

THE ISSUE:

Over the past 30 years, the United States national debt has grown from 50 percent to 100 percent of gross domestic product (GDP). In recent months, the size of the national debt has surpassed the size of annual GDP. The federal budget deficit reached over 10 percent of GDP in 2009 and remained close to nine percent in 2010 and 2011. These percentages are the highest they have been since World War II. Nonetheless, the problems of the debt and deficit are issues over which experts disagree. Paul Krugman, writing in *The New York Times* on January 1, 2012, argues that, "while debt can be a problem, the way our politicians and pundits think about debt is all wrong, and exaggerates the problem's size." Gerald Seib, writing in *The Wall Street Journal* on March 8, 2011, argues that the interest payment on the debt alone is like a "cancer eating away at the budget from within, one that steadily drains American wealth..."

THE PROBLEM:

Congressmen (as well as average Americans) need to understand the long run and short run effects of the growing national debt and federal budget deficits.

YOUR TEAM'S TASK:

Your group is a non-partisan advisory team that is meeting today to discuss the information you want to provide to congressional workers about the burdens of the growing national debt. Your team has been chosen because of your expertise in economics issues and in the economic way of thinking.

The congressional workers you are advising are seeking information that will help them to understand reports about how serious the national debt and deficits are for the economy. While they understand that the topic is controversial and that there are no definitive answers, they are interested in hearing your analysis of several issues, including whether the government has to pay off the debt to avoid being bankrupt, the potential interest rate burden of the debt, the potential burden on future generations, and the potential foreign-held burden. They are also concerned about the impact that austerity¹ measures resulting from reducing deficits might have on the economy. Point out any differences you see between short-run and long-run effects.

¹ Austerity means "enforced or extreme economy"