781	218,394	235,938
Corps of Engineers	381	7,936	7,631	7,109
Other Defense Civil Programs	4,887	58,085	65,264	68,280
Environmental Protection Agency	768	8,309	8,723	7,454
Executive Office of the President	35	427	402	473
General Services Administration	-86	-1,269	-265	2,148
International Assistance Programs	2,788	20,047	21,678	25,552
National Aeronautics and Space Administration	1,799	22,249	21,524	23,552
National Science Foundation	764	7,354	7,278	8,251
Office of Personnel Management	9,680	108,552	105,625	107,933
Small Business Administration	2,767	322,721	577,412	372,320
Social Security Administration	99,682	1,192,453	1,153,914	1,199,226
Independent Agencies	-486	13,554	17,650	35,010
Undistributed Offsetting Receipts:				
Interest	-4,196	-149,579	-135,215	-124,193
Other	-12,521	-123,861	-106,363	-203,609
Total Outlays	521,067	6,818,158	6,551,874	7,249,456
(On-Budget)	428,506	5,814,310	5,596,293	6,231,925
(Off-Budget)	92,561	1,003,847	955,581	1,017,531
Surplus (+) or Deficit (-)	-61,544	-2,772,179	-3,141,917	-3,668,679
(On-Budget)	-56,370	-2,720,654	-3,141,764	-3,595,280
(Off-Budget)	-5,175	-51,525	+9,846	-73,399

¹ These estimates are based on the FY 2022 Budget, released by the Office of Management and Budget on May 28, 2021.

Note: Details may not add to totals due to rounding.

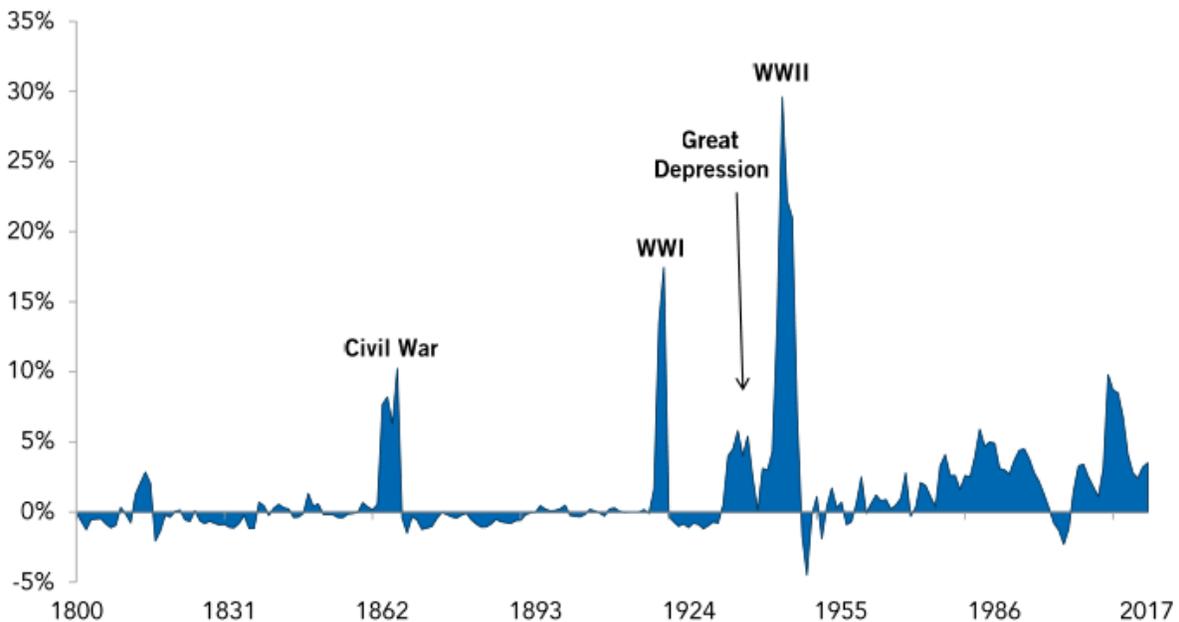
Source: U.S. Department of the Treasury, "[Final Monthly Treasury Statement](#)" September 2021.

APPENDIX C: Historical Deficits and Surpluses

Over most of U.S. history, surpluses have been more common than deficits. In the first 125 years of the country's history, surpluses occurred in more than two-thirds of the years. Large deficits were limited mainly to war times and times of extreme economic depression.

More recently, however, deficits have been more common. In the last 50 years, there have been 46 years of deficits and only four years of surpluses (1998 to 2001).

**Deficits and Surpluses
As a Percentage of Gross Domestic Product**



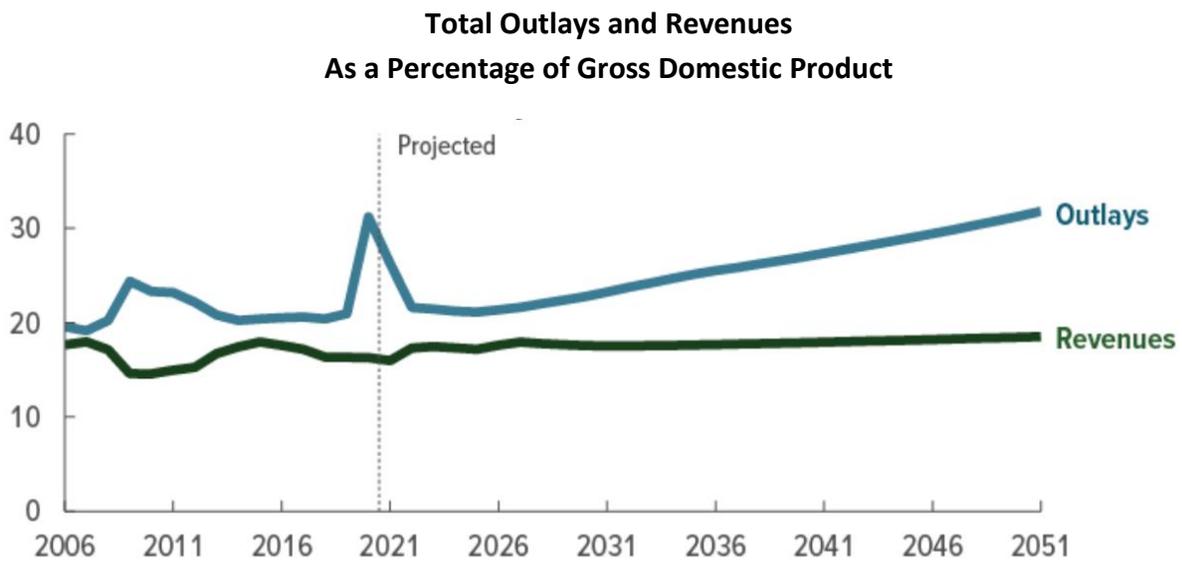
Source: Data from the Office of Management and Budget.

Graph from "[Federal Deficits and Surpluses, 1800 to Present](#)" Peter Peterson Foundation. March 22, 2018.

APPENDIX D: Looking at Revenues and Outlays Separately

Since there is currently no requirement that total revenues and total outlays be the same (i.e., balanced), those two variables can follow different paths. The graph below shows revenues and outlays separately. Wherever outlays exceed revenues, the government is running a deficit. Wherever revenues exceed outlays, the government is running a surplus.

It is common for economists and budget analysts to make projections about where these variables will go in the future based on current trends. Projections by the Congressional Budget Office (CBO) indicate that if current laws remain unchanged, deficits will rise over the next decade, driving up federal debt. Based on current policies and conditions, the CBO projects moderate economic growth during this period.

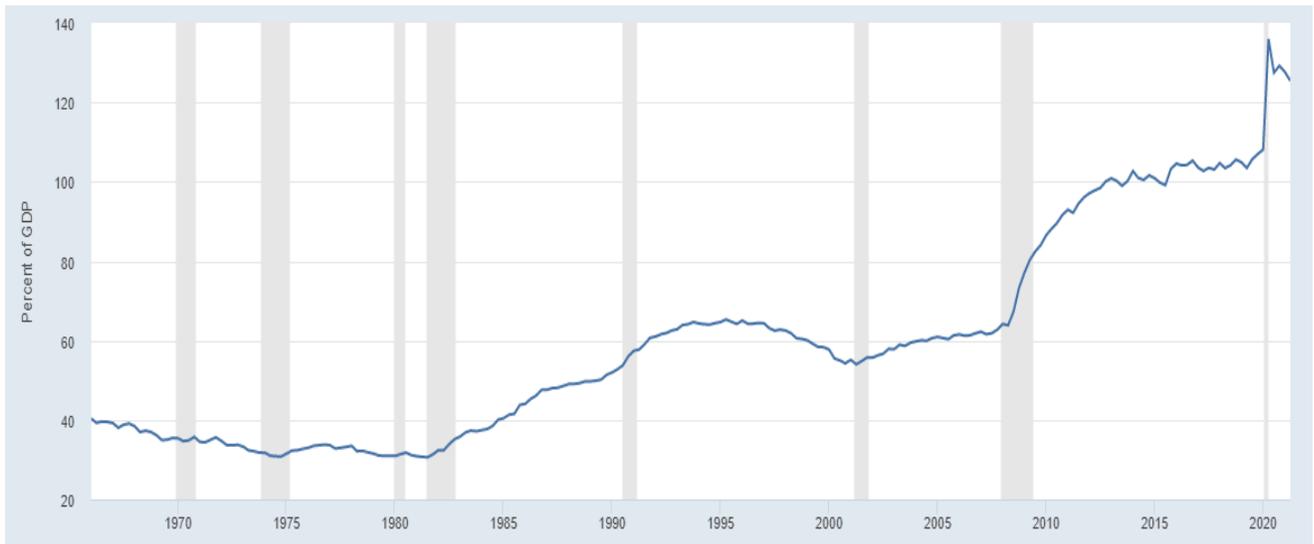


Source: [The Budget and Economic Outlook](#). Congressional Budget Office. March 2021.

APPENDIX E: Federal Debt as a Percent of Gross Domestic Product

The graph below shows the federal debt as a share of Gross Domestic Product (GDP). In the 1970s and early 1980s, the federal debt was below 40 percent of GDP. In recent years, the federal debt has climbed to over 100 percent of GDP, which is to say that the amount we owe is as large as the total of what we create in an entire year. To appreciate how unusual this is, consider that when Europe unified back in the 1990s, the Maastricht Treaty criteria stipulated that a country could not have a debt-to-GDP ratio of greater than 60 percent in order to be a member.⁴²

**Total Public Debt
As a Percentage of Gross Domestic Product**



Note: Shaded areas indicate U.S. recessions.

Source: [Federal Reserve Economic Data](#) (FRED).

Created by Federal Reserve Bank of St. Louis. October 2021.

⁴² [“Progress Towards Convergence”](#) European Monetary Institute. November 1995.