United States Senate Budget Committee
JEFF SESSIONS | Ranking Member

How Debt Destroys Jobs—And Why We Need A Budget

In one week, on January 24th (the same day as President Obama's State of the Union address), 1,000 days will have elapsed since Senate Democrats last offered a budget plan for the nation.

Higher debt leads to slower economic growth. Empirical studies show that high levels of government debt inhibit economic growth by creating uncertainty, displacing needed private investment, and placing upward pressure on interest rates.[1] For example, a respected study by economists Rogoff and Reinhart found that, in advanced economies with gross federal debt above 90 percent of GDP, median economic growth tends to be between one and two percent lower (depending on the time period analyzed) when compared to countries with lower debt-to-GDP ratios. Other studies, including Caner, Grennes, and Koehler-Geib's 2010 study of 99 countries between 1980 and 2008, reached similar conclusions. The U.S.' gross debt-to-GDP ratio has now passed 100 percent—well above the dangerous threshold identified by Rogoff and Reinhart.

Slower economic growth results in dramatic job loss. Christina Romer, former chair of the White House Council of Economic Advisers, equated a one percentage point change in GDP with one million jobs per year.

Successful debt-reduction measures that relied on spending cuts—not tax increases—have consistently resulted in stronger economic growth. Research from Harvard economist Alberto Alesina, as well as a 2010 Goldman Sachs report, found that fiscal consolidations that focused on cutting government spending were successful in cutting fiscal imbalances, typically boosted growth, and were followed by improved equity and bond market performance. Examples of successful spending reductions include Canada and New Zealand in the early 1990s.[2]

Financial markets have issued dire warnings about the consequences of inaction. Standard & Poor's has already downgraded the U.S.' credit rating—the first such downgrade in our country's history—and all three major ratings agencies have assigned a negative outlook to the nation's long-term rating (signaling an increased likelihood for additional downgrades in the near future). The Organisation for Economic Cooperation and Development (OECD) recently cut its 2012 growth forecast for the U.S., and S&P this month downgraded the credit ratings for nine Euro-area governments, adding to global uncertainty.[3]

Yet amidst this economic turmoil, Senate Democrats last presented a formal budget nearly 1,000 days ago. Last year the Democrat leadership did not even allow the Budget Committee to meet to work on a budget resolution, and has not offered a budget at all since April 29, 2009. Over that time, the nation has spent $9.4 trillion and added $4.1 trillion in gross federal debt.[4] Majority Leader Harry Reid went so far as to say it would be "foolish" for Democrats to produce a budget. But nothing could be more foolish than refusing to provide the nation's job creators, investors, and taxpayers with a blueprint for our fiscal future.

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[1] While it is true that the U.S. currently enjoys the benefit of low borrowing costs, that is primarily because U.S. Treasury bills are seen as the safest alternative compared to the turmoil in Europe. Additionally, Federal Reserve quantitative easing over the past year has distorted the market by putting an artificial downward pressure on rates.

[2] Canada reduced its debt-to-GDP ratio from 100 percent to 82 percent over 7 years, while GDP grew at an average rate of 4 percent. From 1991 to 1997, New Zealand cut its gross debt nearly in half as a percentage of GDP, while enjoying average growth of 3 percent over that period. To view a Budget Committee white paper with additional evidence on the economic benefits of spending cuts, please click here.

[3] *Wall Street Journal*, "Downgrades Fan Fresh Euro Fears," Jan. 16, 2012.

[4] President Obama recently asked for $1.2 trillion in additional borrowing authority. If that request is approved, gross federal debt will climb to $16.394 trillion.