The New York Times

ECONOMIC VIEW

The National Debt Is Still a Problem

By N. Gregory Mankiw

June 20, 2019

“I’m the king of debt.” So declared Donald Trump while running for president in 2016. Alas, he was not kidding.

When President Trump moved into the White House, the government debt held by the public stood at $14.4 trillion. The most recent figure is $16.1 trillion. And under current law, that number will keep rising with no end in sight.

The debt rises when the government borrows to finance a budget deficit, and in some circumstances, running a budget deficit is reasonable.

Historically, the most important cause of large deficits has been spending on wars. During World War II, for example, deficits ballooned, and the government debt increased to 106 percent of gross domestic product in 1946 from 37 percent in 1941.

The alternative to running a large budget deficit during a major military conflict is substantially raising taxes. Doing so would be economically debilitating. It would also arguably be unfair to current taxpayers, who are already offering their blood and toil to preserve freedom for themselves and future generations. By running up the debt, the government requires future generations to foot part of the bill.

Running a large budget deficit is also reasonable during an economic downturn. Whenever the economy goes into recession, revenue from income and payroll taxes automatically falls, and spending on programs such as unemployment insurance automatically rises. Balancing the budget would require tax increases or spending cuts precisely when the economy can least handle them.

In fact, presidents of both parties often embrace deficit-enlarging policies to combat downturns. President Ronald Reagan cut taxes in 1981, and President George W. Bush cut them in 2001 and 2003 as the economy struggled with recessions. Similarly, President Barack Obama signed a sizable stimulus bill in 2009 to deal with the effects of the financial crisis. While economists debate the relative merits of tax cuts and spending increases to prop up a moribund economy, few criticize budget deficits during a time of high and rising unemployment.

But the current budget deficit is not as easily justified. President Trump says his goal is to scale back military entanglements around the world, so temporary wartime spending is no excuse.

Nor is the state of the economy. It is currently strong, with employment having grown robustly over the past two years. The unemployment rate is 3.6 percent, its lowest level since 1969.

In these circumstances the norm should be a small budget deficit, or even a surplus. But that is not the case now. In 2018, the deficit was 3.9 percent of G.D.P., compared with an average deficit of 2.1 percent of G.D.P. over the previous 70 years.

Even so, the current deficit is less worrisome than its trajectory. The Congressional Budget Office estimates that, under current law, the deficit will increase to 4.6 percent of G.D.P. in 2023. That projection is based on the plausible but optimistic assumption of continued economic growth and no major military conflict.

Because of these deficits, the government debt held by the public will rise to 85 percent of G.D.P. in 2023, reaching the highest level since 1947, the Congressional Budget Office says. And if current law remains unchanged, the debt will keep rising as a percentage of G.D.P., eventually reaching levels never seen in the United States. That is simply not sustainable.

What is to be done? Perhaps the wisest words on this topic come from an old New Yorker cartoon. In it, the president's advisers are huddled around his desk. They summarize the situation this way: "Our deficit-reduction plan is simple, but it will require a great deal of money."

If we are not going to saddle future generations with ever-increasing government debt, we need to find a great deal of money. That means either spending less or taxing more.

I would prefer to curb spending. For example, to prevent Social Security's funding shortfall from enlarging the government debt, we could slowly increase the age of eligibility. The government would still provide a safety net for the very old, but others would have to keep working or use their savings to pay for an earlier retirement.

But I recognize that my preferences might not reflect those of the body politic. Many people want a more expansive government to address such problems as the rising cost of health care and the explosion of student debt. Doing so would require higher taxes.

The conceit of some on the left is that all this can be done just by taxing the rich more. Yes, some revenue can be found there. Congress should reform the tax treatment of carried interest, which the finance industry uses to secure the lower capital gains rate for some forms of compensation. It should repeal the overly complicated and inequitable treatment of pass-through businesses in the 2017 tax bill. It could increase the corporate tax rate from 21 percent to, say, 25 percent, which would still be well below the 35 percent rate that prevailed when President Trump took office. Finally, it should strengthen tax enforcement so families like the Trumps pay what they owe.

But the problem of rising government debt is too large to solve simply by taxing a small sliver of the population. Congress will need to consider broader-based taxes, such as the value-added taxes that efficiently raise substantial revenue in many European nations.

If higher taxes are the eventual solution to rising government debt, as seems likely, then we all are going to have to pay more. If we don't, our children will.

N. Gregory Mankiw is the Robert M. Beren Professor of Economics at Harvard University.

A version of this article appears in print on June 23, 2019, on Page BU5 of the New York edition with the headline: The National Debt Is Still a Problem