# *The Deficit Myth*

**Henry George School of Social Science**

Spring 2024

## *Week 4 (April 22 2024) Discussion Questions*

## *Chapter 3: "The National Debt (That Isn't)"*

- Explain the following terminology used by Kelton in Chapter 3:
  - Deficit hawks
  - Deficit doves
  - Deficit owls
  - Meganumophobia
- Explain Kelton's conclusion that the U.S. national debt poses no financial burden whatsoever.
- Explain why, per Kelton, we should not refer to the sale of U.S. Treasuries as "borrowing" or label those securities as "the national debt."
- Under what circumstances does an investor take on default risk when purchasing bonds issued by her own country's Treasury and denominated in her country's currency?
- Under what circumstances would a country that only "borrows" (i.e., sells debt instruments) in its own currency be forced to accept a market-determined rate of interest?
- Explain why, if the U.S. government were to substantially reduce the national debt, the economy might fall into a recession.

## *Chapter 4: "Their Red Ink Is Our Black Ink"*

- Explain the following terminology used by Kelton in Chapter 4:
  - Crowding out
  - Stock-flow consistency
  - Loanable fund theory
  - Policy variable
  - Yield curve control
- Explain why, in a 2-sector model of the economy, the sum of the financial balances of the government and non-government sectors must be zero (0).
- Explain the role that federal government sales of Treasury bonds play in managing interest rate levels.
- Suppose a country (other than the U.S.) s government decided to pledge to convert its domestic currency into U.S. dollars at a fixed exchange rate. Why would that government then have to give up control of its interest rates?
- Explain Kelton's conclusion that fiscal deficits increase our wealth and collective savings.