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RESEARCH SUMMARY

High Debt Levels, Low Growth Rates: Not Just a Problem for the Future but a Problem Now

High debt levels will have serious consequences for the future of the US economy. However, the country's current debt is not just a looming problem—it is hurting the economy now. This is the case made by Thomas Grennes, Michael Fan, and Mehmet Caner in "New Evidence on Debt as an Obstacle to US Economic Growth." Debt levels are already reducing the rate of growth by more than 1 percentage point a year and, absent major fiscal reform, will continue to do so.

Past increases in US government debt have generally occurred during times of war and have subsequently reverted back to prewar levels. Since 1968, however, debt relative to the size of the economy has increased continuously. In 2017, for example, US debt amounted to 105 percent of GDP.

This study addresses the following issues related to US debt levels:

- *How debt is currently hurting the economy*. Growing empirical evidence shows that US government debt has now become so large that it is having a significant negative effect on economic growth. This debt has been reducing annual growth since 2008.
- *Why slow growth, not default, is today's debt-related problem*. The defenders of big debt identify the danger of default as the problem and correctly argue that such danger is not imminent. Defaults are associated with interest rate increases that are high relative to historical averages or to other countries. However, US interest rates are not increasing in this manner, and there is no evidence that the country is expected to default. Slower growth is the immediate problem, one that the defenders of debt have ignored.
- *What is needed to address the debt*. Americans have acquired a habit of wanting government spending that they are unwilling to pay for through taxation. The country's current chaotic fiscal policy is producing government debt that continues to rise without limit. It is time to recognize the costs of the current approach and consider some form of fiscal rule that would limit the debt.

KEY TAKEAWAY: AMERICANS ARE *ALREADY* BEING HARMED BY HIGH LEVELS OF DEBT

The current US business expansion began at the end of the Great Recession—but because of the debt problem, the growth rate has been significantly stunted during the past decade. Recognizing and eliminating the debt problem provides a rare opportunity to raise the standard of living for average Americans. It is also an important opportunity for bipartisanship. Both political parties have contributed to today's debt problem, and both parties can help drive reform.