

## WHEN WILL THE RISING LEVEL OF U.S. DEBT BECOME A CRISIS?

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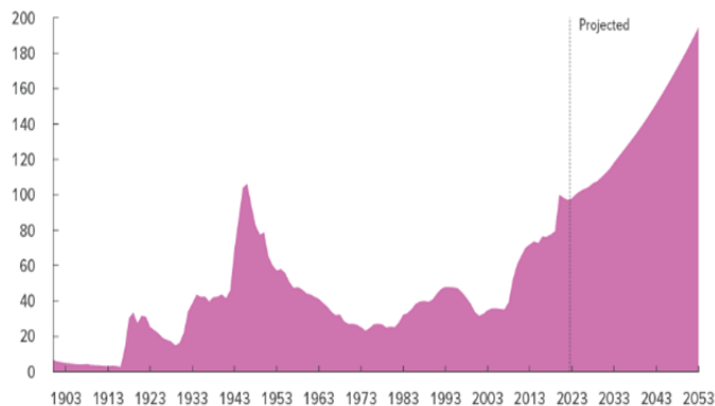


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To us, it's just a matter of time before the massive increase in our nation's debt becomes a crisis. While that time may be far into the future, the longer it takes for our lawmakers to address the problem, the more difficult it will be to solve. The Congressional Budget Office (CBO) estimates that this year, the U.S. government debt held by the public will exceed 100% of Gross Domestic Product (GDP). This will be the second highest level since 1900, surpassed only during World War II. As shown below, projections by the CBO suggest that, under current law, the federal debt will reach 118% of GDP within the next ten years, with a further increase to about 195% of GDP by 2053. This will far exceed anything the U.S. has ever seen.

Federal Debt Held by the Public, 1900 to 2053

Percentage of GDP



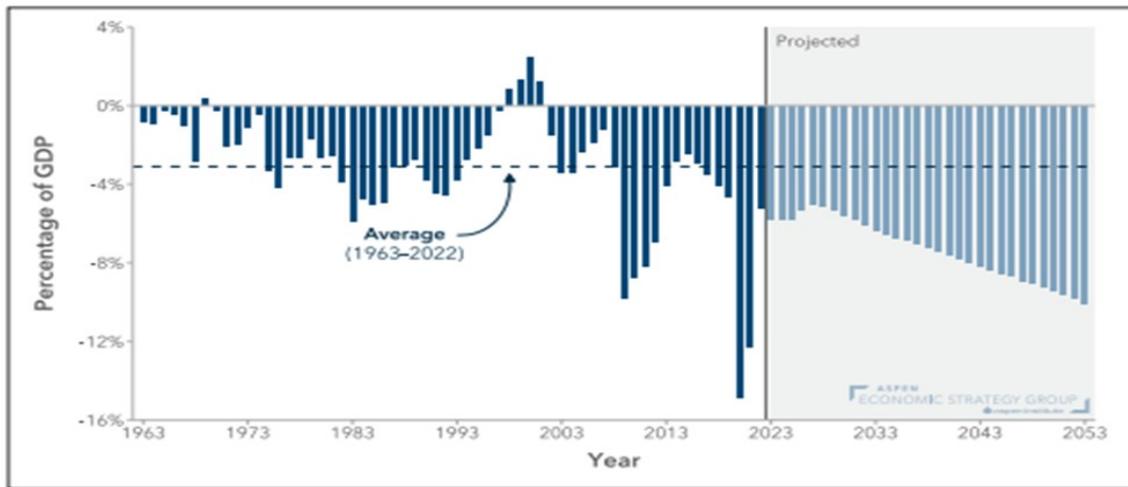
Federal debt held by the public is projected to increase in each year of the projection period and to reach 118 percent of GDP in 2033—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 195 percent of GDP in 2053.

A federal deficit occurs when U.S. government spending exceeds its revenue, and the government needs to borrow to make up the difference. The federal debt is the accumulation of federal budget deficits over time. It is not uncommon for the U.S. federal government to have a budget deficit. In fact, the U.S. has experienced a budget deficit every year for the past 22 years and a budget surplus only five times in the last 60 years.

If the economy is growing, incurring deficits that are modest in size is sustainable. However, the current size of the federal deficits, while smaller than its pandemic highs from 2020 and 2021, is large by historical standards (see chart below). Moreover, under current law, the annual budget deficit is projected to climb much higher over the next three decades, reaching 10% of GDP by 2053. The result is the massive projected debt as a percentage of GDP shown in the chart above.

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Figure 2. Federal Deficit and Surplus, 1963-2053



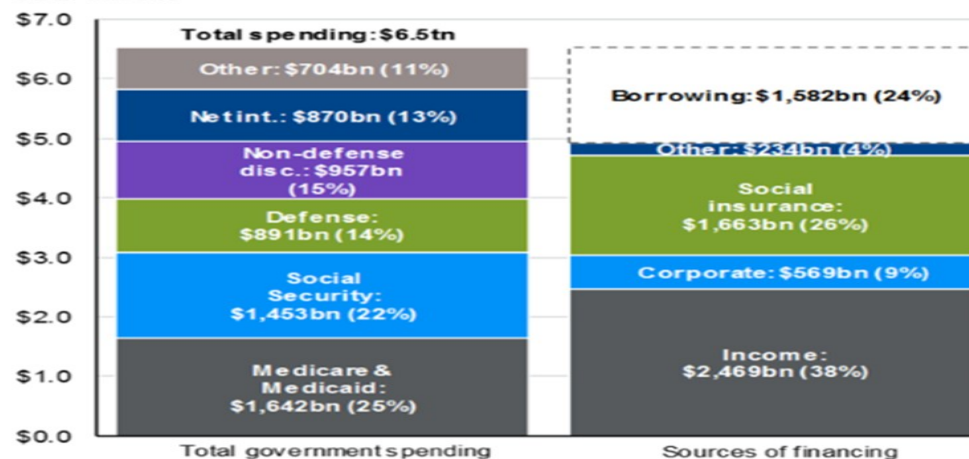
Source: CBO (2023c).

**Risks from Massive U.S. Debt:** Many economists say that rapidly mounting debt will eventually diminish U.S. economic growth, restrict government spending on important programs, and raise the likelihood of a financial crisis. Unfortunately, U.S. lawmakers have been unable to agree on long-term budget reforms that would tame the debt. This is because reducing the growth in the debt will require Congress to make politically difficult decisions to either curb spending, raise taxes, or both.

**What Does the Federal Government Spend Money On?** The federal budget is divided between mandatory spending, discretionary spending, and interest payments on the debt. Most of the budget goes toward mandatory spending, which is automatic unless Congress passes legislation that alters it. This spending primarily consists of entitlement programs, such as Social Security, Medicare, and Medicaid. The remainder goes toward discretionary spending, which Congress must authorize each year through the appropriations process, and debt service. In fiscal year 2023, only 28% of federal spending went toward discretionary programs, with nearly half of that being defense spending.

**The 2024 federal budget**

USD trillions



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### Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
  - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
  - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

**Primary Drivers of Debt Growth:** The nonpartisan Congressional Budget Office (CBO) projects the main drivers will be mandatory spending programs, namely Social Security, Medicare, and Medicaid. **The aging U.S. population is a key factor contributing to higher projected government spending on these programs.** The proportion of the U.S. population aged 65 and older has already risen from approximately 12% in the first decade of the 2000s to 17% in 2023, with projections indicating a further increase to 22% by 2050. This aging of the U.S. population will result in tremendous increases in Social Security and Medicare spending.

**Interest Expense:** Also very concerning, interest payments on the debt are expected to increase dramatically. As a percentage of GDP, interest payments have recently risen to their highest levels in more than twenty years, as the Federal Reserve raised short-term rates sharply in 2022 and 2023. In fiscal year 2023, net interest payments on the national debt reached \$659 billion—about 2.5% of GDP—and they are projected to surge to nearly 7.5% of GDP over the next thirty years. On the other hand, discretionary spending, such as defense spending, is expected to remain constant as a share of GDP.

Despite reasons for concern, the rapid rise in U.S. debt is not a near-to-medium term threat. But ever-rising debt levels eventually will force the federal government to make tough policy choices, potentially impacting companies, industries, and individual consumers. One likely consequence would be higher interest rates due to a greater supply of Treasury securities. Higher taxes might also be required to meet debt service payments.

Slower economic growth also could be expected, given that government spending would need to be re-routed to debt service. For investors, this could lead to lower stock market returns over time, given the strong long-term correlation between GDP growth and market returns.

There are no easy solutions to solve the nation's debt dilemma. But at \$33 trillion and growing, policymakers will inevitably have to address the situation or deal with even more dire consequences.