Good afternoon,

The attached op-ed piece highlighting the current debt debate was written by Dr. Rik W. Hafer, professor of Economics in the Plaster School of Business & Entrepreneurship and Dr. Tawni Hunt Ferrarini, Robert W. Plaster Professor of Economic Education at Lindenwood University.

According to their research findings and professional assessment: *The total debt owed by the U.S. government to the public is nearly four-fifths the value of GDP, the dollar amount of all goods and services produced by our economy. According to the Congressional Budget Office (CBO), without any changes that number could grow to 150 percent of GDP in the next 30 years.*

As indicated below, Drs. Hafer and Ferrarini indicate this unpleasant scenario suggests that an ever-increasing government debt burden is a no-win situation for our long-run economic interest, and they continue by presenting the following potential options:

*Given the projected size of U.S. debt and less than robust economic growth, it is unlikely the U.S. economy can grow its way out of this situation. If actually reducing the debt is doubtful, how can we at least slow the increase in the debt? Realistically, there are only three options.*

> *Shrink government spending, or at least slow its growth.*
> *Increase government revenues by raising tax rates and expanding the tax base.*
> *Or combine tax increases with spending reductions.*

Many thanks for your consideration, and please do not hesitate to drop a line or call if you would like more information. I am also more than happy to connect you with Drs. Hafer and Ferrarini directly in the event you would like to know more about their research efforts.

Carol Felzien
636-627-2915
CFelzien@lindenwood.edu

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PRESS RELEASE
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# Op-Ed Release

**Hammond Institute for Free Enterprise**

**Contact**: Carol M. Felzien
**Phone**: cell – 636-578-6933 / office - 636-627-2915
**Email**: CFelzien@lindenwood.edu
**Date**: Dec. 19, 2017

**FOR IMMEDIATE RELEASE**

## Where is the Debt Debate?

Dec. 19, 2017 -- The total debt owed by the U.S. government to the public is nearly four-fifths the value of GDP, the dollar amount of all goods and services produced by our economy. According to the Congressional Budget Office (CBO), without any changes that number could grow to 150 percent of GDP in the next 30 years.

The looming debt problem is not getting sufficient coverage in the press and has largely been ignored in the tax-reform discussion. And that is problematic.

Tax reform is getting all the attention, given passage of the recent tax reforms. On one hand, that is promising. The U.S. tax system is overly complicated. On the other hand, ignoring the tax reforms' impact on the public debt is imprudent.

The current package of tax reforms will reduce revenues to the government while spending continues to rise. As the sum of what the government owes on past and future spending deficits plus interest gets bigger and bigger, so does the debt.

Why is dealing with the debt perhaps more important than reforming the current tax code? What does more public debt mean for the average household and business?

As debt mounts relative to what the U.S. economy can produce, investors—especially those in international markets—will become increasingly nervous about buying more of our debt. As concerns grow over the U.S. government's ability to spend responsibly and tax strategically, buyers of our government's debt will require higher and higher rates of interest. As interest rates paid by the federal government rise, so too will rates on mortgages, student loans, and small businesses loans.

This increase in borrowing costs means that it will become more expensive to expand businesses or start new ones. This could stall the already slow pace of economic activity. Any further slowing in economic growth translates directly into a reduced standard of living for future generations.

Slower economic growth also means less tax revenue accruing to the government. That will occur unless the lurking debt problem is addressed by increasing tax rates, broadening the tax base, or both. Unfortunately, these solutions to the debt problem also are likely to stunt economic growth.

This unpleasant scenario suggests that an ever-increasing government debt burden is a no-win situation for our long-run economic interest.

Given the projected size of U.S. debt and less than robust economic growth, it is unlikely the U.S. economy can grow its way out of this situation. If actually reducing the debt is doubtful, how can we at least slow the increase in the debt? Realistically, there are only three options.

Shrink government spending, or at least slow its growth.

Increase government revenues by raising tax rates and expanding the tax base.

Or combine tax increases with spending reductions.

Reducing government expenditures is an enormous hurdle. The CBO's projections of escalating government debt are based on two key factors: Our aging population, and our increasing dependency on government-provided social programs like Social Security and Medicare. Liberals and conservatives alike have grown accustomed to and increasingly turn to the government providing more and more services.

Cutting the growth of such services like Medicare to a growing segment of the population is unlikely.

More tax revenue could be raised to offset such increased spending if there is a broadening of the tax base, loopholes are closed, and lower tax rates provide people with stronger incentives to invest and work more. Unfortunately, the current version of the tax reform package will only make the impending debt problem worse.

Poorly designed tax reform combined with our current portfolio of government-funded social programs will only exacerbate the burgeoning federal debt and the problems associated with it.

Tawni Hunt Ferrarini

R.W. Hafer

Hammond Institute for Free Enterprise
Plaster School of Business
Lindenwood University
St. Charles, Missouri

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Dr. Rik Hafer, professor of Economics in the Plaster School of Business & Entrepreneurship, serves as director of the Center for Economics and the Environment (CEE), which is part of the Hammond Institute for Free Enterprise at Lindenwood University. For your reference and background, the CEE is currently ranked among the top 10 percent of all economics research departments in the world.

Dr. Tawni Hunt Ferrarini, Robert W. Plaster Professor of Economic Education at Lindenwood University, also serves as director of the Center for Economic Education in Lindenwood's Department of Education.

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