Lesson Overview and Introduction

The United States’ gross national debt, now more than $31 trillion dollars, is a significant concern of economists and policymakers. The national debt is the total amount of money that the federal government owes to its creditors, or those who have loaned money to the U.S. government. In this lesson, students will explore the difference between debt and deficit, two similar-sounding terms. (Deficit is the annual shortfall between government spending and revenue, and debt is the total of all deficits.) Students will then examine the causes and consequences of the national debt and how the debt affects the economy, including interest rates and government support for programs. Students will also examine the policy options for addressing the debt and the trade-offs and political considerations that come into play. By the end of the lesson, students will have a solid understanding of the impact of the growing U.S. debt on the economy and its implications for future generations.
Objectives

In this lesson, students will

- Students will understand the difference between debt and deficit.
- Students will understand the importance of putting the debt in context with the debt-to-GDP ratio.
- Students will understand the trade-offs and costs of large deficits and their projected effect on future generations.
- Students will examine potential solutions to the United States’ long-term fiscal problems.

Vocabulary

- Debt
- Deficit
- Surplus
- Fiscal ear
- Debt-to-GDP ratio
- Crowding-out effect
- Economic growth

Materials

Printed copy of this article from the Cato Institute: “The CBO Budget and Economic Outlook in the Post-COVID Fiscal Era”.

Printed copy of the chart “Solutions to the National Debt”

DAY ONE

Warm-Up (5–10 minutes)

Begin by asking the class a few questions, defining some key terms, and playing a short video clip.

Ask students if they know how much the total gross U.S. national debt is. Then show students the actual debt number using either this link from the Peter G. Peterson Foundation or this one from usdebtclock.org. Tell students that the class will discuss the reasons for this huge debt, understand the consequences for future generations, and study potential solutions.

Ask students what the difference is between these two similar-sounding terms: debt and deficit. Then define the following terms:

Deficit: When government spending exceeds revenues over a fiscal year

Surplus: When government revenues exceed expenses over a fiscal year
Debt: The total accumulation of deficits over time, offset by any surpluses over time

Ask the class if they think that someone who has $1 million in debt is in serious financial trouble. Then ask: What if that person is a billionaire? A person making $20,000 a year? Tell students that all debt needs context, including the national debt. Then define the debt-to-GDP ratio:

Debt-to-GDP ratio: A number that compares a country’s debt to what it produces every year (the gross domestic product [GDP])

Then play this video clip from CNN Business (2:49 minutes) that discusses the difference between the debt and the deficit and mentions the importance of the debt-to-GDP ratio. (Note: this video is from 2016, but the terminology is correct, and you can point out how much higher the debt numbers are today than just a few years ago.)

Next, show the class this debt-to-GDP graph from the Federal Reserve Economics Data (FRED) website for historical context.

Activity Part One (15 minutes): Causes and Costs of the National Debt

Step One: Go to this website from the Peter G. Peterson Foundation and display some charts and graphs (you may have students take notes.) Show students the graph “Our Debt over Time” and its debt-to-GDP projections into the future.

Step Two: Scroll down to the section “Three Major Drivers of Our Growing National Debt.” Go over the highlighted text and explain the visuals for the three main sections: Demographics, Rising Health Care Costs, and Inadequate Revenues.

Step Three: Scroll down to the section “What Is the National Debt Costing Us?” and show students the facts and charts about rising interest costs to service the national debt. Be sure to highlight the difference between the 2023 and 2033 projections of the government spending on interest, Social Security, and Medicare.

Step Four: Discussion/independent work. You may either discuss the following questions with the class or have students answer them on a worksheet.

Which of the three reasons (demographics, rising health care costs, and inadequate revenues) do you think is the largest driver of our national debt? Explain.

How much does the government spend on interest every day? What are some other uses that money could go toward?

Why does the national debt matter? Give specific examples.
Activity Part Two (20 minutes): Economic Outlook in the Post-COVID Fiscal Year

Step One: Project this article from the Cato Institute: “The CBO Budget and Economic Outlook in the Post-COVID Fiscal Era.” Explain figures 1, 2, and 3. Note the themes from the previous activity: increasing outlays relative to GDP and increased future spending on health care, Social Security, and interest.

Step Two: Have students read the article individually or as a class and answer the following questions individually, in small groups, or as a class.

• What is the current state of the U.S. federal budget deficit, and what factors have contributed to its growth?
• What does the Congressional Budget Office’s latest economic outlook report suggest about the U.S. economy’s debt projections in the short term and long term?
• How might rising debt payments affect the U.S. economy’s ability to address priorities such as defense, education, and health?
• What are some potential policy solutions for addressing the federal debt, and what are their respective advantages and disadvantages?
• How might the federal debt affect different groups of Americans, such as retirees, future generations, and low-income households?

DAY TWO

Activity Part Three (50 minutes): Solutions

Step One: Go to the finding solutions page on the Peter G. Peterson Foundation website. Show the class the eight proposed solutions for dealing with fiscal and economic challenges. Break the class into eight small groups, and assign each group one of the eight solutions. Each group should fill in its section of the following chart with a detailed description of the policy solution and its trade-offs.

Step Two: Option 1: Have each group give a brief presentation to the class, with classmates taking notes on their respective section of the chart. One option is to have students create a slideshow for their presentation.

Option 2: Have groups move around the classroom in a jigsaw format and spend a few minutes sharing their findings with other groups while completing the chart. Groups should move around the classroom until all sections are complete.
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<thead>
<tr>
<th>Solution</th>
<th>Notes</th>
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<td>Comprehensive Plans to Address the National Debt</td>
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<td>Tax Reform</td>
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<td>Health Care Reform</td>
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<td>Understanding the Budget</td>
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<td>Retirement and Social Security</td>
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<td>National Security Solutions</td>
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<td>Budget Process Reforms</td>
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<td>Supporting Democracy and Effective Policymaking</td>
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Step Three: Discuss the groups’ findings as a class. Ask:

- What proposed solutions did you find most persuasive? Least persuasive?
- What are the trade-offs of each proposed solution?

Extension

Option 1: Show the video IOUSA (30 minutes). Here are some possible questions to discuss or have students answer independently after the video. (Note: The video is more than a decade old, but the overriding themes remain relevant.)

- How does the national debt affect the U.S. economy (for example, interest rates, inflation, and economic growth)?
- What are some ethical and political considerations that come into play when addressing the national debt, such as the trade-offs between present and future needs, the distributional effects of debt reduction, and the role of democracy in fiscal policy?
- How might the national debt affect different groups of Americans, such as retirees, future generations, and low-income households?
- What can individuals and communities do to raise awareness and advocate for responsible fiscal policy, such as through civic engagement, personal financial responsibility, and public education?

Option 2: Have students develop their argumentative and critical thinking skills by writing a persuasive letter to the editor, a member of Congress, or a senator with a proposal for dealing with the national debt.

Option 3: Play the game The Fiscal Ship, which challenges students to put the federal budget on a sustainable path. Directions can be found in the Demo section of the website.