



Insight

The Economic Benefits of Balancing the Federal Budget

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The U.S. is struggling with the dual challenges of bad growth and big debt. Since January 2009, the U.S. has averaged merely 0.8 percent annual growth. Workers have struggled to find a job, with only 12,000 jobs created each month on average and unemployment averaging 8.9 percent. At the same time, federal debt in the hands of the public has more than doubled from 36 percent in 2007 to an estimated 76 percent by the end of 2013, while gross federal debt exceeds Gross Domestic Product. Moreover, even after the tax increases the American Taxpayer Relief Act (ATRA), the federal government's finances are projected to continue to deteriorate unless policies are adopted to change course.

The threat posed by the projections contained in the Congressional Budget Office's latest *Budget and Economic Outlook* has been [analyzed previously](#).^[1] Yesterday, however, the House Budget Committee proposed a budget resolution that would lead to a balanced budget by 2023.

There are many perspectives from which to analyze a budget resolution: the economic assumptions on which it is based, the entitlement and tax reforms it enables, the defense and non-defense appropriations it permits, and the debt levels it implies. In this case, however, it is the latter that is most important.

To start, the commitment to balance the budget drives the gross federal debt as a share of the economy south from 107 percent of GDP in 2014 to 79 percent of GDP in 2023. Achieving these savings and reducing the debt to levels below those projected under current law will avert the economic harm observed to occur with high levels of indebtedness. Compared to current law projections, the budget resolution will reduce gross debt sufficiently to be below the 90 percent threshold that is associated with slower growth by 2019.

Table 1: Gross Debt

Gross Debt	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current Law (% GDP)	107	105	102	100	99	99	100	100	100	101
House Budget (% GDP)	107	103	98	93	91	88	86	84	81	79