

Macro Roundup Article

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

Article Link: <https://www.nber.org/papers/w31577>

Author(s)	Julien Acalin and Laurence Ball
Publication	National Bureau of Economic Research
Publication Date	August 25, 2023

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. Related: Is a U.S. Debt Crisis Looming? Is it Even Possible? and Interest Costs Will Grow the Fastest Over the Next 30 Years and American Gothic

Primary Topic: Fiscal Deficits

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

PDF File URL: <https://www.edwardconard.com/wp-content/uploads/2024/07/w31577.pdf>

Permalink: <https://www.edwardconard.com/macro-roundup/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-n?view=detail>

Featured Image

Link: <https://www.edwardconard.com/wp-content/uploads/2023/08/Primary-Balance.png>