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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 | JANUARY 2026 (UPDATED)

A review of 80 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.[1]

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 3.3 basis points.
   - With US debt now over 100% of GDP—well above prepandemic levels—economic growth in 2025 is estimated to be about 0.7–0.8 percentage points lower than it would have been without the recent debt buildup.

2. There's a Threshold—and We've Crossed It
   - Of 53 studies that searched for a "tipping point," 47 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.

[1] 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, January 2026). 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.**