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## POLICY SPOTLIGHT

# Public Debt and Economic Growth: What the Evidence Says

High and rising public debt is consistently associated with slower economic growth

JACK SALMON | SEPTEMBER 2025

**A** review of 70 empirical studies (2010–2025) reaffirms a critical economic insight: As US public debt exceeds 100% of GDP, the mounting burden carries real and measurable consequences for investment, interest rates, inflation risk, and long-term living standards.<sup>1</sup>

### Key Takeaways for Policymakers

1. **High Debt Slows Growth**
  - The central estimate across studies suggests that each 1-point increase in the debt-to-GDP ratio reduces economic growth by 1.34 basis points.
  - With US debt now over 100% of GDP—well above prepandemic levels—economic growth in 2025 is estimated to be about 0.27 percentage points lower than it would have been without the recent debt buildup.
2. **There's a Threshold—and We've Crossed It**
  - Of 48 studies that searched for a “tipping point,” 42 found a nonlinear threshold: Debt can stimulate growth when the debt is low but hinder growth when the debt becomes excessive.
  - For advanced economies, the mean threshold is 75–80% of GDP. The US crossed that line in 2020 and has not looked back.

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<sup>1</sup> See Jack Salmon, “The Impact of Public Debt on Economic Growth: What the Empirical Literature Tells Us” (Mercatus Policy Brief, Mercatus Center at George Mason University, August 2025). Scan the QR below for the full analysis, including sources.



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### 3. Why It Matters: The Crowding-Out Effect

- Rising government borrowing competes with private investment, pushing up interest rates. This reduces private capital formation, productivity, and wage growth.
- The Congressional Budget Office estimates that every dollar of additional deficit spending crowds out 33 cents of private investment.

### 4. Inflation and Market Risk

- Investors demand higher yields when they fear debt monetization and future inflation. This inflates borrowing costs and deters long-term investment.
- Persistent inflation risks also erode confidence in US fiscal and monetary credibility, raise debt costs, and put further pressure on future budgets.

## Why Growth Drag Is a Big Deal

Even a modest slowdown of 0.25–0.50 percentage points per year compounds significantly over time.

- An economy growing at 3% doubles every 23 years.
- At 2%, it takes 35 years.
- The difference represents a lost decade of progress, with real consequences for American families, jobs, and opportunity.

## Policy Implications: Rethink the Deficit Default

- Deficits are not free. The evidence shows they come with long-term costs.
- Borrowing should be strategic, not routine. Debt-financed stimulus may be justified in recessions, but not as a permanent fixture of economic policy.

## Bottom Line

Debt isn't destiny, but it does matter. The time for prudent fiscal planning is now. **Keeping public debt below 80% of GDP should be treated as a policy goal, not a relic of the past.**