The Daily Dish

Fairness and the Debt Debate

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The United States has a federal debt problem. Eakinomics readers have heard a lot about it, but one hopes they will hear even more about it as the political process moves toward controlling it. My deepest fear is that politics will continue to be the "what, me worry?" approach of the Harris-Trump campaigns, and thus we won't hear enough of the debt problem.

Federal debt is part of the national saving equation – other things equal it reduces national saving – and from an economic perspective there are two possibilities. One is that a nation can save and invest too much. This is the macro equivalent of building a house that is 100 times larger and more elaborate than needed. The result is that everything is always needing repair and upkeep. Every month the paycheck gets consumed by roofing, painting, carpet, heating, air conditioning, deck repairs, and on and on. What is the result? So much income must be saved and devoted to maintaining the capital (i.e., the house) that there is not enough left to live a little.

The other possibility is that one could sell off the massive house, devote a lot less to maintenance, and use the proceeds to party like Prince were still alive. Indeed, one could temporarily spend more than the monthly income in the process. That is, one could dissave (i.e., incur debt) and be better off on the whole.

For the economy as a whole, the condition of over-saving, over-accumulating capital, and under-consuming is known as dynamic inefficiency. One solution is for the government to borrow a lot and hand out the proceeds to finance a national Mardi Gras moment. (See, for example, the American Rescue Plan.)

Unfortunately, there is no evidence that the U.S. economy suffers from dynamic inefficiency. As a result, when the federal government borrows and finances consumption in the present (and that is essentially all your government really does), it comes at the expense of needed saving, investment, and a higher standard of living in the future. In effect, the current generations rob the future generations of some of their well-being.

Is that fair?

That is the fundamental ethical issue at the core of the national debt discussion. And it is part of the puzzle of federal finances. Why was it the case that in the 20th century the United States acted as if it cared about its future citizens, while in the 21st century it has done the opposite? In this century I have been mystified by the willingness of the left to run enormous deficits in order to finance massive redistributive programs. (The various iterations of the Build Back Better effort or any Biden Administration budget are good examples.) These are typically sold as solving some deep "equity" problem – income inequality, wealth inequality, education inequality, health inequality, etc. – but simultaneously exacerbate a massive inequity in how the United States treats future generations. Why does their welfare not count toward overall fairness?

Rethinking the fairness debate is an essential part developing a politics that will control the debt, foster more rapid economic growth, and take better care of the nation's future.