→ Mark your confusion.
→ Purposefully annotate the article (1-2 mature, thoughtful responses per page to what the author is saying)
→ Write a 250+ word response to the article.
(If you are a teacher or student who would like to modify this Google Doc, go to File > Make a Copy. I cannot and do not respond to Share requests -- my apologies!)

Will the US Debt Ever Be Paid Off? - *An Overlooked Way to Reduce the U.S. Debt While Boosting Growth*

By Kimberly Amadeo for *The Balance*, 6-17-19

The U.S. debt is more than $22 trillion. It's by far the largest in the world. It has increased by $1 trillion each year since 2007.

The debt grew despite Congressional threats to not raise the debt ceiling. In 2011, the U.S. debt crisis almost forced America to default on its debt. In 2012, the fiscal cliff crisis almost stopped the government in its tracks. In 2013, the government shut down for 15 days. Since these attempts didn't work, what can and should be done?

Four Ways the United States Can Pay Off Its Debt

There are four ways to decrease the debt. The first is to cut spending. Sequestration tried to force the government to cut discretionary spending by 10%. No one in Congress thought it was a good idea. Members adopted it to force themselves to come up with something better. The Simpson-Bowles report recommended many good ways to cut the debt. But Congress ignored it. Even with sequestration, the debt continued to grow. To truly cut the debt, Congress would have to cut spending so severely that it would slow economic growth.

Government spending is a component of gross domestic product.

The second is to raise taxes. That could also slow growth. That's especially true if the tax rate is more than 50%, according to the Laffer Curve. If Congress raises the tax rate beyond that level, then the additional revenue generated will be lower than before. That tax rate is enough to curb incentives to grow businesses and income.

The third is to drive economic growth at a faster rate than the debt. The means decreasing the debt-to-GDP ratio by increasing GDP. But Congress disagrees on how to grow the economy. Most Democrats say increased spending works the best. Most Republicans say lower taxes will boost growth the most. Both tactics will definitely increase the debt, possibly more than GDP.

There is a fourth solution that's rarely discussed. Congress should shift spending to areas that create the most jobs.

Research shows that spending on bridges, roads, and public buildings creates the most jobs per buck. The next best is education spending. Almost 25% of government spending goes to the military. Contrary to popular opinion, that's not the economy-booster it was in World War II. One reason that it spends more on technology and equipment than in the 1940s. To reduce the debt, the government should shift spending from defense to public infrastructure and education. This is one of the four best real-world ways to create jobs.

Why the United States Hasn't Gotten Out of Debt

It's unlikely America will ever pay off its national debt. It doesn't need to while creditors remain confident they will be repaid.

Most creditors don't worry until the sovereign debt is more than 77% of GDP, according to the World Bank. In the first quarter of 2019, the U.S. debt-to-GDP ratio was 105%. That's the $22.028 trillion U.S. debt as of March 31, 2019, divided by the $21.06 trillion nominal GDP.

Around $16 trillion of this debt is public debt. That's what the government owes to investors. It also consists of debt the government owes to itself. That's mostly the Social Security Trust Fund. The government will need to pay this one day, as Baby Boomers retire. Creditors aren't worried about this component of the debt yet.

Since the debt has gone beyond the tipping point, why won't the U.S. government do more to reduce the debt? There are three reasons why that probably won't happen.

First, the U.S. economy has historically outpaced its debt. For example, the U.S. debt at the end of World War II was $260 billion. That was 14% more than GDP. But the economy grew beyond that in just three years. By 1960, it was double. Congress believes that today's debt will be dwarfed by tomorrow's economic growth.

Second, Congress has a lot to lose by cutting spending. For example, if elected officials cut Social Security or Medicare benefits, they will lose their next election.

Third, that can also happen if they raise taxes. A tax increase cost President George H.W. Bush his second term. Voters remembered he had said, “Read my lips. No new taxes.” He did raise taxes in 1990 to cut $500 billion from the deficit over the following five years. You will notice most elected officials only want to raise taxes or cut spending on their opponents’ constituents.

Note: Most people assume the only way the United States will reduce its debt is if the American people are ready to tighten their belts and accept austerity measures. The most painless time to do so is when the economy is expanding.

That’s when GDP growth rates are greater than 3% and unemployment is less than 5%. In fact, that's the BEST time to cut the debt. It will prevent a boom and subsequent bust.

Booms and busts result from business cycle stages. These are the four phases a nation’s economy goes through. Economic expansion is part of this cycle. Its emergence and those of the other phases in the business cycle are dependent on many factors. Such factors include the effects of monetary and fiscal policies.

The U.S. debt exceeded $22 trillion in February 2019. Congress has set the debt limit to be whatever the debt is on March 1, 2019. The U.S. Treasury estimates the debt will exceed that limit in September 2019. That could lead to a repeat of the 2011 and 2013 debt crises that Congress would not like to repeat.

Response option(s):

- Which of the author’s recommendations for paying off the national debt would you recommend? Why?
- According to the author, why won’t the U.S. government do more to reduce the national debt? Do you agree with this reasoning?
- Pick any passage and respond to it.