NEED TO KNOW

AMERICANS FOR PROSPERITY FOUNDATION

NATIONAL DEBT

THE GROWTH OF THE U.S. DEBT

The United States has always had a national debt. Immediately after the revolutionary war, the national debt rested at around $75 million. In 1835, under President Andrew Jackson, the United States completely paid off its debt for one year, but it quickly returned in the following year. Nevertheless, most of the elected leaders of the United States throughout the 19th century believed that paying off the national debt was a top priority of the U.S. government. Throughout the 20th century, US politicians gave up their anti-debt mindset. In its place, they developed a comfort with growing national debt. As a result, they passed more and more deficit budgets (which spent more than they collected in tax revenue). In 1940, the national debt totaled $43 billion. In 1980, it totaled $908 billion. In March of 2014, it surpassed $17.5 trillion and as of June 2016, national debt has surpassed $19.3 trillion. (1).

Social Security is funded primarily with payroll taxes, the Federal Insurance Contributions Act (FICA) taxes coming out of every worker's paycheck. The current rate is 12.4 percent, with 6.2 percent paid by the employer and 6.2 percent paid by the employee. Collected FICA taxes from current worker's pay for the benefits of current retirees and disabled individuals – any leftovers are put into the OASDI Trust Fund.

QUICK FACTS

- The national debt has grown at a steady rate since 1980, regardless of which party controlled the White House and Congress.
- As of March 2014, the total amount of U.S. debt surpassed $17.5 trillion and is projected to equal 74 percent of GDP by the end of the year (5).

NOTABLE & QUOTABLE

"We are spending ourselves into oblivion. Our deficit, as a percentage of gross national product, is greater than at any time in history. We are bankrupting our country, and politicians don't get it."

\- **Sen. Rand Paul** (R-KY)

WHY DEBT HURTS THE ECONOMY

Several studies have found a strong correlation between high public debt and declining economic growth. One in particular found that countries who hold public debt worth 90% or more of their total GDP saw a roughly 4% average decline in economic growth. Why is this so?

One of the most significant ways in which government debt hurts the economy is that is sacrifices the financial well-being of future generations. Allowing Congress to overburden citizens with debt in the present means that the next generation will have to come to grips with paying off trillions of dollars of debts. Instead of putting their money into projects that grow the economy (job creation, investments, and savings) future taxpaying adults face the risk of higher tax rates, higher inflation, and a severe brake on economic growth.

Furthermore, massive debt is a symptom of government waste and unsound economic policies. Between 2009 and 2014, the federal government ran trillion-dollar deficits each year. During that time, the government has paid $431 billion to protect otherwise failing financial institutions, authorized an $831 billion stimulus package, and continued to fund numerous wasteful and duplicative programs. These measures have taken resources out of a struggling economy and funneled them toward programs that give far less returns on the taxpayer's dollars than what free market investments would provide with those same dollars.

Tied to this fact is the reality that, as government debt increases, so does the amount of interest that it has to pay on the debt. In 2024, the amount of interest that the government will have to pay on its debt is projected to be over $1 trillion for just that year alone. Meanwhile, Social Security and Medicare are rapidly approaching insolvency. Simply put, the government cannot mathematically keep up its current path without eventually leading the country to default or excessively high taxation. Either way, excessive public debt sacrifices long-term growth.

CONCLUSION

Ultimately, debt is driven by an unhealthy addiction to spending. Tax increases have been suggested as a solution to reducing the national debt, but such proposals would just hurt an already weak economy. In the end, spending cuts and responsible budgeting are the only pro-growth solutions to America's massive debt crisis. In the end, America is deeply in debt because politicians spend too much, not because families and businesses are taxed too little.

Endnotes:

2. Carmen M. Reinhart and Kenneth S. Rogoff, Growth in a Time of Debt (January 7, 2012) (online at http://www.economics.harvard.edu/files/faculty/51_Growth_in_Time_Debt.pdf).
3. U.S. Government Accountability Office, Opportunities to Reduce Duplication, Overlap and Fragmentation (February 28, 2012) (online at http://gao.gov/products/GAO-12-342SP).
4. Congressional Budget Office, The Budget and Economic Outlook: 2014 to 2024 (February 2014).

Americans for Prosperity Foundation's "Need to Know" informational series explores current events and recent scholarship on public policy isues from a free-market economics perspective. A full list of "Need to Know" briefings is available at www.AmericansForProsperityFoundation.org/NeetToKnow.