United States Senate Budget Committee

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How Debt Destroys Jobs—And Why We Need A Budget

1,164 days have elapsed since Senate Democrats last offered a budget plan for the nation. Since that time, we've spent $11 trillion and added $4.7 trillion to the debt. The unemployment rate has now been above 8 percent for 41 consecutive months.

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.

Senate Democrats last passed a budget nearly 1,200 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 $11 trillion and added $4.7 trillion in gross federal debt. 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 lay out a financial plan for the future of the nation.

The lack of a budget is a further drag on growth. Asked how harmful it was that the Senate has failed to adopt a budget, Federal Reserve Chairman Ben Bernanke replied, "Is uncertainty about the future of the tax code, government programs and so on a negative for growth? I think it is."[2]

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 (the effect posited by Rogoff and Reinhart) with one million jobs per year.

Neither President Obama nor members of his Administration have called on their party in the Senate to take action. White House Press Secretary Jay Carney was pressed why President Obama had not taken steps to remove that uncertainty by urging the Senate to adopt a budget. Carney responded by saying, "I have no opinion, the White House has no opinion [on whether the Senate passes a budget]…"[3] A comment from Arkansas Democrat Senator Mark Pryor underscores the President's lack of managerial leadership on this issue: "We've had three years with President Obama where we're not able to get a budget resolution passed."[4]

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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] Testimony before the Senate Budget Committee, February 7, 2012.

[3] White House Press Briefing, February 8, 2012.

[4] Politico, "Moderate Dems frustrated by lack of budget," May 15, 2012