

# [Policymakers should reduce the government debt assignment](https://assignbuster.com/policymakers-should-reduce-the-government-debt-assignment/)

[Business](https://assignbuster.com/essay-subjects/business/)

The U. S. Federal government Is far more Indebted today than It was two decades ago. In 1980, the federal debt was $710 billion; In 1999, It was $3. 7 trillion. If we delve today’s debt by the size of the population, we learn that each person’s share of the government debt is about $14, 000. The most direct effect of the government debt is to place a burden on future generations of taxpayers. When these debts and accumulated interest come due, future taxpayers will face a difficult choice.

They can pay higher taxes; enjoy less government spending, or both, in order to make sources available to pay off the debt and accumulated interest. Or they can delay the day of reckoning and put the government into even deeper debt by borrowing once again to pay off the old debt and interest. In essence, when the government runs a budget deficit and Issues government debt, It allows current taxpayers to pass the bill for some of their government spending on to future taxpayers. Inheriting such a large debt cannot help but lower the living standard of future generations.

In addition to this direct effect, budget deficits also have various macroeconomic effects. Because budget deficits represent negative public saving, they lower national saving (the sum of private and public saving). Reduced national savings causes real interest rates to rise and investment to fall. Reduced investment leads over time to a smaller stock of capital. A lower capital stock reduces labor productivity, real wages, and the economy’s production of goods and services. Thus, when the government increases its debt, future generations are born into an economy with lower incomes as well as higher taxes.

There are, nevertheless, situations In which running a budget deficit Is Justifiable. Throughout history, the most common cause of Increased government debt Is war. When a military conflict raises government spending temporarily, It Is reasonable to finance this extra spending by borrowing. Otherwise, taxes during wartime would have to rise precipitously. Such high tax rates would greatly distort the incentives faced by those who are taxed, leading to large deadweight losses. In addition, such high tax rates would be unfair to current generations of taxpayers, who already have to make the sacrifice of fighting the war.

Similarly, it is reasonable to allow a rise in overspent debt during a temporary downturn in economic activity. When the economy goes into a recession, tax revenue falls automatically, because the income tax and the payroll tax are levied on measures of income. If the government tried to balance its budget during a recession, it would have to raise taxes or cut spending at a time of high unemployment.