Current Scholarship

Does the national debt matter?

Authors: L. Randall Wray & Yeva Nersisyan

In this paper, we use the Modern Money Theory framework to analyze whether government debt (and deficits) in a country with its own sovereign currency presents a problem. We argue that permanent deficits and even a rising debt ratio are normal, especially in developed nations with current account deficits. In contrast to the conventional approach, which views deficits and debt as policy variables, we demonstrate that they are *ex post* outcomes which depend on economic performance. Further, in nations with sovereign currency, it is hard to imagine a scenario in which a rising deficit and the debt ratio would trigger an attack by bond vigilantes, lead to government insolvency, or generate high inflation or high interest rates. The claim that debt beyond a certain threshold impairs growth is also suspect since the observed empirical correlations are likely due to lower growth creating higher deficits. Lastly, we argue that deficit and debt ratios have no bearing on a nation's fiscal policy space, which depends on the real resources it can mobilize.

L. Randall Wray & Yeva Nersisyan (2021) Does the national debt matter?, The Japanese Political Economy, DOI: 10.1080/2329194X.2020.1867586