

**Q: What's the different between the debt and the deficit?**

The deficit is the difference between federal revenue and spending in a given fiscal year. The debt is the amount owed to government creditors who have financed the government's borrowing.

**Q: What is public debt?**

The debt held by the public is a measure of the total debt held by individuals, corporations, and our government and foreign governments. Gross debt includes what the government has borrowed from itself—mainly from Social Security trust funds which ran large surpluses over much of the last two decades. The debt held by the public measures how much the government's borrowing absorbs from the rest of the economy.

**Q: We have heard about the government and the deficits for years. Why is now different?**

In fiscal year 2009, the United States had the highest one-year deficit as a share of the economy since the years shortly after World War II. While the debt usually goes up in times of war and economic downturns, it typically shrinks back down once the national crisis is over. But this time, we face the prospect of ever-growing government debt. Under reasonable assumptions about what Congress and the President are likely to do, the public debt will grow steadily as a share of the economy, reaching 85 percent by 2018, 100 percent by 2022, and 200 percent in 2038. (The average since World War II is below 50 percent).

**Q: What risks are we running as a country by having this debt?**

If we do not lower our government debt, we will see interest rates go up, wages stagnate, and our standard of living decline. Future generations will be left with the burden of paying for today's borrowing and spending. This will mean large tax increases and large spending cuts.

But it is not just the government that will pay more —families and businesses will have to pay more too. Everything from mortgages to school loans will cost more. So will business loans. Companies may not borrow money to expand their operations and entrepreneurs may be less likely to start new small businesses, the source of most new jobs in our economy. Ultimately, the economy will grow more slowly, wages will stagnate, and the U.S. standard of living will drop to well below where it should be.

**Q: How will debt affect the average American family?**

The increased federal debt will make it more expensive to borrow for housing, cars, and education. If people are unable to borrow money, they will not be able to buy a new house or send their children to college. Americans may not be able to borrow money or the interest rates will be so high that they will not be able to afford the loan.

**Q: How will debt affect the federal budget?**

As with personal credit cards or mortgages, the government cannot borrow for free and must pay interest. Who does the government pay interest to? Interest payments, now at 6 percent of the budget, will grow to 15 percent by 2018, squeezing out other budgetary priorities. Every dollar spent on interest is a dollar that might be spent on research, education, or tax cuts.

Government borrowing also affects the cost of individual borrowing. Our creditors have traditionally seen the United States and its debt as a secure investment. But as concerns about our fiscal stability grow, investors may not want to buy more U.S. debt. The U.S. Treasury will then have to raise interest rates on U.S. bonds to attract the funds we need, further increasing the interest burden on the budget.

**Q: How does debt hurt our economy?**

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**Q: Why use a debt to GDP ratio?**

Debt as a percentage of GDP, rather than a specific dollar amount goal, measures the economic capacity of a nation to afford its national debt. If the economy saw tremendous growth, a set dollar goal would be easily met by the increased government revenue that would result from economic growth and would represent a smaller drain on the economy. In contrast, debt as a percentage of GDP accounts for economic growth and decline and measures our ability to maintain a debt-to-income ratio.

**Q: Why 60 percent?**

The United States must persuade credit markets that it is serious about debt reduction. Global markets are more likely to embrace a plan if the goal has international credibility. The 60 percent debt threshold is now an international standard. A 60 percent target is the most ambitious and economically sensible target that can reasonably be achieved in this timeframe. Although the Commission sees the 60 percent as a ceiling, rather than a floor for our debt, prefers that the debt decline to pre-crisis levels—around 40 percent of GDP—the required changes could be economically damaging even if they were politically achievable. But policymakers should reduce the debt-to-GDP ratio further over time.

**Q: Won't cutting the debt now hurt the economy?**

We recognize the impact that cutting the deficit too quickly could hurt the economic recovery. Our plan recommends waiting to implement the policy changes until 2012. Making aggressive changes any earlier could harm the economy, particularly when unemployment is expected to remain high after reaching a 25-year high in October 2009 of more than 10 percent and the economy is expected to remain below its potential.

But if we wait too long, we will leave the country reliant on excessively high borrowing for too long. So far, the United States has been able to borrow at a lower rate and without too much trouble. But if the markets or our creditors get nervous about our debt, that could change abruptly—and are more likely to do so if no debt plan is put in place.