



The Daily Dish

Low-hanging Fruit on Affordability

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Affordability is a term that appears to be equally politically attractive and nebulously defined. But it would seem that anything that raises your income and lowers the cost of your lifestyle would fit the bill. So, here's the ticket: Reduce deficits and the debt. This would simultaneously raise the growth rate of income and reduce interest rates. The latter implies cheaper private credit and less need for taxes to cover the federal interest bill.

As background, note that from 1960 to 2000 - the 20th century - the United States had tight fiscal policies. Federal deficits averaged only 2.3 percent of gross domestic product (GDP), the historical record is full of anti-deficit actions such as the [Gramm-Rudman-Hollings Act](#), and the era ended with a budget in balance or surplus for 4 straight years.

At the same time, economic performance was quite good. Per capita GDP - roughly income per capita and a crude measure of the standard of living - grew at an average annual rate of 2.3 percent. Now, 2.3 percent doesn't mean anything to real people, but at that pace of growth the standard of living doubles every 30 years. So, in one working career the standard of living doubles and - to pick a random example - someone can leave the Navy, enter the steel business, send three children to college, and retire to Florida.

Now, look at 2000 to the present. Performance in the 21st century has been dismal. Deficits have averaged 5 percent of GDP, and GDP per capita has grown at an average rate of 1.3 percent. That one percentage point means that it now takes 52 years for the standard living to double. The hit to affordability is enormous. If the United States had continued at the previous 2.3 percent pace, there would be an additional \$20,000 of real GDP (in 2017 dollars) for every man, woman, and child. That's affordability!

How does this happen? Right now the federal government spends \$7 trillion, raises \$5 trillion in taxes, and borrows \$2 trillion. That \$2 trillion is not available for firms to borrow for mergers and acquisitions, training programs, new software, facilities expansion,

equipment investment, or any other potential enhancement to productivity. It is not available to families to send someone to job training or college. The federal government is “crowding out” those income-enhancing opportunities, has been doing so on a continuous basis for 25 years, and the toll it has taken is adding up.

Now, to be fair, federal profligacy is not responsible for all the worsened economic performance. But Eakinomics has no doubt that it has contributed to it and the cumulative price tag is real.

Cutting deficits and controlling the growth of debt is not just a matter of making the green eyeshades crowd happy. It is a route to lower interest rates, faster growth in the standard of living, and the ability to much more easily afford a lifestyle better than what will transpire if the United States continues on its current path.