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POLICY SPOTLIGHT

A Roadmap to Sustainable Growth

Ending unlimited borrowing and strengthening US economic resilience

THOMAS HOENIG | SEPTEMBER 2025

A recent *Wall Street Journal* article documented how Americans overwhelmingly still desire all the traditional trappings of the American dream, but they no longer believe they can achieve it. This sense of lost opportunity is confirmed by the rising wealth disparity in the US. There is a growing divide between higher-income Americans and most everyone else.

While this wealth gap has many causes, two specific contributors need to be addressed, or our country will continue its downward spiral in social cohesion, political polarization, and economic prospects:¹

1. The Federal Reserve's (Fed's) massive printing of money, or quantitative easing (QE), and the deliberate extended suppression of interest rates, which favors the debtor and speculator over the saver
2. The short-horizon choices of Congress, which adopts budgets with too little concern for the weight of debt that future generations must bear.

1. QE and Artificially Low Interest Rates

In 2010 the Fed adopted QE as a normal component of its policy tool kit, although it's supposed to be used only in crises. Normally, when the government spends more than it receives in revenue, it must borrow from those who have saved. The amount of savings is limited, which traditionally constrained Congress's penchant to spend indiscriminately. However, the Fed has the unique, unlimited authority from Congress to create new dollars to buy this debt. Under QE, the Fed can fire up this printing press to address any perceived need. Basically, the Fed has given Congress a credit card without a limit.

¹ See Thomas Hoenig, "Economic Resilience: A Choice, Not an Entitlement," *FinRegRag*, October 25, 2024, <https://www.finregrag.com/p/economic-resilience-a-choice-not>. Scan the QR code below for the full analysis, including sources.



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While this policy is well intended, if used too readily it can have serious unintended consequences.

- With the Fed's extended response to two separate crises between 2007 and 2022, its balance sheet ballooned from \$900 billion to \$9 trillion.
- This burst of money, accompanied by low interest rates, expanded through the economy, dramatically and arbitrarily raising asset prices while productivity and real wages remained dormant. The policy's effect was to ignite asset inflation, redistribute wealth, and artificially create economic winners and losers.

With the advent of high consumer price inflation, reaching at least 9 percent in 2022, the Fed finally raised interest rates and paused QE. Since then, inflation has moderated and unemployment remains low. On this good news, the Fed has recently lowered interest rates and is promising more cuts soon.

2. Congress's Short-Term Focus

Looking beyond the immediate future, however, we should see that the US is at an economic policy crossroads. If we hope to have a resilient economy, our growing federal debt problem must be addressed. The Fed's QE program has become intertwined with fiscal policy by making it easy to borrow, and as a result, our national debt has increased nearly 155 percent in the past 15 years, from a mere \$13.5 trillion in 2010 to \$35 trillion today. Over that period, our debt-to-GDP ratio has increased from 90 percent to 122 percent. The interest we pay on that debt is nearly \$1 trillion and is among the government's largest expenditures.

If the growth in our national debt continues unchecked, the Fed will face enormous pressure to use QE to buy this debt. Doing so will undermine the economic health of future generations. The nonpartisan Congressional Budget Office projects that, under current spending laws and very favorable assumptions, the US gross debt will exceed \$50 trillion in a decade. The deficit alone will exceed 6 percent of GDP. US productivity will slow, causing real GDP to decline from an average of 2.2 percent currently to 1.8 percent through the decade. In real wealth terms, this means the US is sacrificing more than \$1 trillion in future wealth.

3. Policy Recommendations

Reversing these trends requires that we discipline our impulse to spend ever-greater sums, accumulate massive debt, and print dollars to buy the debt.

1. Congress must get its houses in order—whether that means spending cuts, tax increases, or both—and bring its budget into better balance. Once businesses and consumers are confident that policymakers are committed to a sound budget, the economy will prosper.
2. The Fed should retire QE except temporarily during the most severe economic crises. Too little attention is paid to the discipline demanded to achieve the Fed's mandate in the long run. The Fed has made it easy for lawmakers to avoid their responsibilities, becoming the enabler to a gridlocked Congress.

I am confident that if Congress brings the budget into better balance, and the Fed focuses its long-run mandates, this will change the course of our national economy for the better over the next decade.