PAD 642

Overview

In this module, you learned about the reasons governments use debt financing, the different approaches to borrowing, the ways to measure debt burden, and the core principles that should guide debt management. Many of the examples in the lecture and textbook focus on municipal bonds and debt financing at the state and local levels.

At the federal level, the context is somewhat different, but many of the same concepts, such as debt burden, debt capacity, and the principles of debt financing, can still help us evaluate the federal debt management.

Recall that when we discussed the principles of debt financing, we emphasized that debt is generally most appropriate for long-term investments, that excessive reliance on borrowing to cover ongoing operating costs can be problematic, and that debt burdens should be considered in relation to the government's debt capacity to repay the debt. We also learned that debt burden is not just the amount of debt a government owes, but how that debt compares to its economic base and its ability to pay the interest and principal. Measures such as debt per capita, debt relative to income or GDP, and debt service as a share of the budget can help assess whether debt is manageable or problematic.

Federal debt differs from state and local municipal bonds in several important ways. U.S. federal debt is issued by a single national government and is backed by the full faith and credit of the United States federal government. Unlike most state and local governments, the federal government is not subject to a balanced-budget requirement, and it regularly borrows to finance deficits. Federal debt is also used in a different fiscal and macroeconomic context: it helps finance not only capital investments, but also broader governmental operations, responses to recessions, wars, emergencies, and long-term commitments such as entitlement programs (such as Social Security and Medicare). Because of these differences, the federal debt raises distinct economic, political, and policy questions.

In this discussion, you will research the size, causes, consequences, and possible solutions related to U.S. federal debt. The goal is not simply to say that debt is "good" or "bad," but to use course concepts to make a more careful, evidence-based assessment of whether and when federal debt can become a serious public finance problem and what policymakers can realistically do about it.

Your task

Using relevant, credible sources, write a post of no less than 500 words responding to 2–3 of the guiding questions below. Your post should apply course concepts such as debt burden, debt capacity, and the principles of debt financing. Your discussion should be supported by credible sources.

Sources

Below are several suggested sources to help you get started. You may use these, skim them, or find your own credible sources.

- Center on Budget and Policy Priorities: Policy Basics: Deficits, Debt, and Interest
- Fiscal Data: What is the National Debt?

- Peterson Foundation: What is the National Debt Today?
- Brookings: What is the Federal Debt Ceiling?
- USAFacts: How Big is the US National Debt? (YouTube video)
- WSJ: When Does US Debt Become Genuinely Bad? | WSJ (YouTube video)

Guided questions (pick 2-3 questions to guide your discussion post)

1. How big is the federal debt? Consider measures such as debt per capita, debt relative to GDP, and debt service as a share of the federal budget. Is the debt growing, stabilizing, or declining in recent years?
2. What are the main causes of federal debt? Consider economic conditions, tax and spending choices, political incentives, interest costs, and major emergencies such as recessions, wars, or pandemics.
3. What are the consequences of rising federal debt? You may discuss fiscal risk, growing interest expenses, crowding out of other spending priorities, inflation concerns, credit ratings, effects on future budgets, and impacts on the broader U.S. and global economy.
4. What are realistic policy options for slowing or reducing federal debt? Consider spending cuts, revenue increases, entitlement reforms, budget process reforms, political factors, or combinations of these approaches.
5. At what point can federal debt become a serious policy problem? Is the current debt burden already unsustainable, or is the bigger issue the long-term trajectory?

The use of generative AI

You may use generative AI to support your learning and research, but you must verify any information you receive from AI with credible sources. Do not directly submit AI-generated content as your discussion post.

For example, you may use AI to clarify terms such as federal deficit, federal debt, debt ceiling, debt service expenses, or debt-to-GDP ratio, ask questions about how to interpret measures of debt burden or debt capacity, and identify possible causes or policy solutions for federal debt to research further. However, you are responsible for checking the accuracy of any AI-provided information and supporting your discussion with solid reasoning and credible evidence before using it in your work.