Does Debt Matter?

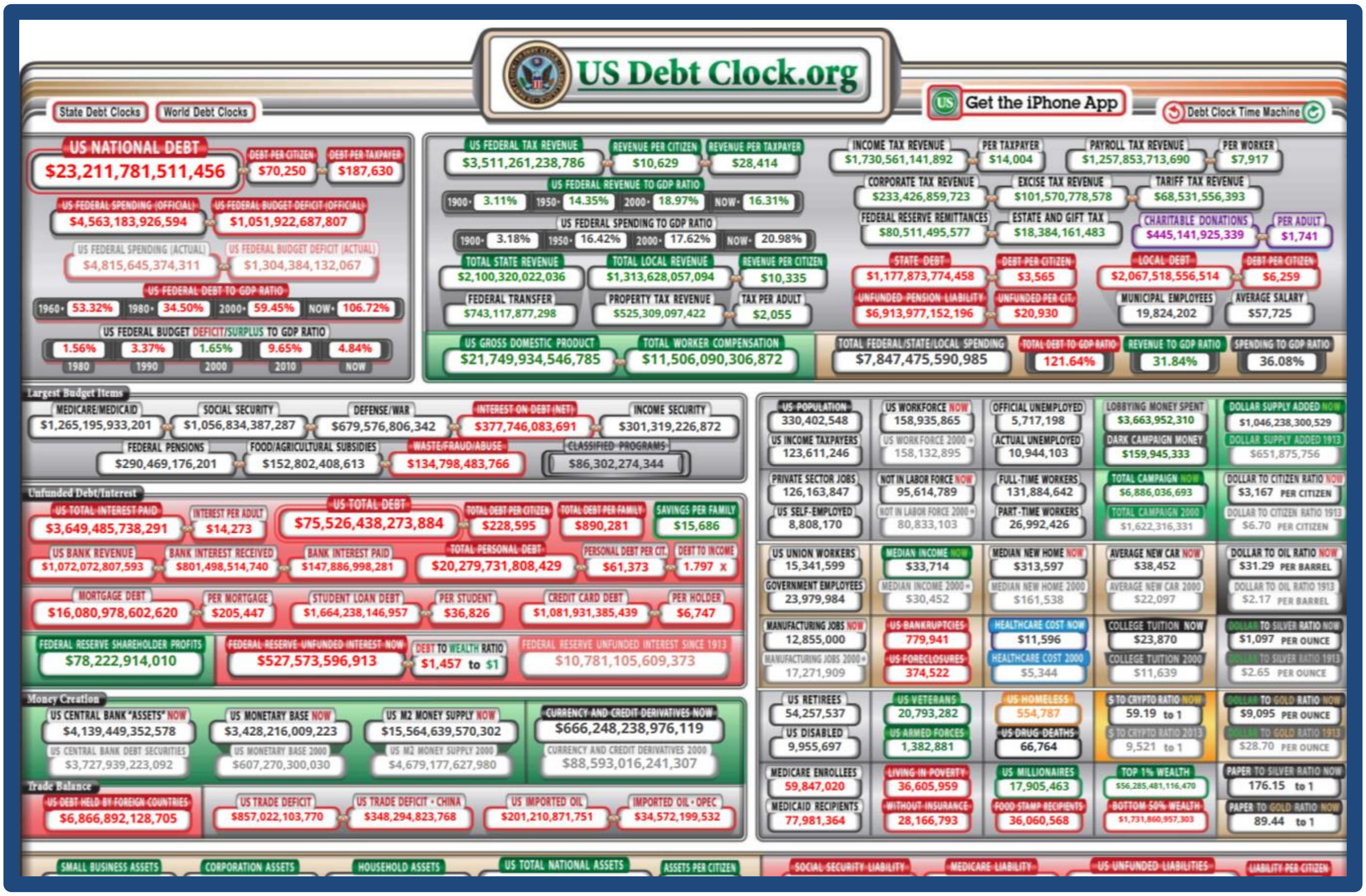


Image from: National Debt Clock, Website, https://www.usdebtclock.org/

Supporting Questions

1. Where does the Federal debt come from?
2. What do the experts say about Federal debt?

Does Debt Matter?

C3 Framework	**D2.Eco.11.9-12.** Use economic indicators to analyze the current and future state of the economy
Staging the Compelling Question	Watch three minutes of "National Debt Clock" silently reflecting as the numbers jump up. Discuss initial reactions.

Supporting Question 1	Supporting Question 2
Where does the Federal debt come from?	What do the experts say about Federal debt?
Formative Performance Task	**Formative Performance Task**
Create a chart of the spending and revenue changes from the 2011 budget to 2018.	Write one to two sentences summarizing each expert's point of view on the federal debt.
Featured Sources	**Featured Sources**
Source A: "2011 United States Federal Budget." **Source B: "**2018 United States Federal Budget"	**Source A:** "Task Force on the Economy," Milton Friedman **Source B: "**The National Debt Is Still a Problem," Gregory Mankiw **Source C:** "Who's Afraid of the Budget Deficit?," Paul Krugman **Source D:** "Modern Monetary Theory," Milton Ezrati

Summative Performance Task	**ARGUMENT:** Does Debt Matter? Construct an argument (e.g., detailed outline, poster, essay) that evaluates the need to study, remember, and/or celebrate this expedition using specific claims and relevant evidence from sources while acknowledging competing views.
	EXTENSION. Create a proposal for the upcoming federal budget. Be prepared to debate your proposal with others that are different.

Overview

Inquiry Description

This inquiry leads students through an investigation of increasing federal deficits and the overall federal debt. As a persistent source of political polarization, the debt is a current topic that will shed light on several national economic concepts: taxation, federal government spending, government budgets, deficits, and the federal debt itself. By analyzing a wide spectrum of economists on the topic of federal deficits and debt, students will have a deeper understanding of current legislative actions, or inactions, on these budgetary decisions. This will equip students with economic thinking skills to make informed decisions at the voting booth and in their participation in institutions, at any level from local to federal.

This inquiry highlights the following additional standards:

Council for Economic Education: National Content Standards

- Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

C3 Framework:

- **D2.Eco.11.9-12.** Use economic indicators to analyze the current and future state of the economy

It is important to note that this inquiry requires prerequisite knowledge of the federal budgetary process. Additionally, students would benefit from having discussed federal government programs, policies, and expenditures. These programs, together with an understanding of taxation and other forms of revenue will provide the context to look at deficit spending and the current federal debt.

Note: This inquiry is expected to take two 50-minute class periods. The inquiry time frame could expand if teachers think their students need additional instructional experiences (e.g., supporting questions, formative performance tasks, featured sources, writing). Teachers are encouraged to adapt the inquiry to meet the needs and interests of their students. This inquiry lends itself to differentiation and modeling of economic thinking skills while assisting students in reading the variety of sources.

Structure of the Inquiry

In addressing the compelling question through a focused inquiry, students have the opportunity to participate in a genuine inquiry experience, but one in as little as a single class period. To do so, students work through a series of featured sources as they reflect on the compelling and supporting questions and address the formative and summative performance tasks.

Staging the Compelling Question

The website, usdebtclock.org, began as a billboard in downtown Manhattan in 1989. It can be a striking resource for students to begin to comprehend the size and scope of the federal debt. It contains so many details, a three-minute silent reflection will allow students to begin to formulate questions beyond the initial shock. After the silent activity, a teacher-facilitated discussion will bring the class into a space for the focused inquiry to begin. The two supporting questions that follow will allow students to develop claims to answer some of their questions.

Supporting Question 1

The first supporting question, “Where does the Federal debt come from?” provides the economic context for students to develop their arguments for the compelling question. By charting the changes in spending and revenue, students will notice trends in budgetary policy, and begin to understand the scope of the debt issue. Together with a wider unit of study in fiscal and monetary policy, a look at the deficit and debt will allow students to see the end result of the programs they have studied.

The formative performance task is to create a chart of the changes in spending and revenue. Using infographics of the 2011 and 2018 federal budgets from the *Congressional Budget Office (CBO),* a non-partisan federal agency within the legislative branch, students will see specific changes in the growing debt. Charting these changes, they can begin to create their own answers to whether these deficits are a cause of concern, and what possible solutions there might be.

Other infographics and reports on yearly budgets can be found on the CBO’s website. Students can spend further time on this site to measure and investigate further the annual budgets and future projections. For a wider inquiry in fiscal policy and budgetary decisions, this is a rich resource.

The following sources were selected to answer Supporting Question 1:

- **Featured Source A** is an infographic from 2011.
- **Featured Source B** is an infographic from 2018. Each provides two graphs of spending and revenue. The pie graphs provides details, percentages, and dollar amounts for each. If the sites are visited, students can find these categories broken down into more detail.

Supporting Question 2

The second supporting question, “What do the experts say about the Federal debt?”, presents students with current ways of thinking on the issues of deficits, debt, and federal spending. In order to answer this perplexing question of federal debt, students will look to expert economists. What they will find is that there is no consensus on these issues. Rather, different economic and political philosophies highlight different aspects of the role of the federal government in the lives of citizens, and the wider role of the government in the national economy.

The formative task is to construct a 2-3 sentences to summarize what the various economists have said.

This allows students to practice their historic and economic skills of analysis and summary. With four distinct viewpoints, students can then begin to craft their argument, answering the compelling question.

Scaffolds and other materials (e.g. guided questions, graphic organizers, etc.) may be used to support students as they work with sources. Students may struggle with some of the economic language and concepts. The sources made be watched or read together as a class to break down the language and concepts.

The following sources were selected to answer Supporting Question 2:

- **Featured Source A** is a brief "YouTube" clip of Nobel Prize winning economist, Milton Friedman. Friedman, from the University of Chicago, has had a profound influence on American economic thinking, both at an academic and governmental level, and a broader cultural level. In this clip towards the end of his public career, he addresses a Congressional committee on the issue of deficits, debt, and spending. He details his belief that the real problem is government spending.

- **Featured Source B** is an excerpt from a *New York Times article* by economist Gregory Mankiw. Mankiw is a professor of economics at Harvard University. His textbooks are widely used in university economics classes, globally. In this excerpt, he explains why the federal debt is an issue and why future generations will have to take the brunt of this dangerous deficit spending. He also provides possible solutions to this issue.

- **Featured Source C** is an excerpt from a *New York Times* op-ed by economist Paul Krugman. Krugman has taught economics at several universities, such as MIT, Princeton University, and currently at the City University of New York. He is also a columnist for the New York Times, and like Mankiw, has written several prominent economic textbooks. Krugman is a Neo-Keynesian economist, and in this excerpt explains the benefits of deficit spending, as a way to promote and fund governmental programs that create jobs, assist those in need, and promote the economy.

- **Featured Source D** is an excerpt from *Forbes Magazine,* by Milton Ezrati. This passage explains, in brief, the approach towards deficits and debt by the *Modern Monetary Theory.* This relatively new economic approach has been recently adopted by, or influenced, several prominent American politicians and movements. It does not discourage deficit spending, but sees an inflationary monetary policy as leading to economic growth and full-employment. Putting more money into circulation, and federal government spending will make the federal debt a moot issue.

Summative Performance Task

At this point in the inquiry, students have examined the causes of the federal debt and how expert economists view the debt. By looking and comparing two separate year's budgets, they have an understanding of the complexity of the issue. With the second supporting question, they read and summarize that this complexity has led to a variety of responses to deficit spending and the federal debt. Students see the wide spectrum and the variety of economic philosophies that federal leaders and politicians have to inspire legislative budgetary actions.

Students should be expected to demonstrate the breadth of their understanding and their abilities to use evidence from multiple sources to support their claims. In the summative performance task, students construct an evidence-based argument that addresses the compelling question. It is important to note that students' arguments could take a variety of forms.

Students' arguments will likely vary, but could include any of the following:

- *The federal debt does matter. Excessive debt slows the economy, burdens future generations, and represents the spending of money the government does not have, thus increasing the tax burden on the country.*
- *The federal debt does not matter. The government provides important programs that must be maintained and money can be 'cheaply' borrowed from the government itself. Further, inflationary policies can lead to full-employment and an equitable econo*my.

To extend their arguments, students can split into the various economic approaches to the federal deficit and debt. They can do further research into the featured economists and others in their economic schools. With this bolstered analysis and information, they can engage in a class debate over the approaches, providing arguments and rebuttals. This will further, with the inquiry itself, give students a broader understanding of current economic and budgetary policy.

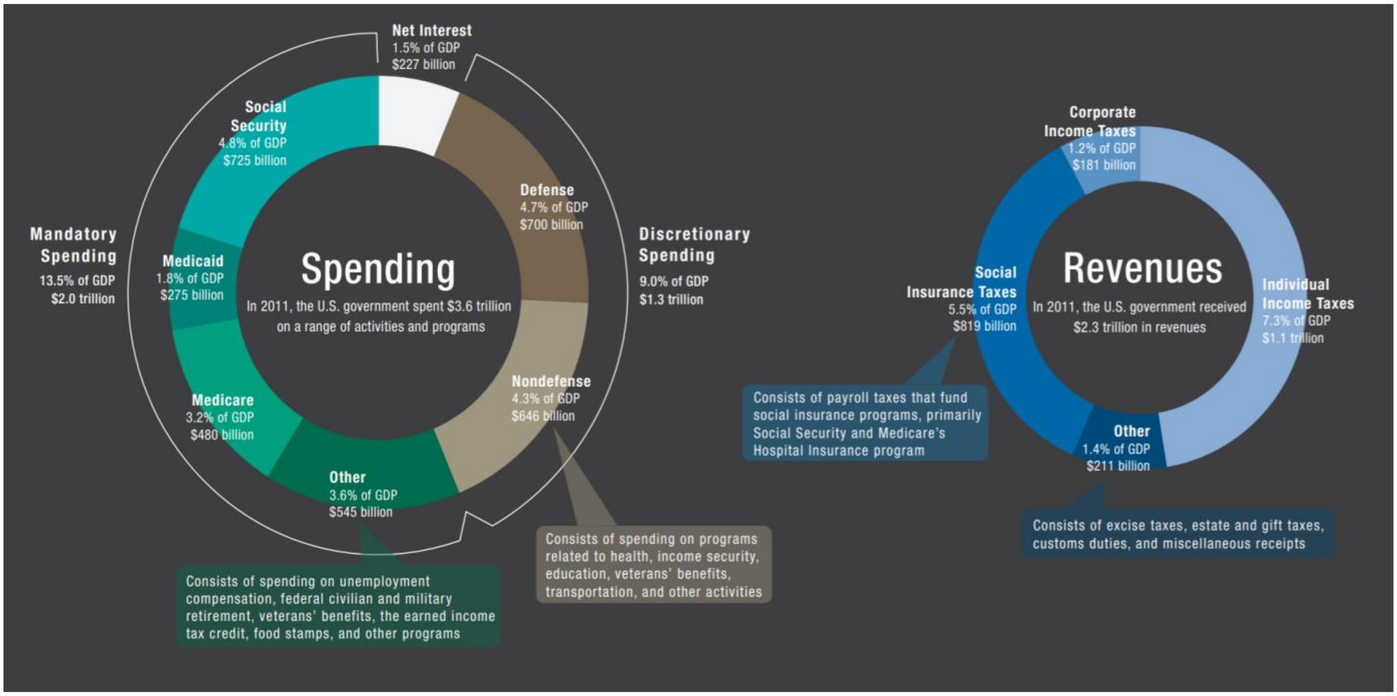
Staging the Compelling Question

Featured Source	Source A: ***The US debt clock.*** Website, https://www.usdebtclock.org/.

Found online: https://www.usdebtclock.org/

Supporting Question 1

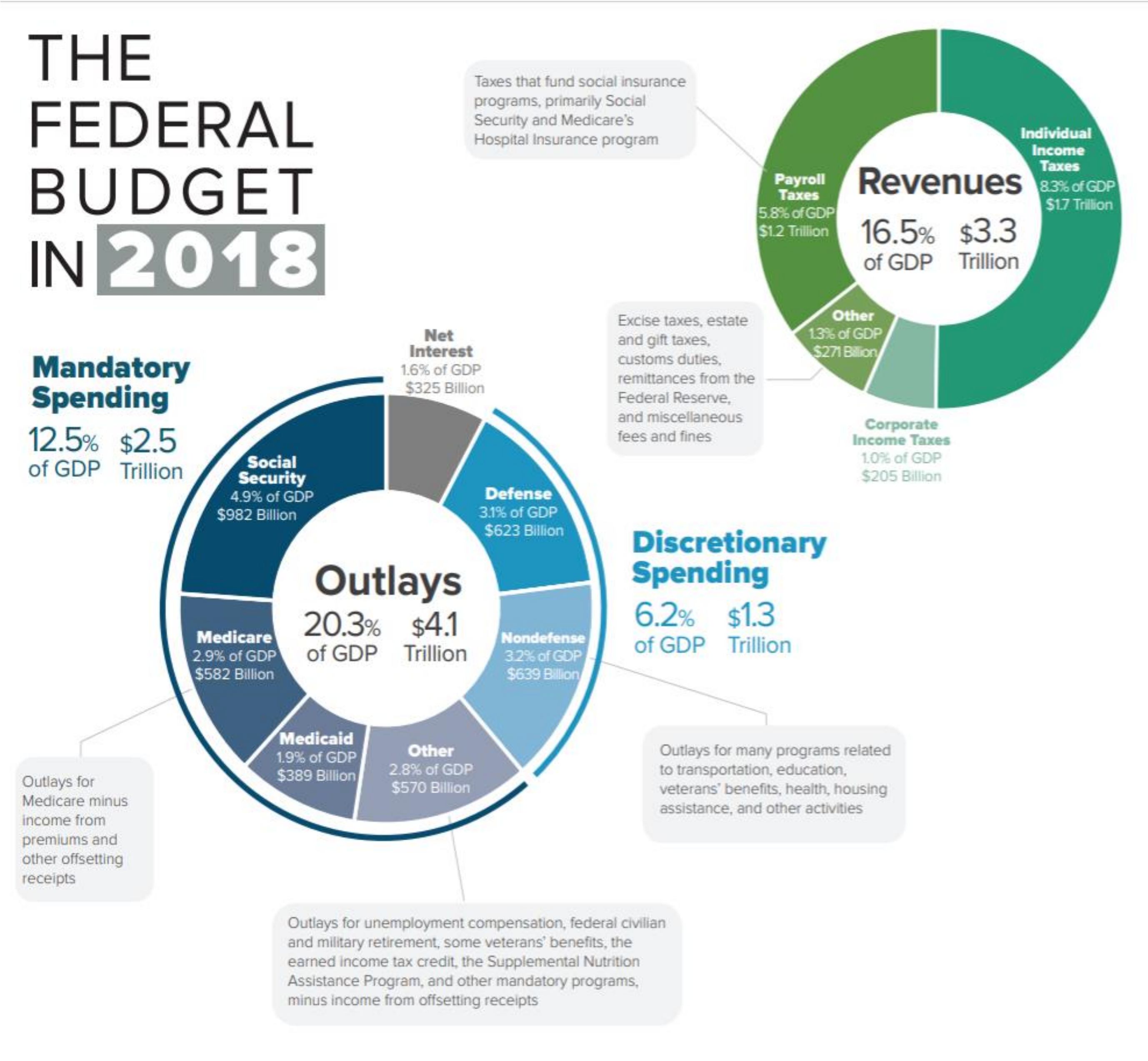
Featured Source	**Source A:** A portion of the 2011 U.S. budget infographic from the Congressional Budget Office.



Found online: **https://www.cbo.gov/publication/42636**

Supporting Question 1

Featured Source	**Source A:** A portion of the 2018 U.S. budget infographic from the Congressional Budget Office.



Found online: https://www.cbo.gov/publication/55342

Supporting Question 2

Featured Source	**Source A:** Milton Friedman, a video excerpt of economist Milton Friedman discussing the federal debt, deficit, and Federal spending.

Found online: https://youtu.be/ndmmO07ckAU

Supporting Question 2

Featured Source	**Source B:** Gregory Mankiw, professor of economics at Harvard University, excerpt from a *New York Times* article, "The National Debt Is Still a Problem", June 20, 2019.

"The debt rises when the government borrows to finance a budget deficit, and in some circumstances, running a budget deficit is reasonable.

Historically, the most important cause of large deficits has been spending on wars. During World War II, for example, deficits ballooned, and the government debt increased to 106 percent of gross domestic product in 1946 from 37 percent in 1941.

The alternative to running a large budget deficit during a major military conflict is substantially raising taxes. Doing so would be economically debilitating. It would also arguably be unfair to current taxpayers, who are already offering their blood and toil to preserve freedom for themselves and future generations. By running up the debt, the government requires future generations to foot part of the bill.

Running a large budget deficit is also reasonable during an economic downturn. Whenever the economy goes into recession, revenue from income and payroll taxes automatically falls, and spending on programs such as unemployment insurance automatically rises. Balancing the budget would require tax increases or spending cuts precisely when the economy can least handle them.

But the current budget deficit is not as easily justified. . .

. . .(The economy) is currently strong, with employment having grown robustly over the past two years. The unemployment rate is 3.6 percent, its lowest level since 1969.

In these circumstances the norm should be a small budget deficit, or even a surplus. But that is not the case now. In 2018, the deficit was 3.9 percent of G.D.P., compared with an average deficit of 2.1 percent of G.D.P. over the previous 70 years.

Even so, the current deficit is less worrisome than its trajectory. The Congressional Budget Office estimates that, under current law, the deficit will increase to 4.6 percent of G.D.P. in 2023. That projection is based on the plausible but optimistic assumption of continued economic growth and no major military conflict.

Because of these deficits, the government debt held by the public will rise to 85 percent of G.D.P. in 2023, reaching the highest level since 1947, the Congressional Budget Office says. And if current law remains unchanged, the debt will keep rising as a percentage of G.D.P., eventually reaching levels never seen in the United States. That is simply not sustainable. . .

. . .If we are not going to saddle future generations with ever-increasing government debt, we need to find a great deal of money. That means either spending less or taxing more.

I would prefer to curb spending. For example, to prevent Social Security's funding shortfall from enlarging the government debt, we could slowly increase the age of eligibility. The government would still provide a safety net for the very old, but others would have to keep working or use their savings to pay for an earlier retirement. . .

. . .Congress should reform the tax treatment of carried interest, which the finance industry uses to secure the lower capital gains rate for some forms of compensation. It should repeal the overly complicated and inequitable treatment of pass-through businesses in the 2017 tax bill. It could increase the corporate tax rate from 21 percent to, say, 25 percent, which would still be well below the 35 percent rate that prevailed when President Trump took office. Finally, it should strengthen tax enforcement so families like the Trumps pay what they owe.

But the problem of rising government debt is too large to solve simply by taxing a small sliver of the population. Congress will need to consider broader-based taxes, such as the value-added taxes that efficiently raise substantial revenue in many European nations.

If higher taxes are the eventual solution to rising government debt, as seems likely, then we all are going to have to pay more. If we don't, our children will."

Found Online: https://nyti.ms/2IWhdqI

Supporting Question 2

Featured Source	**Source C:** Paul Krugman, professor of economics at the City University of New York, excerpt from "Who's Afraid of the Budget Deficit?" opinion piece in the *New York Times*, January 3, 2019.

"The economics of crude, mechanical rules about budget deficits are clear: They're a really bad idea.

Deficit obsession was deeply destructive in the years that followed the global financial crisis, helping conservatives push for austerity measures that held back economic recovery for years. True, we no longer have a depressed economy, and austerity is a lot less destructive when the unemployment rate is less than 4 percent than it is when unemployment is more than 8 percent. But another recession will come, sooner or later — probably sooner rather than later — and a rigid budget rule will not be helpful when it does.

Furthermore, there are things the government should be spending money on even when jobs are plentiful — things like fixing our deteriorating infrastructure and helping children get education, health care and adequate nutrition. Such spending has big long-run payoffs, even in purely monetary terms.

Meanwhile, the federal government can borrow money very cheaply — the interest rate on inflation-protected 10-year bonds is only about 1 percent. These low borrowing costs, in turn, reflect what seems to be a persistent savings glut — that is, the private sector wants to save more than it's willing to invest, even with very low interest rates.

Given this reality, why not put some of those excess savings to work in high-return public investments? Should we really refuse to spend money repairing sewer systems or providing child nutrition if doing so raises the deficit a bit, with only a minor impact on future interest costs?

But, you may say, isn't it politically important for Democrats to present themselves as the party of fiscal responsibility? I'm highly skeptical.

Consider budget history over the past generation. The story is very clear: When in power, Democrats make big efforts to balance the budget; when Republicans come in, they promptly blow the money on tax cuts for the wealthy. Yet polling consistently shows the G.O.P. with an edge on the question of which party is better at dealing with deficits.

Or consider what happened after Democrats enacted the Affordable Care Act, going to great lengths to pay for the additional benefits with tax increases and spending cuts. A majority of voters still believed that it increased the deficit. Reality doesn't seem to matter.

Anyway, the truth is that while voters may claim to care about the deficit, hardly any of them really do. For example, does anyone still believe that the Tea Party uprising was a protest against deficits? From the beginning, it was basically about race — about the government spending money to help Those People. And that's true of a lot of what pretends to be fiscal conservatism.

In fact, even the deficit scolds who played such a big role in Beltway discourse during the Obama years seem oddly selective in their concerns about red ink. After all those proclamations that fiscal doom was coming any day now unless we cut spending on Social Security and Medicare, it's remarkable how muted their response has been to a huge, budget-busting tax cut. It's almost as if their real goal was shrinking social programs, not limiting national debt.

So am I saying that Democrats should completely ignore budget deficits? No; if and when they're ready to move on things like some form of Medicare for All, the sums will be so large that asking how they'll be paid for will be crucial.

But while fiscal prudence is always necessary, for Democrats to put spending in a straitjacket — especially when Republicans have shown themselves completely irresponsible — looks like a bad move."

Found online: https://nyti.ms/2GW0WUM

Supporting Question 2

Featured Source	**Source D:** Excerpt from Milton Ezrati in *Forbes Magazine* describing "Modern Monetary Theory", May 28, 2019.

"On the question of budget deficits, Prof. (Stephanie) Kelton, like (John Maynard) Keynes, most emphatically contends that they do matter. Debt, in and of itself, can do considerable harm. But also like Keynes, her MMT theory adds an important nuance. Not all deficits, she points out, are alike. If the deficit results from spending on things like infrastructure or education or, perhaps, research and development (R&D), it can foster an acceleration in economic growth that pays an ample return on the outlays and the debt incurred to finance these policies, enough return to ease the burden of debt. . .

. . .MMT argues, and Keynes would have argued, that such interest rate affects are "weak tea," in Kelton's, not Keynes' words. More important are levels of optimism and pessimism. When business people are optimistic about the future, when their "animal spirits," to use Keynes' words, are high, they will borrow and expand regardless of higher rates. If, however, those "spirits" are low, it hardly matters how low interest rates fall. People will not invest. Kelton quotes Keynes on the matter.

On monetary policy, Kelton's MMT does claim that sometimes increasing the flow of money can support deficits without harm. But the theoretical position includes two provisos: first the deficits must support productive fiscal policy (spending in Kelton's world but also perhaps tax relief) and second the economy must have the capacity to grow in response to the added demand created by the increased money flows."

Found online: https://www.forbes.com/sites/miltonezrati/2019/05/28/what-is-modern-monetary-theory/#ee7e57931869