

Acton Institute Research: Our Debt Is a Grave Threat to America

If President-elect Donald Trump wants to make America great again, he needs to find a way to reduce the federal debt. Samuel Gregg, in a new article at the Stream, explains why this is so important. There's much at stake if no action is taken to reduce the federal debt:

On Dec. 30, 2016, the United States' official public debt was \$ trillion. It's almost doubled since 2008. It also exceeds the size of America's economy in nominal GDP in 2016 (\$ trillion).

Put another way, America's public debt is approximately 107 percent of nominal GDP. To make matters worse, these numbers don't include state and local government debt or the unfunded liabilities of entitlement programs like Social Security.

The reasons for this rise in public debt aren't hard to grasp. At its most basic level, it reflects a failure of Congress and the Executive Branch to match spending and revenue since 2000. The gap has narrowed over the past five years. Nonetheless, spending continues to exceed revenue. In terms of what's driving federal expenditures, it is social programs such as health care, income security, education and housing. Spending on activities such as national defense has remained static.

So why should we care? What's another trillion here or there?

Americans should worry because there's plenty of evidence that this level of public debt can have grave effects on economic growth.

Once a country's debt/GDP ratio reaches a particular threshold, one consequence appears to be slower economic

growth. Economists argue about the exact threshold at which debt starts to impact growth. Some cite the figure of 85 percent of GDP. Others say 90 percent. Economists also debate how fast high debt negatively impacts growth. Yet there's considerable consensus that, at some point, high debt-to-GDP ratios do have this impact.

Gregg goes on later in his article to explain what should be done about the issue of public debt:

To address these and other problems associated with high public debt, governments have several options.

One is to raise personal and corporate taxes across the board. That, however, makes a country less competitive. That in turn has negative consequences for growth.

Another option is to cut expenditures in real terms. Here, however, we face a major problem.

A growing majority of federal government spending is now mandated and funded by what are called "permanent appropriations." This is spending based on existing laws rather than the budget process. That includes "big league" programs like Social Security and Medicare. To get federal expenditures under control in these areas, Congress would have to change existing laws.

To conclude his article, Gregg explains the significance of reducing the federal debt:

Excessive public debt is one of those long-term problems that undermine a country's well-being and which democratically elected governments have few political incentives to address. It's politically easier to punt the problem to future generations.

Any serious effort to make America great again, however, requires a willingness to sell hard choices to the American

public. That's the essence of leadership, which is what Donald Trump has promised. And when it comes to public debt, it's just what we need.

You can read Gregg's full article at The Stream [here](#).
{eoa}This article was originally published at . Used with permission.