

Macro Roundup Article

Headline: [Did the U.S. Really Grow Out of Its World War II Debt?](#)

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Tweet: Improvement in the US debt-GDP ratio from 1946-1974 was driven primarily by primary government surpluses and distortions of real interest rates from surprise inflation and from pegged nominal rates, not overall economic growth. @AcalinJulien

Summary: We decompose the movements of debt/GDP into the effects of primary surpluses and deficits; distortions of real interest rates from surprise inflation and from pegged nominal rates; and the difference between the undistorted real interest rate and the growth rate of output ($r - g$). For the period up to 1974, we find that the fall in the debt-GDP ratio is explained mostly by primary surplus and interest-rate distortions. Absent those factors, with the path of the ratio determined entirely by $r - g$, the ratio of 106% in 1946 would have fallen only to 74% in 1974 rather than the actual trough of 23%. As of the end of fiscal year 2022, the actual debt/GDP ratio stands at 102%, close to its peak of 106% in 1946. Over the last 76 years, however, $g > r$ has contributed only modestly to debt reduction. History should not make us optimistic that the U.S. will grow out of its debt.

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Primary Topic: Fiscal Deficits

Topics: Academic paper, Fiscal Deficits, Fiscal Policy, Politics, Weekly

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