

# National Debt 101 Toolkit

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2020-2021

# Introduction

Everything you need to know about the national debt, how it affects our generation, and what we can do to support a more fiscally sound future.

To many young Americans, the national debt may seem like an abstract concern. In an era of uncertain job market prospects and political polarization, the country's national debt is consistently placed on the back burner by our political leaders on both sides of the aisle. But our generation actually has the most at stake when it comes to policy decisions made today about our country's fiscal and economic future, and it's up to us to come together and speak up.

Through Up to Us, we can get loud and get heard about how this issue affects us and what our generation can do to raise awareness of America's fiscal and economic challenges.



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## Why should I care?

If we fail to address our national debt, the federal government will have a much harder time investing in priorities that drive economic growth like education, research and development, and infrastructure.

In 2020, America's national debt has quickly grown from \$23 trillion to \$26 trillion—and rising—primarily due to the federal government's emergency response to Covid-19. More specifically, this sharp increase is the result of critical fiscal policy support aimed at reducing damage to the U.S. economy and its population in the wake of the pandemic. While such substantial action has been required for the safety and stability of our country, it has also spurred a \$3.6 trillion rise in national debt to-date, surpassing the \$1.1 trillion deficit predicted pre-Covid.

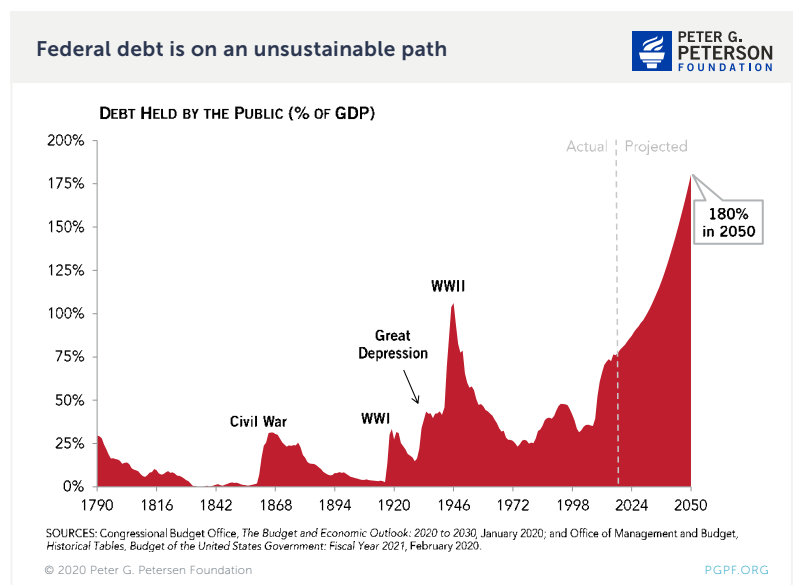
The Congressional Budget Office projects that if current laws are maintained, the national debt will climb significantly over the next ten years, reaching a record 120% of GDP by 2030. While our current fiscal outlook should not impede our ability to respond to the current public health crisis, elected officials must also address how the recent unprecedented accumulation of debt and deficits threatens opportunity, incomes, economic mobility, and quality of life for our generation. It is essential that we take part in raising awareness for the important role that fiscally sound policies play in reducing suffering—especially among vulnerable populations—and creating a strong, long-term economic foundation.

In the few years prior to COVID-19, the federal government had chosen to take on debt to fund tax and spending legislation. Those decisions to worsen the structural imbalance of government spending and revenue has grown the national debt and left the country with fewer resources on hand to invest in the future or prepare for an emergency.

Once we have overcome COVID-19, our country will need to focus on creating a stronger and more sustainable economy—the economy that WE will inherit. After all, today's students will be tomorrow's workers, major taxpayers, and eventually, retirees. We will be on the hook for higher tax burdens to fund the government and repay its debt plus interest. And if part of a solution to manage the debt involves reducing Social Security or other safety net programs, we and future generations may be forced to pay more while receiving less.

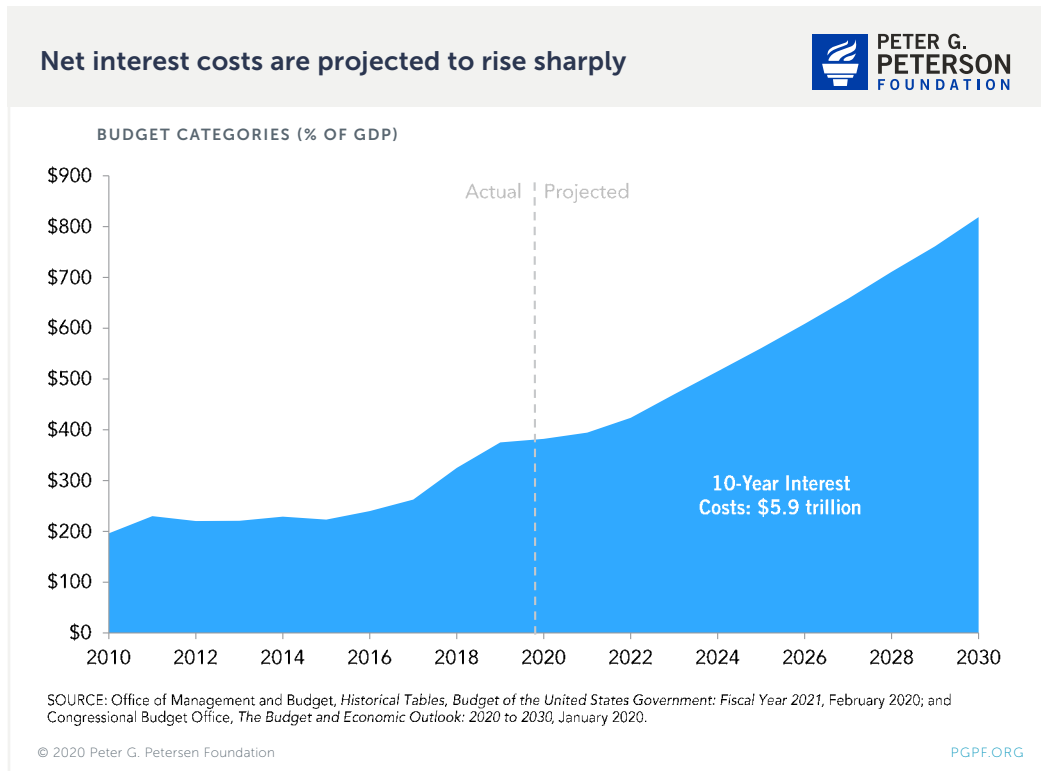
## Federal debt is on an unsustainable path

As you can see in the graph, in 30 years, the national debt is set to reach 180% of GDP, far surpassing any previous historical highs.



## Interest costs on the national debt are growing

Interest costs are projected to become the largest category of the budget by 2049



We are paying interest on the national debt every day, including right now. These mandatory interest payments currently average more than \$1 billion per day.

Over the next 10 years, interest on the debt is projected to total nearly \$6 trillion – that's money that won't be invested in climate change, education, or infrastructure.

*\*Interest is a sum charged for the use of borrowing money. When the federal government borrows money to finance its deficits, it is legally obligated to make regular interest payments on those debts.*

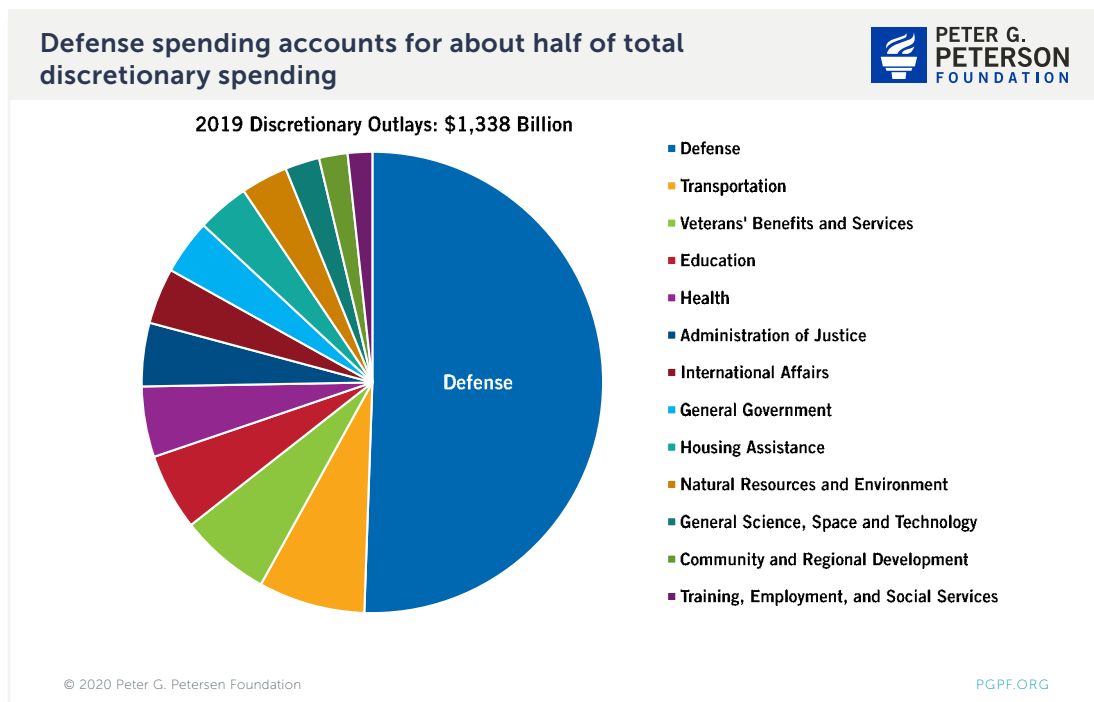




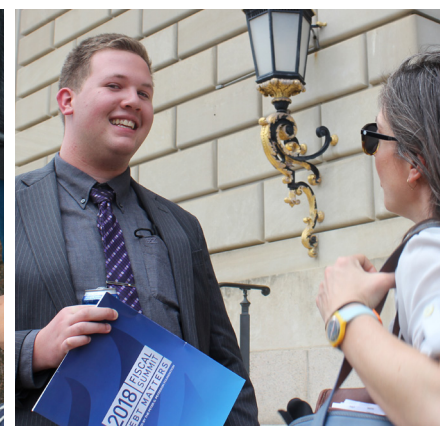
## Discretionary Spending funds a wide range of programs

The federal budget funds a wide range of government programs and is made up of three major categories: **mandatory spending**, **discretionary spending** and **interest on the debt**.

As we learned in the last graph, interest costs on the national debt are rising. As these interest costs rise, there is less money to fund other parts of the budget, including important discretionary programs such as the ones outlined below.



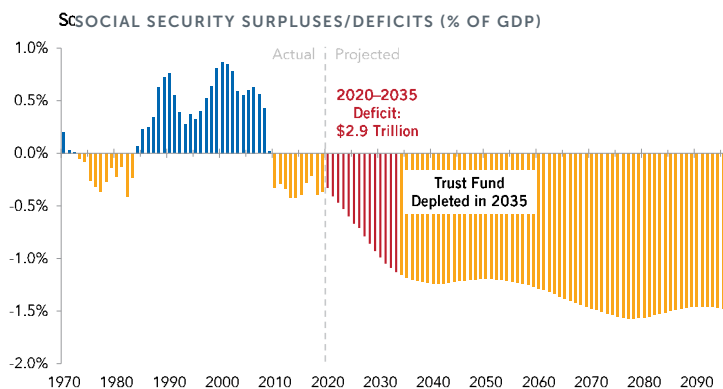
As our mandatory expenses and interest costs grow, the federal government has less money to invest in discretionary programs like education, technology and the environment.



## Social Security will run a cumulative cash deficit of 2.9 trillion

Mandatory spending, which includes Social Security and other major healthcare programs like Medicare and Medicaid, is at risk as well. The combined Social Security trust funds are projected to be fully depleted by 2035—just 15 years from now. Moreover, the CBO reports that 81% of low-income seniors rely on their Social Security benefits for a major share of their retirement income.

### Social Security will run a cumulative cash deficit of 2.9 trillion between now and 2035



SOURCE: Social Security Administration, The 2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, April 2020.

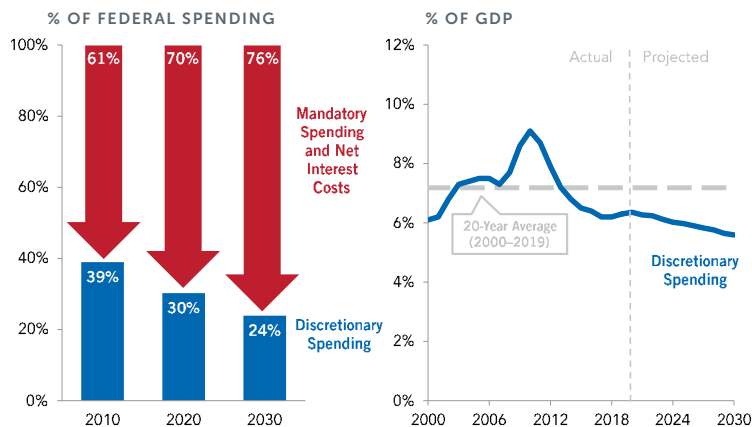
NOTES: Surplus/deficit numbers exclude interest income. The total deficit of \$2.9 trillion is the present value of the cash deficits between 2020 and 2034. The Old-Age & Survivors Insurance trust fund is projected to be depleted in 2034 and lead to a 24 percent cut in benefits that year; the Disability Insurance trust fund is projected to be depleted in 2065 at which time benefits would be reduced by 8 percent.

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As our Mandatory Spending grows, downward pressure is applied to discretionary spending programs, resulting in all time low historical averages, as pictured below.

### Discretionary Spending is projected to remain below its historical averages



SOURCE: Office of Management and Budget, Historical Tables, Budget of the United States Government: Fiscal Year 2021, February 2020; and Congressional Budget Office, The Budget and Economic Outlook: 2020 to 2030, January 2020.

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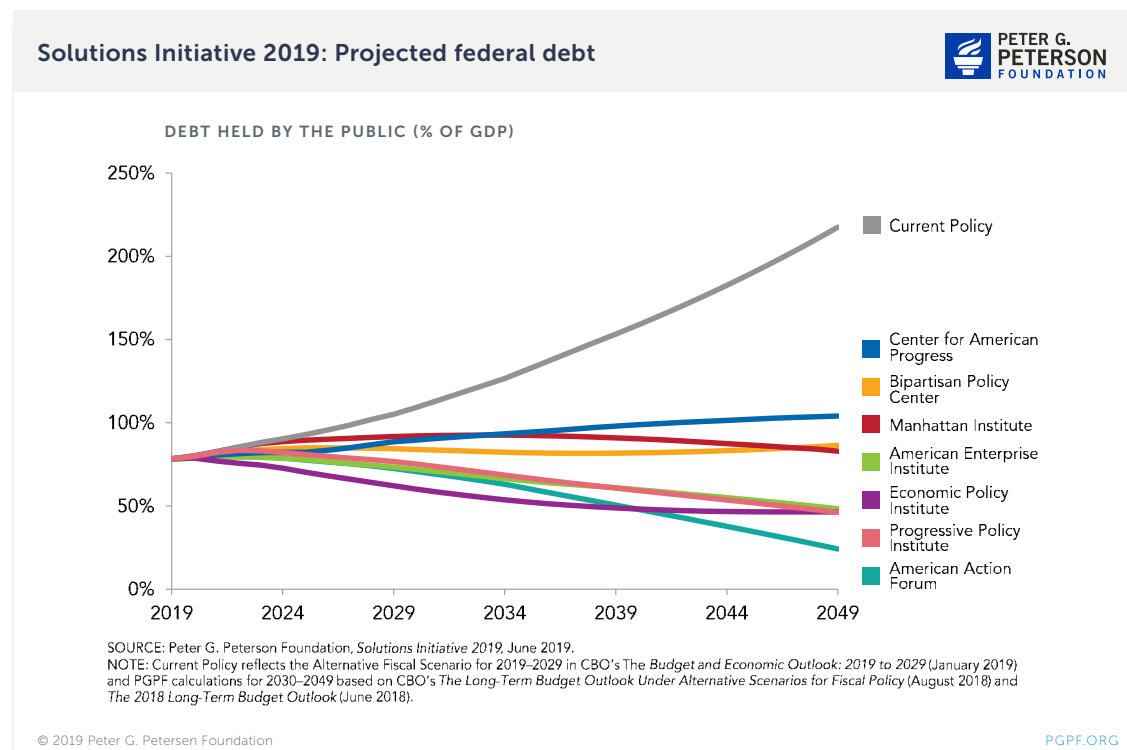
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## What can we do?

Solutions do exist: The national debt can be a politically divisive issue, so coming up with solutions means thinking outside the box.

Most solutions are fiscal solutions, and they tend to fall into two categories: increasing revenue or decreasing spending. The answer lies with bipartisan solutions that require a combination of both revenue increases and spending cuts.

Shortly before the pandemic, the Peter G. Peterson Foundation asked experts from seven leading think tanks—across the ideological spectrum—to develop specific policy proposals to set the federal budget on a sustainable, long-term path for prosperity and economic growth. You can see that all seven organizations came up with plans to simultaneously stabilize the debt and invest in national priorities.



As a non-partisan campaign, Up to Us is committed to exploring solutions that involve collaboration and that people from all parts of the political spectrum can come together around.

## Key definitions

To understand the debt more thoroughly, below are some key definitions to know!

### Deficit

The amount by which spending exceeds revenues over a given period (usually a 12-month fiscal year).

The opposite is a surplus.

### Debt-to-GDP Ratio

The size of a country's government debt expressed as a percentage of the size of its economy is known as the gross domestic product or GDP.

Debt-to-GDP ratio is a helpful indicator for comparing debt between countries and across time. A country with a high debt-to-GDP ratio may be at higher risk of numerous economic challenges.

### Debt

The amount of accumulated deficits minus accumulated surpluses at a given point in time. The majority of the government's debt is financed by borrowing from outside the federal government and is known as the debt held by the public. A smaller portion of the federal debt known as intragovernmental debt is owed from one government account to another.

### Mandatory Spending

Spending on certain programs that is mandated by existing law without requiring Congress and the President to appropriate funds.

Lawmakers do not provide specific funding levels for mandatory spending; rather, they specify who is eligible for benefits as well as the type and level of benefits that they can receive.

Without action by lawmakers, mandatory programs continue indefinitely.

### Discretionary Spending

Spending that is set by Congress and the President on a yearly basis through the appropriations process.

If lawmakers do not enact appropriations, these programs have no funding to operate.

### Medicare

A major federal program that provides health insurance to senior citizens and those with disabilities, regardless of income level.

### Medicaid

A health insurance program for low income Americans financed jointly by the federal government and the states and administered by the states.

### Social Security

A social insurance program that supplements retiree income through monthly cash payments. It is an important component of many Americans' retirement income.



## Examining the national debt through a political lens

Now that we've covered the basics of the national debt and our nation's fiscal outlook, let's examine the role of political parties and perspectives in relation to fiscal policy. Why does this matter? Because political beliefs tend to inform the way our elected officials view fiscal issues and their approach to proposing policy solutions.

While a number of political parties and ideologies exist, this guide focuses on the two major U.S. political parties, the **Democratic Party** and the **Republican Party**. The partisan approaches outlined below are designed as a topline introduction and are by no means universal—**there are plenty of Democrats who subscribe to Republican principles and vice versa**. There are also plenty of areas where the parties overlap.

### Democrats & Republicans: Areas of agreement

Despite the polarization of partisan politics frequently portrayed by the media, believe it or not, when it comes to fiscal policy, there are many areas on which Democrats and Republicans tend to agree!

A 2019 survey from the Pew Research Center found that **Americans across political parties agree that the government should prioritize:**

- Subsidizing infrastructure and other vital services that keep cities, states and the country running
- Preserving social security
- Providing high-quality, affordable health care to all
- Increasing spending on education

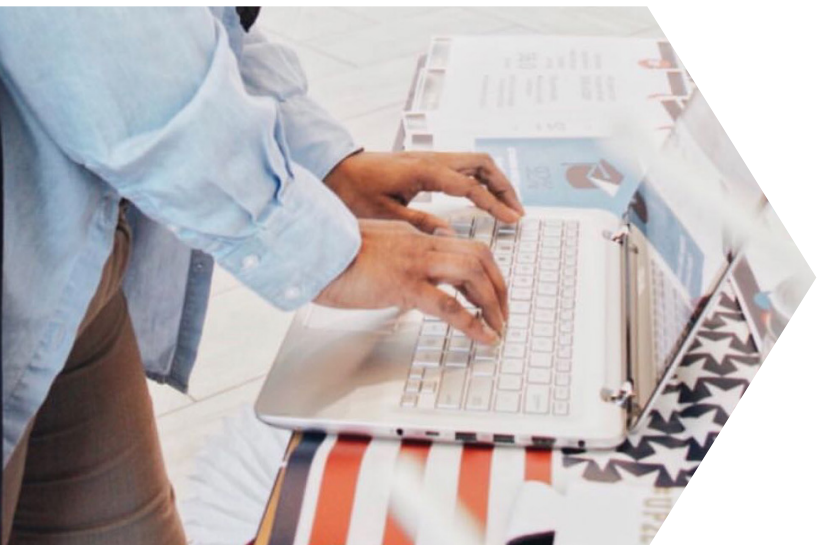
Both political parties also tend to agree that the U.S. tax code should be restructured and simplified, but they have their own proposed plans for how to accomplish this. The good news is that **regardless of your political affiliation, various solutions exist**. Budget experts across the political spectrum have devised specific policy proposals to tackle our long-term fiscal challenges—underscoring that **there are multiple pathways to putting our nation's debt on a sustainable course to ensure long-term prosperity, growth and opportunity**. This includes several bipartisan plans that have received widespread support.

**In 2019, a review of congressional websites showed that fewer than 9 percent of U.S. representatives and senators across parties cited cutting debt as a top priority.**

While there are plenty of legislators at all levels of government who are committed to developing bipartisan plans for a more sustainable fiscal future, debt apathy is also unfortunately common on all sides of the political aisle. Elected officials hoping to win re-election may prioritize more immediate issues that they see as most important to their constituents versus long-term issues like the debt. Given the complex and long-term scope of the national debt, many elected officials may think that most Americans do not understand the national debt or believe that it will impact them personally. If legislators do not hear constituents regularly voice concern about the nation's long-term fiscal policy, they likely won't consider it a priority.

## How has the Covid-19 pandemic impacted the conversation about fiscal policy?

In general, lawmakers on both sides of the aisle agree that the coronavirus pandemic is an unprecedented national emergency that requires significant fiscal stimulus to address critical needs. While the country would currently be in a much better position if our debt and deficits weren't already at such high levels, lawmakers recognize that our current fiscal outlook should not impede the urgent governmental response to this public health emergency.



**The 2010 Simpson-Bowles** plan is one example of a proposed fiscal policy solution that incorporated elements of traditional political ideology from both the Democratic Party and the Republican Party, proving that collaborative solutions do exist. While it ultimately failed to gain the required votes from the National Commission on Fiscal Responsibility and Reform that would have allowed it to be presented for a vote by Congress, this major bipartisan deficit-reduction plan would have put debt on a downward path. The plan called for raising more than \$1 trillion in new tax revenue while reducing overall spending, including military spending. It also would have reduced Medicare and Medicaid payments and put Social Security on a more sustainable footing by reducing some benefits and raising the retirement age.

# Democrats & Republicans: Ideological differences

Many Democrats and Republicans agree on the need to pass legislation and implement plans to strengthen the nation's fiscal future, but they disagree on exactly how to do so. This section outlines the underlying differences in economic theory that dictate Democratic and Republican approaches to fiscal policy.

## What's at the root of the polarization?

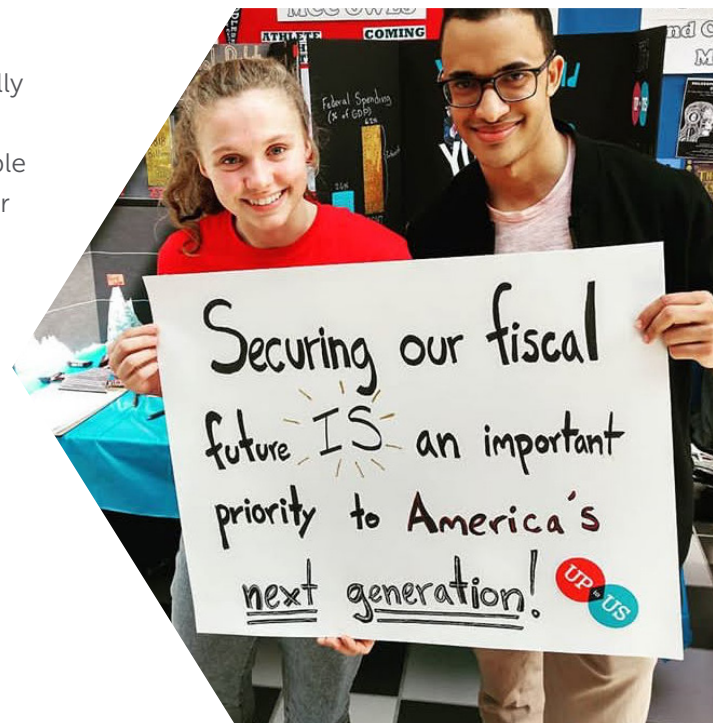
A variety of forces drive the polarization of the federal budget process, including competing theories for economic growth that are often ingrained in political ideology. Understanding the fundamental principles of **supply and demand** provides a helpful framework for understanding ideological differences in fiscal policy.

*What is supply and demand economics?* It is the theory that the value of a good or service is determined both by its availability (*supply*) and by how much people want it (*demand*). Both supply and demand are important factors in any economy, **but many economists—and elected officials—hold opposing beliefs about which side of the equation is more important.**

### SUPPLY-SIDE ECONOMICS

Proponents of supply-side economics believe that supply essentially creates demand, so economic growth is best encouraged through policies that increase supply and make supply more easily accessible to consumers. Those favoring supply-side economics tend to favor policies that lower taxes and reduce government regulation on suppliers to allow the free market to act more independently and encourage investment. Supply-side economics generally favor conservative, or Republican, fiscal policies, such as:

- More limited government involvement in economic decisions
- Reduced government spending on non-essential programs and services
- Tax reductions for businesses and consumers, assuming that giving producers a larger supply of money that they are free to spend, save or invest will stimulate economic growth



## DEMAND-SIDE ECONOMICS

Proponents of demand-side economics, which is sometimes referred to as Keynesian economics, believe that economic growth is driven by an increased demand for goods and services. Those favoring demand-side economics tend to favor policies that support government spending to stimulate economic growth, especially during periods of weak demand like recessions. Demand-side economics generally favor liberal, or Democratic, fiscal policies, such as:

- Increased government involvement in regulating and influencing the economy's direction
- Government spending on social programs, public works and infrastructure projects
- Increasing taxes on wealthier individuals and large corporations to fund government spending on programs that stimulate economic growth by raising demand through providing consumers with more of the money supply favoring supply



## National debt solutions

Okay, now that we have explored the principles of supply and demand economics, let's look at several possible solutions for addressing the national debt. There are two main ways to reduce the national debt, and most plans developed by Democrats or Republicans include a combination of both.

- **Raise revenue** – Most budget reform plans seek to raise revenue through tax increases, whether by eliminating deductions and other tax subsidies, raising rates on higher earners or introducing new taxes, such as a carbon tax.
- **Reduce spending** – Most budget reform plans also propose major spending reductions to address the national debt. This includes improving our healthcare system to deliver better quality care at a lower cost through pay-for-performance initiatives, price transparency and reducing federal subsidies (such as by raising the Medicare eligibility age). It also includes raising the retirement age for Social Security to account for future gains in average longevity and adjusting the formula for benefit payouts. These adjustments address what are and will continue to be the main drivers of the federal debt.

Democratic ideology tends to favor plans that rely more heavily on raising revenue, which is consistent with demand-side economic theory. Republican ideology tends to favor plans that rely more heavily on reducing spending, which is consistent with supply-side economic theory.



## Conclusion

The bottom line is that the **long-term consequences of the national debt will impact Democrats, Republicans and Independents equally**, so it is vital that we raise our collective voice to increase understanding of and commitment to a more sustainable fiscal future regardless of political affiliation.

Up to Us is a growing movement of young people who are committed to engaging their peers and policymakers in a nonpartisan dialogue about solutions to our long term fiscal challenges. Take the **Up to Us Pledge** and let your representatives know that securing our fiscal future is an important priority for America's next generation. Learn more at [www.itsuptous.org](http://www.itsuptous.org).

## Sources and Links for Further Learning:

- **Comprehensive Solutions** (Peter G. Peterson Foundation)
- **Looking To The Future, Public Sees An America In Decline On Many Fronts** (Pew Research Center)
- **The National Debt Dilemma** (Council on Foreign Relations)
- **Dems And The Gop Agree: Nobody Cares About The National Debt** (The Hill)
- **Supply-Side vs. Demand-Side Economics: Theories & Differences** (Study.com)
- **Economics 101: What Is Demand-Side Economics? Learn About Different Demand-Side Policies With Examples** (Masterclass.com)
- **Learn About Supply-Side Economics: History, Policy, and Effects on Taxes and the Economy** (Masterclass.com)

