Debate Brief · Government Spending & Modern Monetary Theory

Resolved: Dramatically higher spending by the government would benefit Americans, as suggested by Modern Monetary Theory.

"Taxes are critically important, but there's no reason to assume the government must raise taxes whenever it wants to invest in our economy. In practice, the federal government almost never collects enough taxes to offset all of its spending. Deficit spending is the norm, and everyone in Washington, DC, knows it."
–Stephanie Kelton, *The Deficit Myth (2020)*

"The long run is a misleading guide to current affairs. In the long run we are all dead."
–John Maynard Keynes, *A Tract on Monetary Reform (1923)*

"If you can't explain something, try an abbreviation. The latest in economics is MMT—Modern Monetary Theory. Or, in other words, a Magic Money Tree."
–Mervyn King, *The Spectator (2020)*

"The men and women of this country who toil are the ones who bear the cost of the Government. Every dollar that we carelessly waste means that their life will be so much the more meager. Every dollar that we prudently save means that their life will be so much the more abundant."
–Calvin Coolidge, *Inaugural Address (March 4, 1925)*

"Debt reduction is tax reduction."
–Calvin Coolidge, 1927

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. The Foundation has also built 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 at Coolidge House in Washington, D.C. The Foundation seeks to increase Americans' understanding of President Coolidge and the values he promoted.

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BACKGROUND

Can governments bring about prosperity by spending more on goods and social services?

Some economists believe so. They argue that government expenditure, when directed towards critical areas such as infrastructure, education, healthcare, and social welfare programs, can stimulate economic growth, create jobs, and improve the overall well-being of citizens. They contend that rather than looking at government spending as something to be minimized, we should consider government spending an investment in the future. In this latter view, for instance, even a bridge that has a few years of safe use left in it should be replaced. That is because spending money on building a new bridge brings about benefits such as employing workers and creating demand for steel and paint and other materials.

Other economists are more skeptical of the ability of government spending to bring about such benefits. They caution that excessive government spending may lead to unintended consequences such as inflation, and inefficient allocation of resources. They contend as well that too much debt will ultimately hinder or even prevent prosperity. They also question whether the government spends taxpayer money more wisely and productively than private citizens do. To revisit the bridge example: if a bridge still has a few more years of safe use left in it, it is better *not* to spend that money, and instead use the money to pay down the national debt. Or leave the money in the hands of taxpayers, who might devote the cash to a more useful project or better investment.

The question of the efficacy of government spending in fostering prosperity has been at the center of American debate since the 1930s. During the Great Depression, lawmakers argued that more spending by government would prime the pump of the economy – get it going, especially during times of recession. During those years, the English economist John Maynard Keynes (pronounced: “KAYNES”) published a book that laid out the argument for more spending to fight depressions, his *General Theory of Employment, Interest and Money*. Keynes believed that in hard times, especially, deficit spending could be warranted. In good times, by contrast, the government should cut back on spending. “The boom, not the slump is the right time for austerity at the Treasury,” Keynes said in the 1930s.[1]

A school of thought that builds on Keynes has emerged in recent decades. It is called Modern Monetary Theory (MMT). MMT, like Keynesianism, emphasizes spending and consumer demand as important factors in the economy. MMT goes even further than Keynes, holding that given the government's ability to create money, it need not become active only during

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[1] Today and Tomorrow, Walter Lippmann, Los Angeles Times, Feb 7 1937, p 4.

downturns—it can engage in high spending almost all of the time. Economist and economic advisor Stephanie Kelton:

> *MMT changes how we view our politics and economics by showing that in almost all instances federal deficits are good for the economy. They are necessary. And the way we have thought about them and treated them is often incomplete or inaccurate. Rather than chasing after the misguided goal of a balanced budget we should be pursuing the promise of harnessing what MMT calls our public money, or sovereign currency, to balance the economy so that prosperity is broadly shared and not concentrated in fewer and fewer hands.*[2]

At the core of MMT rests the premise that countries with sovereign control over their currency, such as the United States, operate under fundamentally different economic constraints than other countries. Proponents of MMT believe that countries that issue a respected currency, like the U.S. with the dollar, are not financially constrained in the same way as households or businesses are. Yes, ordinary households and businesses need to be careful about their spending and not spend more than they earn or can responsibly borrow, MMT proponents would concede. But governments with respected currencies can, in theory, create money to finance their spending needs, in part because the demand for U.S. currency does not appear to have an upper limit.[3] Such governments are a special case, they would say. As such, the primary concern for policymakers in a country such as the U.S. should not be balancing the budget, but instead it should be achieving full employment.

In this view, government spending should be directed towards stimulating the economy and ensuring that all available resources, including labor, are utilized efficiently. We shouldn't be so concerned about limiting spending or paying down national debt, say MMT theorists. The road to prosperity is making sure that workers have well-paying jobs, so that they can be good consumers who can buy things from businesses, thus keeping the economy healthy.

Critics of MMT, however, raise concerns about the potential risks associated with expansive government spending, such as inflation, currency devaluation, and unsustainable debt levels. They argue that MMT's approach to fiscal policy may overlook the constraints and trade-offs inherent in managing the economy. The fact that the U.S. has sovereign control over its own currency and is the reserve currency of the world does not give us special license to increase

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[2] Kelton, Stephanie. *The Deficit Myth*. John Murray Publishing, 2020.
[3] Beach, William. "Is Inflation the Result of Excessive Deficit Spending?" Economic Policy Innovation Center, February 9, 2024.

spending wastefully, they would say. All of the same principles about fiscal responsibility that make sense for a household or a small business still apply to the federal government.

Skeptics of MMT point out that the U.S. became the world's "currency of reserve," its most important currency, precisely because of our record of fiscal restraint and economic growth in the first half of the 1900s. They contend that when the government abandons restraint, our dollar will lose its special status. After all, great powers have lost premier status before: in the past the pound sterling, the UK currency, was the most respected currency.

Economists Scott Sumner and Patrick Horan, skeptics of MMT, lay out the situation clearly in the following paragraph from a policy brief published by the Mercatus Center:

> *Government spending can be paid for in one of three ways. The fiscal authorities can (1) raise revenue via taxes, (2) borrow money (by issuing government bonds) and engage in deficit spending, or (3) print money. The third option is often advocated by MMT proponents, whereas the first two are the more standard methods for governments (especially in developed countries) to finance their spending. Ultimately, all public spending must be financed with tax revenue, as the public debt must be serviced by future taxpayers, and even money creation imposes an "inflation tax" on the public.*[4]

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 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 argue 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. Other 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 spend a large share of their budget just to pay off debts, and thus have less to spend on legitimate government responsibilities.

As you prepare to debate the resolution, think about how government spending works, and weigh the potential benefits against the risks associated with increased government spending.

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[4] Sumner and Horan, "How Reliable Is Modern Monetary Theory as a Guide to Policy?" Mercatus Center at Goerge Mason University. March 11, 2019.

THE COOLIDGE CONNECTION

Calvin Coolidge was president before MMT and even before Keynesianism. Coolidge served America from 1923 to 1929. The thirtieth president is important because he both articulated and acted upon the principle that less spending by government is better for Americans generally. Coolidge, dedicated his presidency to demonstrating the merits of fiscal restraint. 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.[5]

Budgetary restraint was a major priority of President Coolidge. He once said that “the budget idea is a short 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] Coolidge opposed deficit spending, viewing it as a threat to economic stability and individual liberty. Unlike any other modern president, Coolidge managed to keep the government budget in surplus for each year he served.

This debate is about government spending and what kind of effect it has on the economy. There is evidence that Coolidge’s policy worked. During Coolidge’s presidency, economic growth was strong at about 3.5 percent per year, and unemployment was low. Did Coolidge take the right course of action with his focus on budgets, or did he leave opportunity for additional prosperity “on the table” by not spending more? A rebuttal to a pro-Coolidge argument might be that Coolidge allowed such a boom that the giant crash of the Great Depression of the 1930s was inevitable. At this tournament, you will get the opportunity to engage with both sides of this history.

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[5] Shlaes, Amity. *Coolidge*. Harper Perennial, 2014.
[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.

KEY TERMS

Government spending – Government spending refers to the money spent by the public sector for things such as education, healthcare, defense, and social welfare. In this debate the focus is primarily on the spending carried out by the federal government (as opposed to spending by state or local governments). Federal spending is typically categorized into three types: mandatory spending, discretionary spending, and paying for the interest on the national debt.

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 what are often called "entitlement" programs, including: Social Security, Medicare, and Medicaid. One important note: Defense/military spending is considered discretionary spending (see next item).

Discretionary spending – Expenditures where the amount is decided upon annually as part of the budget process. Because these expenditures are decided each year, they are easier to increase or decrease, and are thus said to be "discretionary." Examples include the funding of the military, executive departments (e.g., the Department of Energy), and federal agencies.

Federal budget – The federal budget is the annual spending plan for the United States government. Like the budget that a family or a business might have, it has two main components: revenue (sometimes called receipts) and spending (sometimes called outlays or expenses). 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.

Budget surplus – The amount by which revenues exceed expenditures in the federal budget in a given year.

Budget deficit – The amount by which expenditures exceed revenues in the federal budget in a given year.

Modern Monetary Theory (MMT) – An approach to fiscal policy that challenges conventional views on government spending and argues that there is no real constraint on a nation's government spending, as long as it issues its own currency (i.e., currency sovereignty), and can control that currency.

Currency sovereignty – The ability of a country with its own currency to issue and control that currency independently, allowing it to finance its spending needs through money creation rather than relying solely on revenue or borrowing.

Reserve currency – A reserve currency is the currency that a nation uses for its international trade. Since around the end of World War II, the U.S. dollar has been the world's principal reserve currency. In other words, the governments of other nations are happiest and feel most secure holding a large portion of their wealth in the form of U.S. dollars, rather than in some other currency, such as Mexican Pesos, Swiss Francs, Indian Rupees, or Australian Dollars.

Sovereign debt – The debt of a government, at home or abroad. Sometimes national governments wish to borrow more than they can (or are willing to) raise through taxation. Instead, they essentially take out a loan ("issue debt") in their own currency. This kind of debt is typically considered to be low-risk due to the government's ability to control its currency and taxation policies.

Functional finance – An idea associated with MMT, which prioritizes achieving full employment and price stability over balancing the budget. It suggests that government spending should be used to stimulate the economy and ensure all available resources are used efficiently.

Job guarantee – A policy proposal associated with MMT, advocating the government serve as an employer of last resort by offering a job at a living wage to anyone willing and able to work. This aims to eliminate involuntary unemployment and act as an automatic stabilizer for the economy.

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."

Inflation – A sustained increase in the general price level of goods and services in an economy over a period of time. Inflation erodes the purchasing power of money, meaning that you can buy fewer goods and services today with a given amount of money than you could yesterday. Remember that when consumers go shopping, they are (in a way) "bidding" for goods and services using their dollars, as if they were at an auction and literally competing against each other by calling out higher and higher bids. Sometimes it is helpful to think of inflation as a phenomenon that happens because there are "too many dollars chasing too few goods."

AFFIRMATIVE ARGUMENTS

1. Increased government spending will stimulate economic growth.

Increased government spending can stimulate economic growth by creating jobs, boosting demand for goods and services, and enhancing productivity. Historically, many economists have believed that governments should operate within strict fiscal constraints. However, Modern Monetary Theory (MMT) challenges this conventional view of spending being a bad thing. MMT emphasizes the benefits of government spending in addressing unemployment and underutilized resources, and argues that it fosters economic expansion and prosperity. This fiscal multiplier is the name for the increase in real GDP per dollar of government stimulus spending. Economists have estimated that there is a multiplier of about 1.5, which means that for every $1 that the government spends, the economy benefits by $1.50.[8]

> "As long as the Treasury keeps issuing debt, the Fed can keep creating bank reserves and buying bonds. Therefore, the government cannot default as long if its debts are in dollars. If investors lose faith in US treasuries and decide to buy corporate or foreign bonds, the Fed could still keep printing money and funding the government."
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> Source: Blitzer, D. "MMT or Why Budget Deficits are Ok If They Don't Grow Too Fast" S&P Global. (2019)

By leveraging its ability to create money, the government can invest in critical areas such as infrastructure development, education, healthcare, and renewable energy without facing the same financial limitations as households or businesses. This strategy avoids the need for government to raise revenue through additional taxes or to compete for private capital.[9]

Increased spending in these areas not only addresses pressing societal needs (see Figure 1) but also generates positive ripple effects throughout the economy. For instance, infrastructure projects create jobs and improve productivity, education investments lead to a more skilled workforce, healthcare spending enhances the health and well-being of Americans, and renewable energy initiatives drive innovation and mitigate climate change. By adopting a proactive approach to fiscal policy, the government can catalyze economic growth and ultimately benefit all Americans.

> "In fiscal year 2023, the federal government is estimated to spend $6.3 trillion, amounting to 24.2 percent of the nation's gross domestic product (GDP). Of that $6.3 trillion, over $4.8 trillion is estimated to be financed by federal revenues. The remaining amount will be financed by net borrowing."
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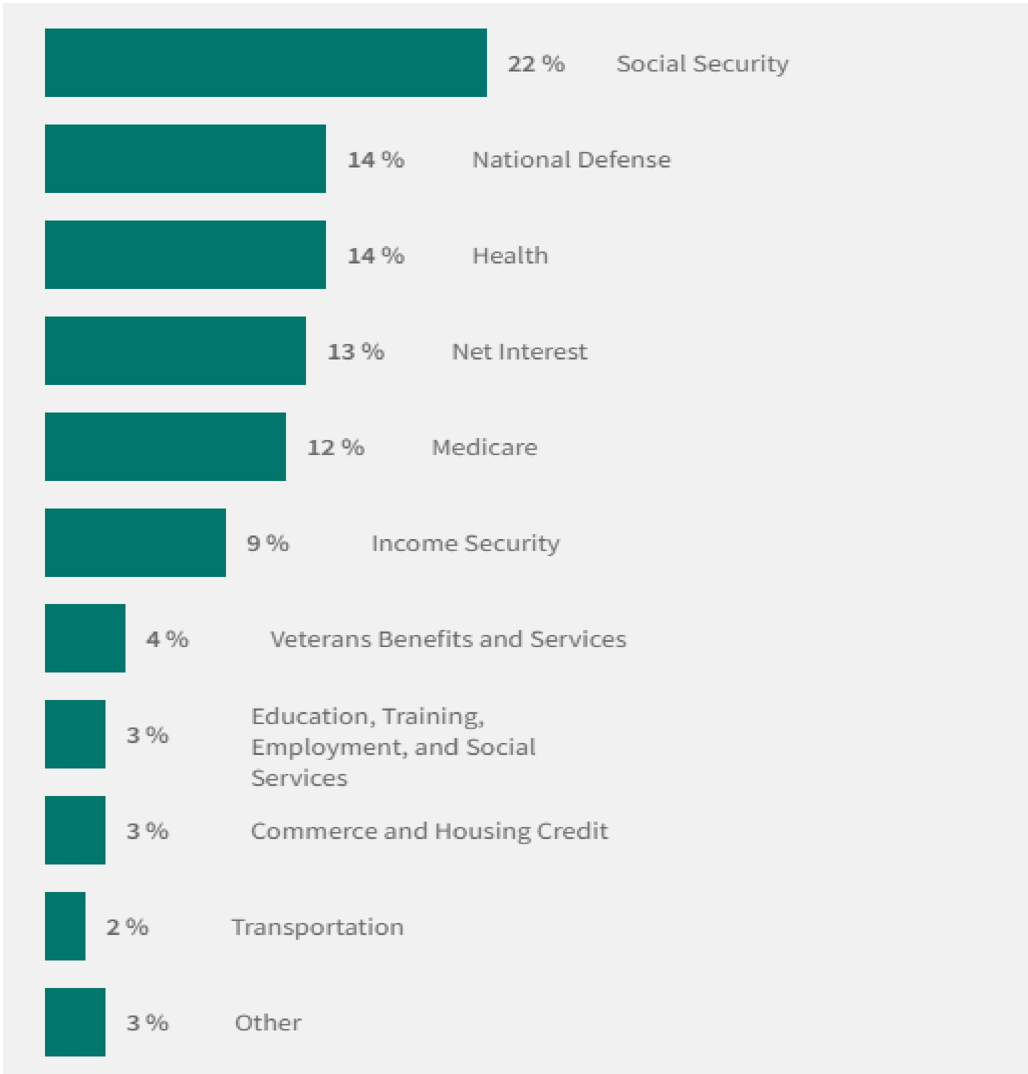
> Source: "Where Do Our Federal Tax Dollars Go?" Center for Budget and Policy Priorities. September 28, 2023.

[8] Krugman, Paul. "Multipliers and Reality" *New York Times*. June 3, 2015.
[9] Globerman, Steven. "A Primer on Modern Monetary Theory" The Fraser Institute. 2021.

Figure 1. U.S. Government Spending by Category (Fiscal Year 2024)



Source: "How much has the U.S. government spent this year?" *Fiscal Data*, Treasury.gov. Accessed February 8, 2024.

2. The analogy of a family managing its finances prudently and aligning expenditures with income does not hold true for governments.

So-called "deficit hawks"—people who believe that it is important to keep government budgets under tight control–like to invoke the analogy of a small family running its own finances. Clearly in the case of a household trying to figure out how much money it can responsibly spend, a household will be constrained by the income it earns. However, this analogy is flawed when applied to governments, due to important differences in scale, purpose, and economic dynamics. Unlike a family, which operates within finite resources and must prioritize spending to avoid debt and financial hardship, a government with sovereign control over its currency can manage its finances differently.

Economist and Nobel Laureate Wiliam Vickrey explains:

> *Deficits are considered to represent sinful profligate spending at the expense of future generations, who will be left with a smaller endowment of invested capital. This fallacy seems to stem from a false analogy to borrowing by individuals. Current reality is almost the exact opposite. Deficits add to the net disposable income of individuals, to the extent that government disbursements that constitute income to recipients exceed that abstracted from disposable income in taxes, fees, and other charges.*[10]

Governments have the unique ability to issue currency and borrow at low interest rates, which allows them to finance expenditures through mechanisms such as deficit spending and debt issuance. Additionally, governments play a crucial role in stabilizing the economy, particularly during recessions, by increasing spending to stimulate demand and create jobs. Individual households don't have broad responsibilities like this—they only have the narrow responsibility of managing their own affairs.

Therefore, while prudence and responsible fiscal management are important when thinking about how things work at a small-scale, governments do not need to exercise the same level of restraint as families and can employ deficit spending strategically to achieve broader economic goals.

> "The familiar logic of the household analogy has become so embedded into public life that spending proposals that would help tackle some of our most pressing challenges – climate change, the housing crisis, unsustainable household debt – can barely make it out of the door. All too often, such proposals are stopped in their tracks by rival politicians and the media asking where the money is going to come from."
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> Source: Van Lerven and Jackson. "A Government is Not a Household" New Economics Foundation. October 26, 2018.

3. Adding debt while improving Americans' standard of living isn't a bad thing—it is a healthy thing because the U.S. government can afford it.

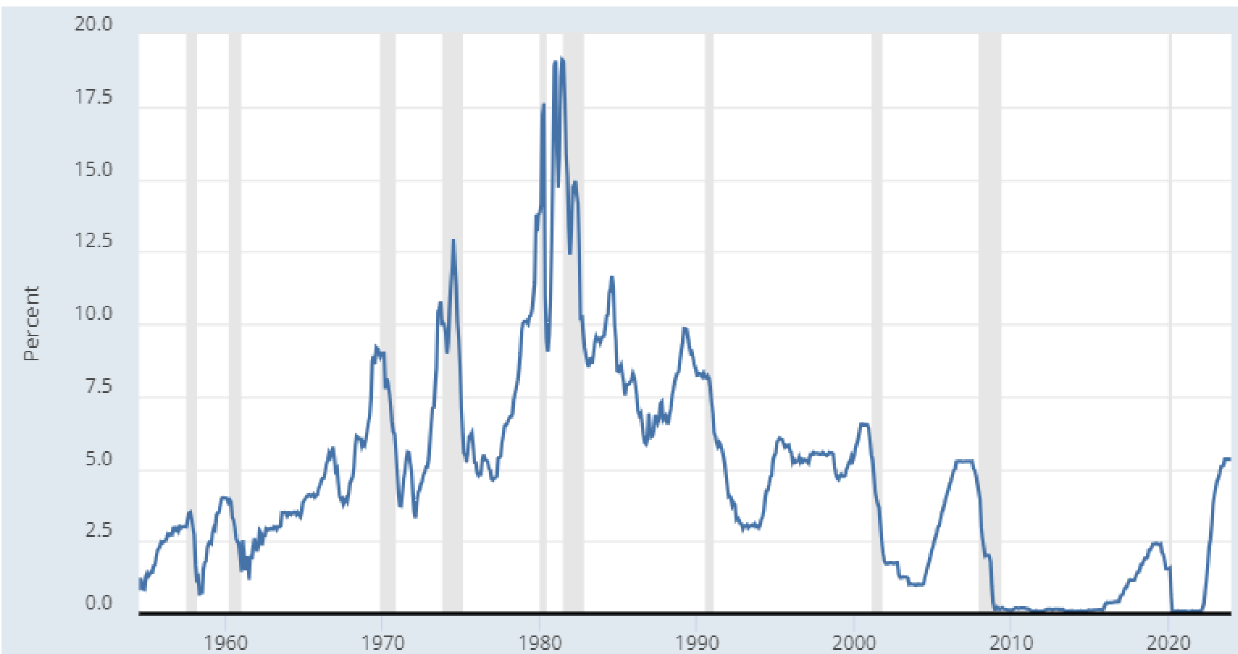
Small-government types are too afraid of government debt. Businesses frequently borrow money to acquire new equipment and build new factories. Individuals borrow money to

[10] Vickrey, William. "Fifteen fatal fallacies of financial fundamentalism: A disquisition on demand-side economics" Proc. Natl. Acad. Sci. Vol. 95, pp. 1340 –1347, February 1998.

purchase large-ticket items such as cars and homes. These uses of debt are generally considered wise—especially at times when interest rates are at historic lows (see Figure 2).

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. Debt enables businesses to stay competitive and increase production. It enables workers to get to work in the morning, and to afford to live close to a good employer.

Figure 2. The Federal Funds Effective Interest Rate (1954 to 2024)



Source: Board of Governors of the Federal Reserve System (US), [Federal Funds Effective Rate [FEDFUNDS]], retrieved from FRED, Federal Reserve Bank of St. Louis, February 12, 2024.

Allowing our government to spend more on such things as social programs and infrastructure can be a good thing, too. 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. In fact, the

International Monetary Fund praises the use of public debt in part because it "smooth[s] the taxes necessary to finance lumpy government expenditures."[11]

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. 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."[12]

Overseas investors still consider the U.S. government to be 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.[13] 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.

4. Dramatically increasing government spending is safe; it won't lead to runaway inflation, as the detractors of spending fear.

People who subscribe to Modern Monetary Theory (MMT) don't ignore inflation, but they approach it from a different perspective than people with more traditional views on economics and fiscal policy. For MMT proponents, inflationary pressures are not an immediate concern in economies operating below full capacity. MMT says that inflation primarily occurs when an economy reaches full employment and production capacity, leading to excess demand that outstrips available supply. Under those circumstances, MMT proponents would manage inflation with taxation and price controls.

> "MMT theorists argue that society should feel capable of spending to achieve its goals to the extent that there are resources available to fulfill them. Deficit spending need not be constrained to recessions, even theoretically. Want to build a road? No problem, so long as you have asphalt and construction workers. Want to feed children free lunches? Also not a problem, so long as you have the food and the cafeteria workers."
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> Source: Smialek, Jeanna. "Is This What Winning Looks Like?" *New York Times*. February 7, 2022.

However, as long as there is unemployment (e.g., people without jobs) and underutilized resources (e.g.,

[11] Ostry, et al. "When Should Public Debt Be Reduced?" International Monetary Fund. June 2015.
[12] Krugman, Paul. "On the Debt Non-Spiral" *New York Times*. September 11, 2018.
[13] Wolverson, Roya. "Is More Fiscal Stimulus Needed?" Council on Foreign Relations. July 14, 2010.

machinery and factories that aren't being fully used), MMT argues that the risk of inflation from increased government spending is minimal. In this context, additional government spending can stimulate demand without causing inflationary pressures, because the additional spending just causes those idle resources to be spurred into action.

Thus, the risk of inflation from increased government spending is minimal compared to the benefits of stimulating economic activity and achieving full employment.

NEGATIVE ARGUMENTS

1. Dramatically higher government spending is not a solution to economic woes. If anything, higher government spending may *create* economic woes where they currently do not exist.

Governments—even if they have sovereign currencies—cannot simply spend without consequences. Modern Monetary Theory (MMT) ignores the real-world constraints of inflation, currency devaluation, and unsustainable debt accumulation. Dramatically increasing government spending without also increasing revenue streams would likely lead to skyrocketing inflation, eroding the purchasing power of American citizens' savings and wages.[14]

> "Who is to blame for the family budget squeeze? The answer is historically high budget deficits. The Federal government borrowed heavily to meet its spending needs in 2020 and 2021, and that borrowing was converted by the banking system into funds that fueled the rise in prices. From June 2020 through October 2023, overall prices grew by 19.7 percent, or nearly one-fifth in just three years. Food prices rose 21 percent and shelter prices increased by 19 percent. The Case-Shiller index, a sensitive metric for new and used home sale prices, increased by 43 percent."
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> Source: Beach, William. "Is Inflation the Result of Excessive Deficit Spending?" Economic Policy Innovation Center, February 9, 2024

Furthermore, excessive spending could undermine confidence in the currency. Foreign buyers won't pay as much for our dollars. The dollar therefore will buy less of foreign goods denominated in other currencies. Much that you buy at, say, Wal-Mart, is imported. The low prices are partially courtesy of the dollar's strength. When the dollar weakens, a common result of high spending by a government, imported goods become more expensive for consumers to buy.

A good example of this is the 1970s, when the dollar lost value after the federal government spent on both "guns" (the Vietnam War") and "butter" (increasing social spending). A strong currency at the time was the Deutsche Mark, the German currency. At the beginning of the 1970s, a dollar bought almost four marks. By the late 1970s, a dollar bought only two marks. That meant that the price of anything from Germany, including, say, a Volkswagen car, rose.[15]

A more dramatic example from the 1970s was oil, whose prices rose when the dollar weakened, causing consumer pain across the economy. To correct the overspending, our Federal Reserve had to raise interest rates, and for more than a decade. The interest rate in the 1980s for homebuyers was so high that many could not afford a house.

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[14] Globerman, Steven. "A Primer on Modern Monetary Theory" The Fraser Institute. 2021.
[15] Germany / U.S. Foreign Exchange Rate. FRED. Accessed February 21, 2024.

The notion of a job guarantee as proposed by MMT sounds nice, but it is impractical and economically unsound. After all, some people who receive a guaranteed job but don't like the job may not perform the work well. Furthermore, it is very difficult, or impossible, for the government to know which jobs the economy needs. Businesses determine this, and jobs that the government creates are unlikely to be the ones actually necessary. Thus, job guarantee efforts are likely to distort labor markets and discourage productivity.[16] In essence, MMT's assertion that governments can spend without limits is nonsense, and embracing such a flawed approach to fiscal policy would ultimately harm Americans rather than benefit them.

MMT is unnecessary. According to data from the U.S. Bureau of Economic Analysis, real gross domestic product (GDP) increased at an annual rate of 3.3 percent in the fourth quarter of 2023, and at over 4 percent in the quarter before that.[17] Those are healthy rates of growth. Now is not the time for the government to increase spending if it means risking inflation and running deficits. 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.

2. The analogy of a family managing its finances prudently by aligning spending with income is accurate and relevant to government fiscal policy.

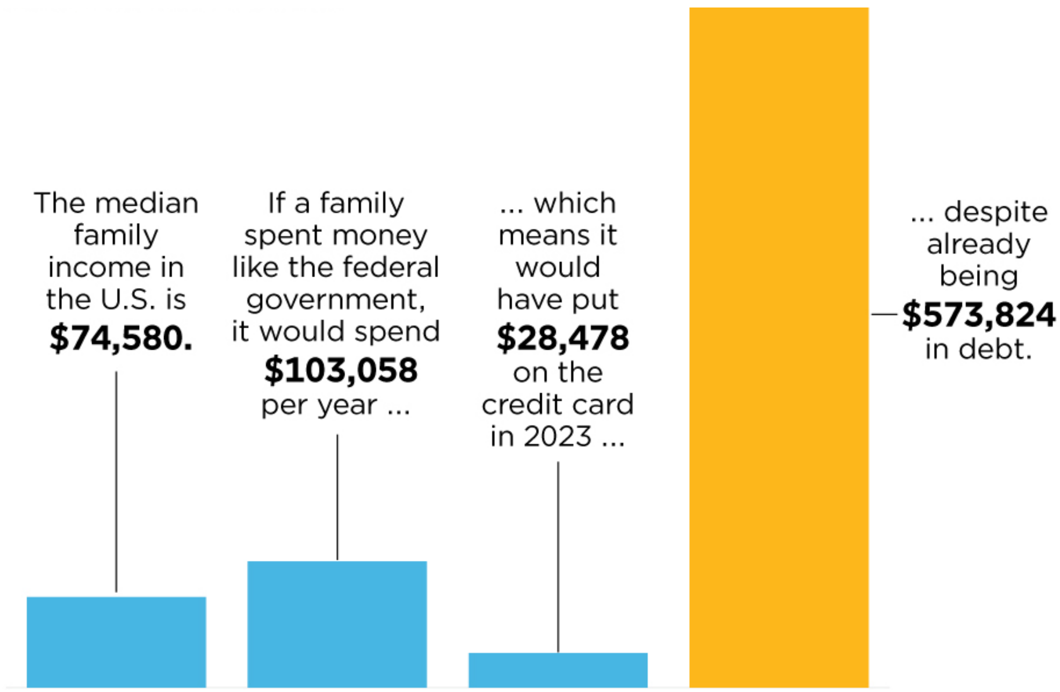
While it's true that governments possess unique abilities such as currency issuance and borrowing, these tools do not negate the basic principles of responsible fiscal management. If a median-income American family earning about $75,000 managed its finances the way the U.S. government does, it would have spent all of its income, and then put an additional $28,000 on a credit card, even though it was already $573,000 in debt (see Figure 3). Any family that were to attempt this would find that before long, lenders wouldn't lend to them anymore, and producers would stop selling goods to them.

Although governments have greater flexibility in managing their finances compared to families, they still have a responsibility to exercise prudence and ensure that expenditures are sustainable in the long run, or else face consequences. Eventually the debt market at home and abroad will charge our government at higher interest rates, just as credit card companies

[16] Sumner and Horan, "How Reliable Is Modern Monetary Theory as a Guide to Policy?" Mercatus Center at Goerge Mason University. March 11, 2019.
[17] "Gross Domestic Product, Fourth Quarter and Year 2023 (Advance Estimate)" U.S. Bureau of Economic Analysis. Accessed February 13, 2024.

charge families with a record of delinquency higher interest rates. Excessive government debt can lead to higher interest payments not just for one year, but for longer periods of time. (See Appendix F for charts showing how higher interest rates would make the interest the federal government must pay on the debt more costly.) Excessive government spending and borrowing crowds out private investment, and burdens future generations with repayment obligations—not to mention gives other countries a reason to start questioning whether they want to keep accepting our currency in exchange for goods.

Figure 3. If the Average U.S. Household Spent Like the U.S. Government



Source: Federal Budget in Pictures. Accessed February 11, 2024. (Data from the Congressional Budget Office)

3. Accumulating 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. According to the Congressional Budget Office, spending on interest for the national debt has risen by more than 35 percent in each of the past two years and is projected to increase again this year to $870 billion in 2024 (3.1 percent of GDP).[18] 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.[19]

> Calvin Coolidge worked hard to ensure that the federal government did not accumulate debt unnecessarily. In fact, he worked to *reduce* the federal debt.
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> "When Warren Harding and Calvin Coolidge began their term as president and vice president in 1921 the debt level was … $23.9 billion. Because of the policies of Presidents Harding and Coolidge, by the time Coolidge left office in 1929 the publicly-held debt of the United States lay at $17.3 billion."
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> Source: Shlaes and Thomas, "Coolidge's Fiscal Triumph" January 30, 2015.

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.[20] 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 the borrowed money needs to be very important for it to be worth it for the government to keep borrowing.

Most importantly, 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.

[18] The Budget and Economic Outlook: 2024 to 2034, Congressional Budget Office. February 2024.
[19] Puentes, Robert. "Why Infrastructure Matters: Rotten Roads, Bum Economy" Brookings Institution. January 20, 2015.
[20] Interest Rates, Discount Rate for the United States. Federal Reserve Economic Data (FRED). June 1, 2017.

4. Dramatically increasing government spending and "paying for it" with MMT tactics will cause rampant inflation.

The federal government ran up over $8.8 trillion in deficits between fiscal years 2020 and 2023—the largest non-wartime deficits the U.S. has ever seen.[21] If government spending worked the way that Modern Monetary Theory (MMT) proponents says that it does, then Americans should feel prosperous. Instead, however, American families are not feeling particularly well off, with news sources reporting that many Americans feel squeezed by higher prices for everything from food and housing to gasoline, clothing, and childcare.[22,23,24]

During the pandemic, it is reasonable to blame some of the increase in prices on the lack of supply of goods and services, given that supply chains were disrupted, factories had been producing less, and finding people to work in service jobs was difficult. However, these conditions were temporary, and production recovered quickly, thanks to competition. Supplies were back to their pre-pandemic levels by late 2020.[25] Contrary to what MMT says, the real cause of the rising prices that are hurting American families is the sudden growth in aggregate spending brought about by the increased government deficit spending.[26]

If printing up money and spending it is such an unproblematic solution, then why didn't anyone think of doing this before? Actually, governments and rulers have tried this at various times throughout history, and were usually met with catastrophic results. As British economist and former Governor of the Bank of England Mervyn King writes:

> *From Roman emperors through Henry VIII and the Weimar Republic to present-day Zimbabwe and Venezuela, rulers have shown all those clever central bankers struggling to get inflation up to their 2 per cent target how to do it. Unfortunately, they didn't stop at 2 per cent but ended up in hyperinflations in which prices doubled in a day — equivalent to annual percentage inflation in the many trillions. Needless to say, in such situations the economy tends to collapse. … To be brutally honest, MMT is neither modern, nor monetary, nor a theory.*[27]

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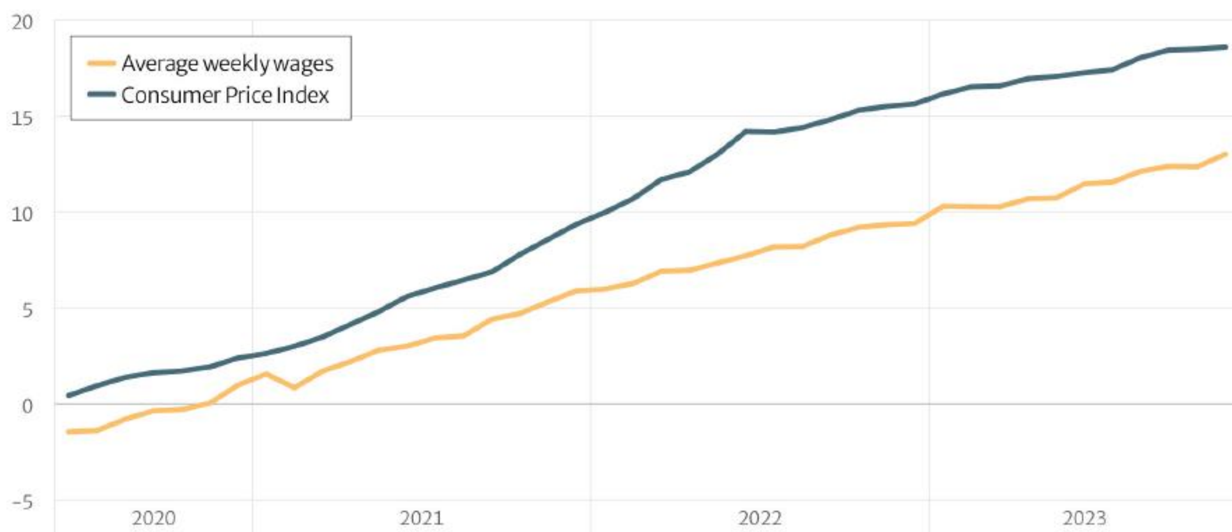
[21] Beach, William. "Is Inflation the Result of Excessive Deficit Spending?" Economic Policy Innovation Center, February 9, 2024.
[22] "High inflation is still squeezing Americans' budgets" *Fox News*. February 14, 2024.
[23] Cassella, Megan. "U.S. Families Were Squeezed Financially in 2022, Fed Survey Shows" *Barron's*. May 22, 2023.
[24] Bove, Tristan. "Middle-income Americans are feeling the biggest squeeze in 2022. Here's how that happened" *Fortune*. July 25, 2022.
[25] Beach, William. "Is Inflation the Result of Excessive Deficit Spending?" Economic Policy Innovation Center, February 9, 2024.
[26] Ibid.
[27] King, Mervyn. "The ideological bankruptcy of modern monetary theory" *The Spectator*. December 19, 2020.

APPENDIX A. Consumer Price Index and Average Weekly Earnings

If the prices you pay for things rise, but your wages also rise at the same rate, then—all else equal—you won't feel like your economic well-being has changed very much. But if prices rise and your wages don't keep pace, then you are gradually going to feel poorer. It will feel as though your paycheck doesn't buy you as much as it used to. Over the past few years, prices and wages have both risen, but prices have risen more quickly than wages. As a result, many households have felt that they have lost purchasing power. The figure below shows the cumulative growth in average weekly wages and the Consumer Price Index (CPI).

Cumulative Percentage Change for the CPI and Average Weekly Earnings

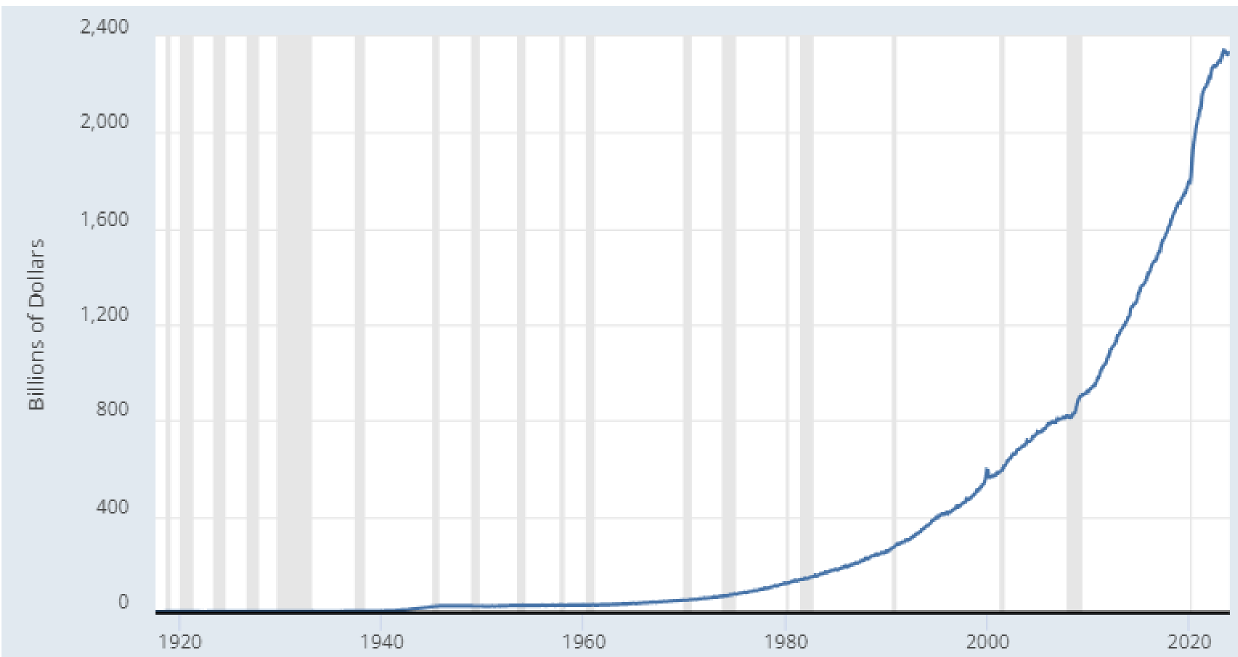


Data Source: U.S. Bureau of Labor Statistics. Source for image: Beach, William. "Is Inflation the Result of Excessive Deficit Spending?" Economic Policy Innovation Center, February 9, 2024.

APPENDIX B: Currency in Circulation

Currently there is about $2.3 trillion dollars of paper currency in circulation, not counting coins.[28] The Federal Reserve Board is the issuing authority of U.S. currency. It is the job of the board to ensure "that there is enough cash in circulation to meet the public's demand domestically and internationally." It is estimated that approximately one-half of the value of U.S. currency is circulating abroad, i.e., outside of the United States and its territories.

Currency in Circulation (in Billions of U.S. Dollars)



Source: Board of Governors of the Federal Reserve System (US), Currency in Circulation [CURRCIR], retrieved from FRED, Federal Reserve Bank of St. Louis, February 9, 2024.

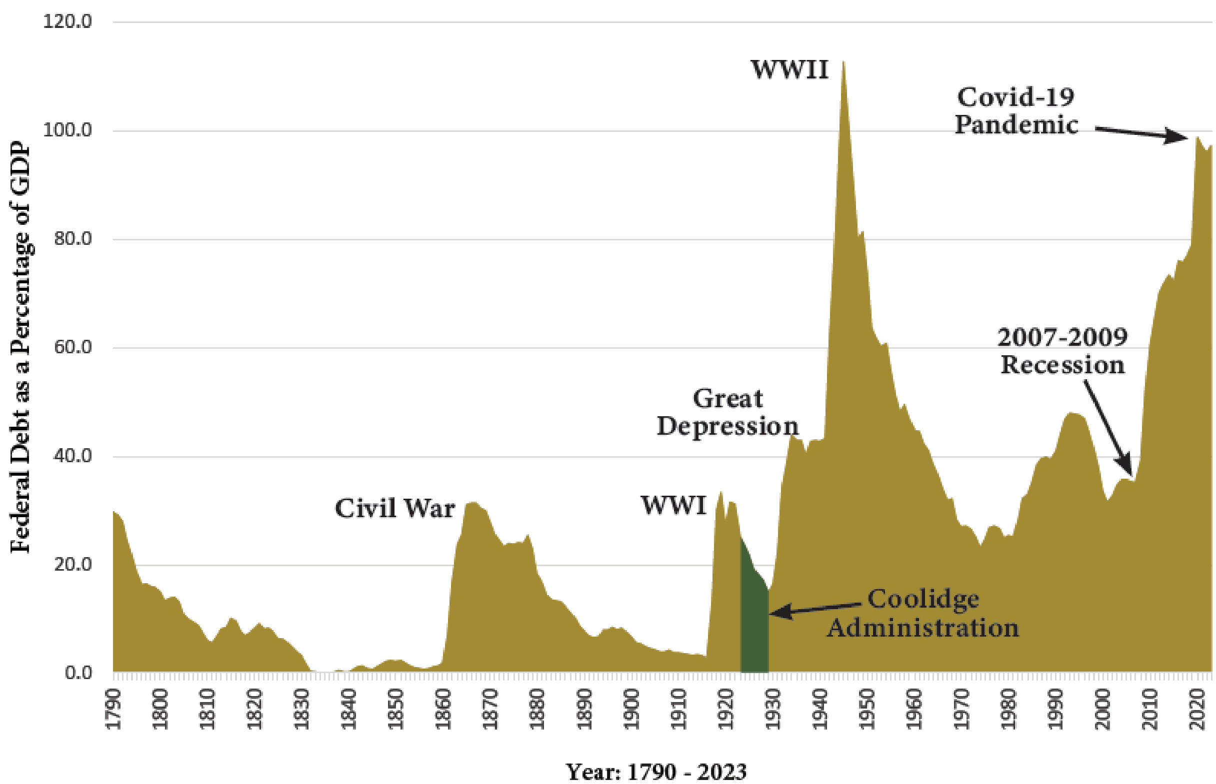
[28] "U.S. Currency in Circulation" U.S. Currency Education Program. Accessed February 8, 2024.

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).

U.S. Federal Debt as a Percentage of GDP: 1790-2023



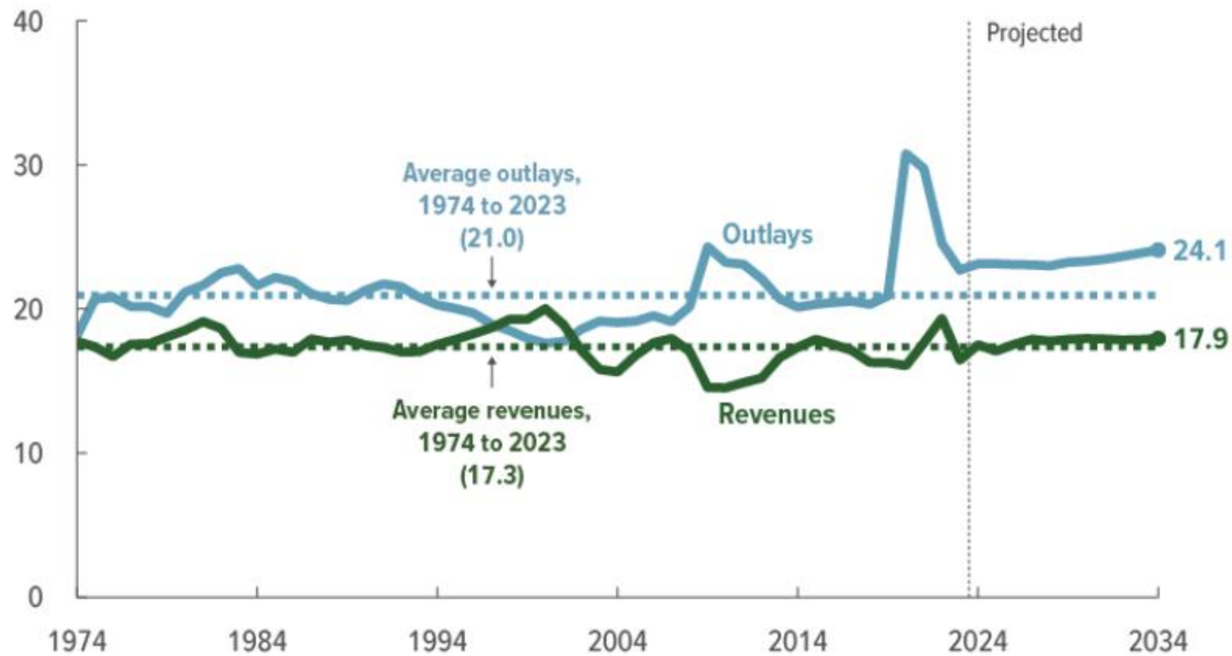
Source: Federal debt data from the Congressional Budget Office.

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.

Total Outlays and Revenues
As a Percentage of Gross Domestic Product

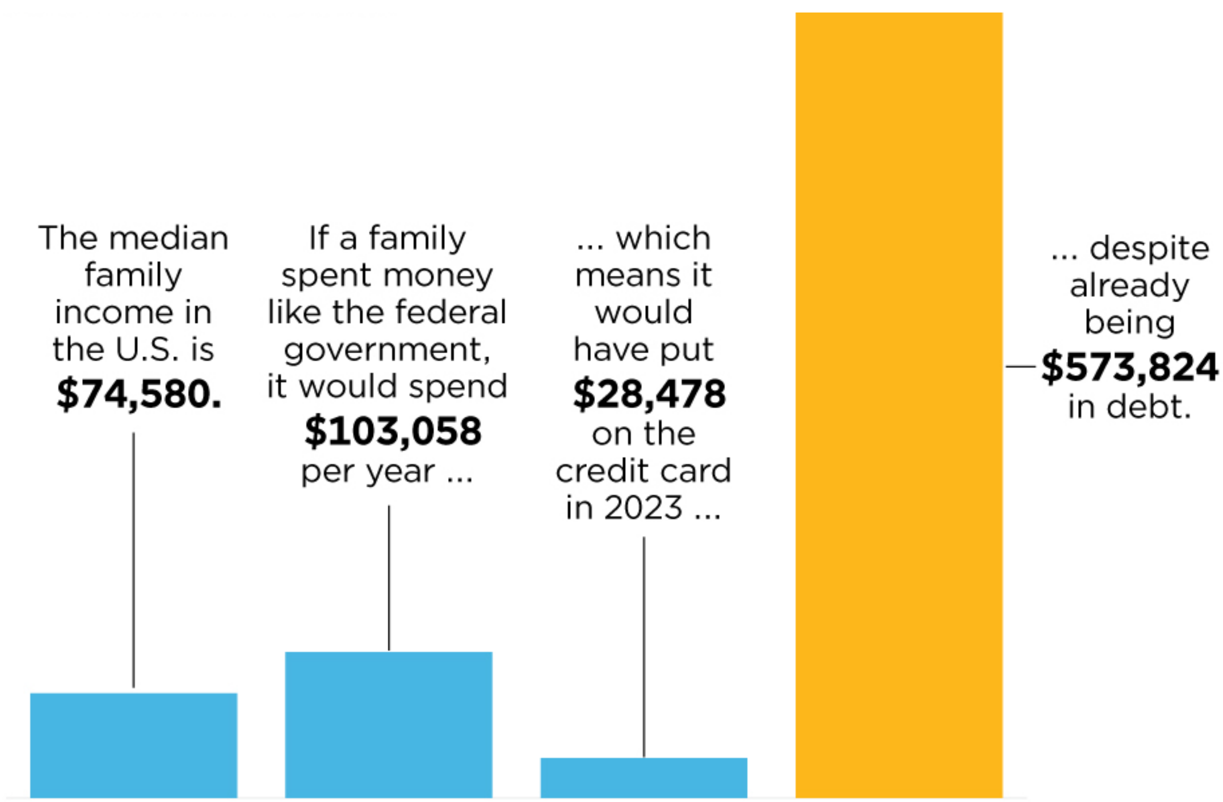


Source: [The Budget and Economic Outlook](). Congressional Budget Office. February 2024.

APPENDIX E: The Household Budget Analogy

One of the important ideas in this debate is whether and to what extent the analogy holds true that the federal government budget is like a family household budget. The graphic below puts some relevant numbers into perspective.

U.S. Budget vs. Family Budget

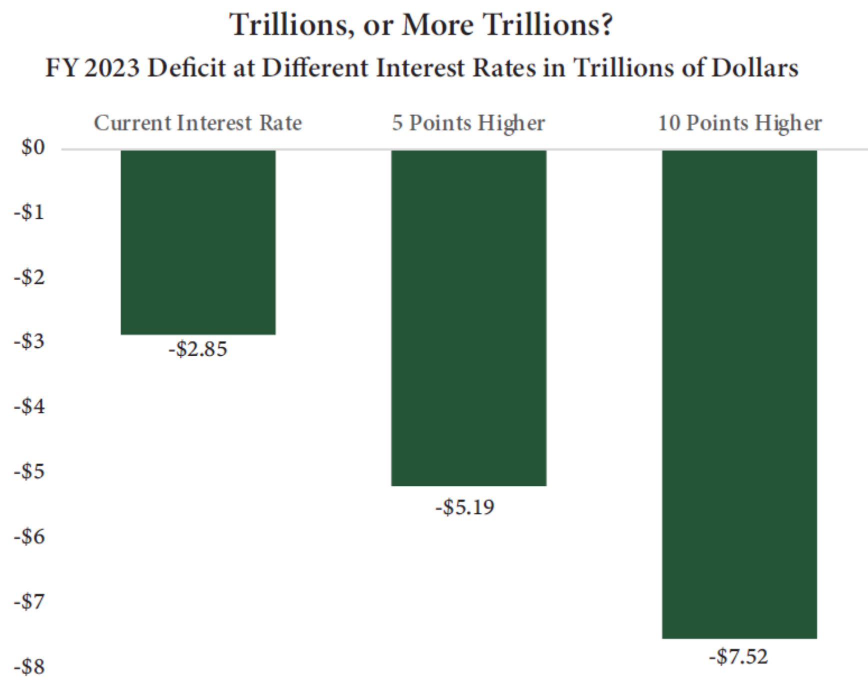


If a median-income American family spent money like the U.S. government, it would have spent all of its earnings, and then put over $28,000 on the credit card in 2023 even though it was already $573,000 in debt.

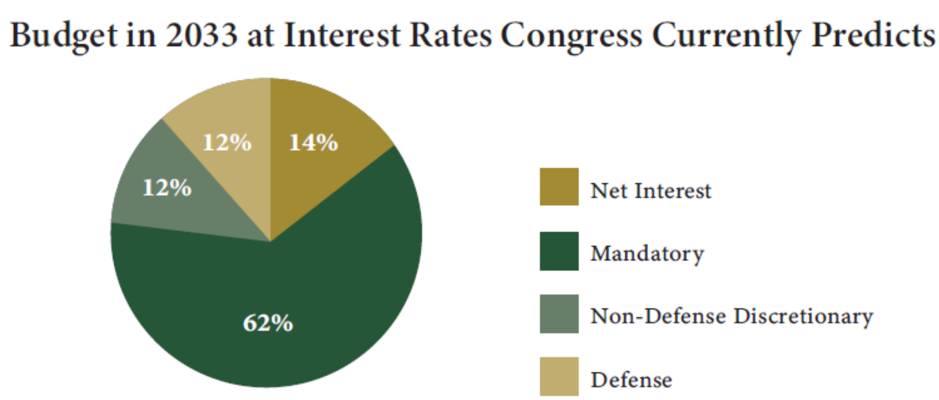
Source: Federal Budget in Pictures. Accessed February 11, 2024.
(Data from the Congressional Budget Office)

APPENDIX F: How Higher Interest Rates Make Government More Costly

The Congressional Budget Office projects average government interest rates of 3.8 percent over the next ten years. Of course, interest rates could go higher. The chart below shows the annual deficit in fiscal year 2033 at different rates of interest.

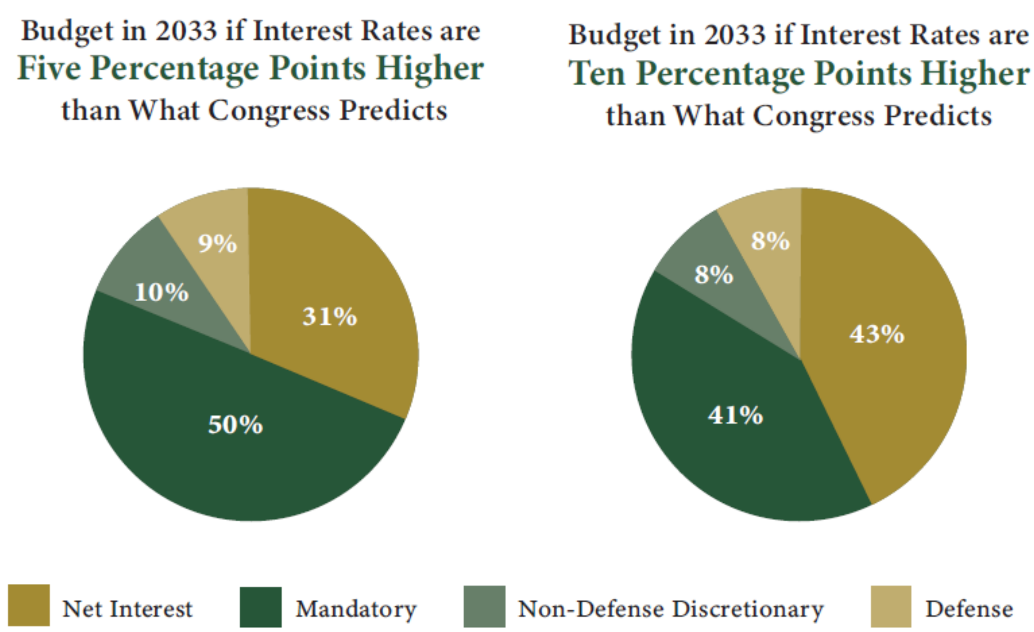


The deficit isn't the only thing that matters. Just like a homeowner who takes out a mortgage, the federal government must pay interest on its debt. As in the case of families, servicing debt can constrain spending in other areas.



Past experience suggests interest rates can go much higher. What if the interest rate in 2033 is 5 percentage points higher, or around 8.8 percent? The ten-year rate reached that level in August of 1987. If that happens, the budget will look like the next pie chart. In this case, interest payments will exceed all discretionary spending, the category that includes not only military spending, but also items such as law enforcement, immigration programs, and housing initiatives.

What if the interest rate in 2033 is ten percentage points higher than predicted, 13.8 percent — around the ten-year rate in spring of 1981? If this occurs, interest outlays will be greater than outlays for defense, education, highways, the rest of discretionary programs, as well as most of Social Security. To look at it another way, in this scenario, net interest payment will be greater than all mandatory spending, the category that includes entitlements.



Source: Congressional Budget Office data and simulation spreadsheets.