Resource 4 (1 of 3)

Balancing the Budget in the Long Term

Cartoon: “Big Government”

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Resource 4 (2 of 3)

Balancing the Budget in the Long Term

Perspectives on Balancing the Budget and Debt in the Long Term

Perspective 1

This perspective offers a point of view and supporting evidence related to investments. These investments are relevant to the discussion of balancing the budget and debt in the long term because they are *public* investments, and thus are funded through debt. (Note that "the president's budget" refers to proposals by President Barack Obama.)

> Economists agree that the key to creating good jobs and a strong economy is investments—particularly investments in infrastructure, research innovation, and worker productivity. . . .
>
> **Transportation and infrastructure**
>
> Investments in high-productivity infrastructure create lower costs for American businesses, stimulate manufacturing innovation and the jobs that go along with it, and will ease the billions of dollars in wasted time and gas due to congestion. . . .
>
> **Science, research, and technology**
>
> The president's budget invests in the science and research that will encourage the United States to develop and deploy renewable energy technologies, health and life sciences, and spawn entirely new industries and jobs that today don't even exist. It boosts funding for the National Science Foundation by 13 percent, the National Institute of Standards and Technology by 15 percent, the Department of Energy's Office of Science by 10 percent, and funding for science and technology research at the Department of Homeland Security by 18 percent. . . .
>
> **Job skills and worker productivity**
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> Ensuring our workforce has the necessary technical skills is critical to securing middle-class jobs and promoting the competitiveness and productivity of the U.S. economy. . . .
>
> **Competitiveness and innovation**
>
> The president's budget invests in the global competitiveness of the U.S. economy by supporting agencies that promote export market growth and business development—especially for small businesses. His budget includes a 16 percent boost for the International Trade Administration, an additional 11 percent for the Economic Development Administration, and an increase of $35 million for the Small Business Administration. . . .
>
> **Education**
>
> Decades of economics research show that education investment is a leading factor in long-run economic growth. The president's budget expands investments in educating the workforce of the future by more than $800 million. . . .

Source: Hersh, A., & Ayres, S. (2011, February 25). RELEASE: Cuts vs. investments: Comparing budget plans and their impact on the U.S. economy. Retrieved from https://www.americanprogress.org/press/release/2011/02/25/15073/release-cuts-vs-investments-comparing-budget-plans-and-their-impact-on-the-u-s-economy/

Resource 4 (3 of 3)

Balancing the Budget in the Long Term

Perspective 2

In theory, debt financing of public spending could make a positive contribution to productive investment and ultimately to economic growth. Debt could also be a mechanism for accelerating the economy in times of recession (like fiscal stimulus, discussed in Day 1 of this lesson) or even long-term growth policies such as marginal tax rate reductions. On the other hand, high levels of public debt may have numerous negative impacts such as raising interest rates, crowding out private investment, and limiting the flexibility of government to respond to future economic or national security crises. Mounting public debt, particularly debt that merely boosts government consumption or transfer payments, is likely to undermine overall productivity growth and ultimately lead to economic stagnation rather than growth.

> . . .
>
> Lost in the shuffle may be the most important question of all: Will the government action being contemplated truly improve the economic situation? If it does, tax revenues are likely to recover along with gross domestic product (GDP), and debt is less likely to accumulate. On the other hand, if the government action fails to boost recovery (or even makes it worse), tax revenues will be stagnant or will fall, and debt will inevitably rise. The permanent increase in the ratio of public debt to GDP in such circumstance is *prima facie* evidence of policy failure. The high levels of public debt accrued in many countries thus reflect years of bad public financial management and the cumulative impact of poor policy choices. Such poor policy choices are highly likely to have restrained economic freedom as well.
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> . . .
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> One pioneering study by Carmen Reinhart and Ken Rogoff looked at 44 advanced and emerging countries with data spanning about 200 years. Reinhart and Rogoff found little relationship between overall government debt and real GDP growth for debt-to-GDP ratios below 90 percent of GDP. Above that debt level, however, they found that median growth rates fell by 1 percent and that average growth fell even more. They also looked at the impact of debt on inflation and found no apparent link between debt levels and inflation for advanced countries as a group but sharp rises in inflation for emerging markets as their debt increases.[1]
>
> **Source:** Miller, T., & Foster, J. (2012). Public debt, economic freedom, and growth. Retrieved from https://thf_media.s3.amazonaws.com/index/pdf/2012/chapter3.pdf

1. A controversy has arisen around the research supporting the claims by Professors Reinhart and Rogoff. Please see http://teachufr.org/robertshand/we-made-a-mistake/ for further information about this resource and the research supporting it.