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U.S. Debt: Going From Bad To Worse

Policymakers need to change the nation's fiscal course.

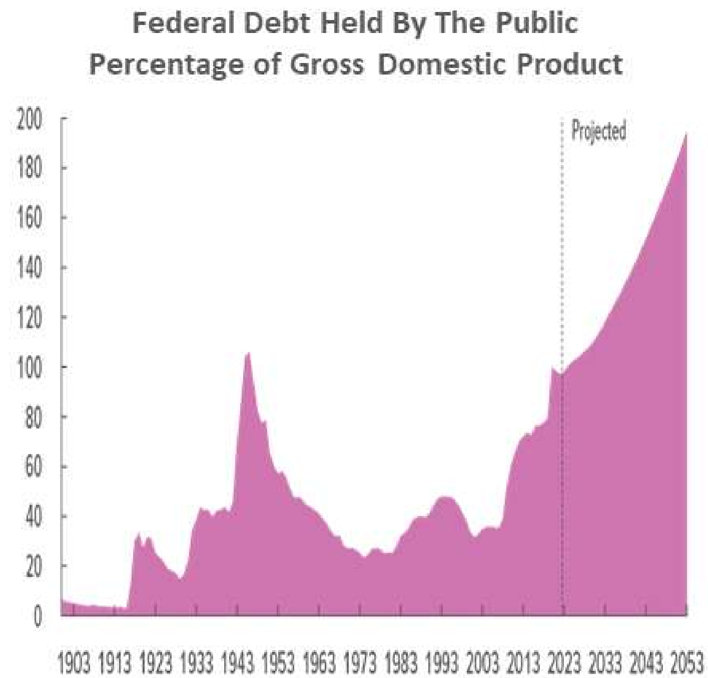
By Ryan James Boyle

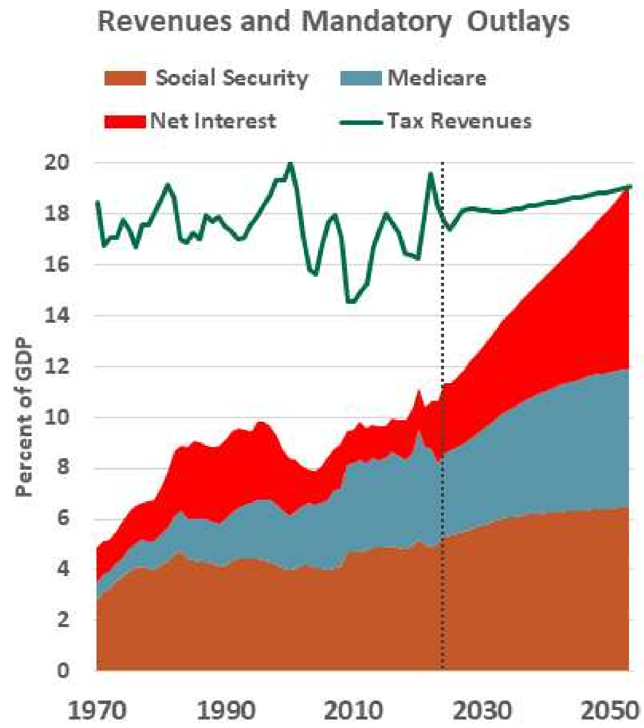
This week, the U.S. Congressional Budget Office (CBO) updated its **ten-year Budget and Economic Outlook**. The figures are sobering. The federal government's ratio of debt to gross domestic product (GDP) will rise from 97% in 2022 to 118% in 2033. While the outlook for tax revenues as a share of GDP is steady, higher interest rates and greater mandatory outlays will push the government deeper into a hole. Extending these trends another two decades, current policies will put the U.S. on track to reach debt equal to 195% of GDP in 2053.

The CBO's analyses make as few assumptions as possible. Their authors take tax codes, policies, and growth trends as they are, and extrapolate them. Indeed, the outlook benefits from the scheduled 2025 expiration of the temporary tax cuts passed in 2017; in the past, Congress has voted to sustain similar policies. The CBO conservatively assumes a recession and increase in unemployment this year, leaving room for a more favorable outcome. But a short recession today will not alter the nation's long-run fiscal balance.

The CBO report also looked at the dynamics surrounding the **debt ceiling**. The CBO estimates that the ceiling will become binding **in July**, with risk of an earlier x-date if April tax collections fall short of estimates. This deadline has put a renewed focus on government spending.

Auto production has recovered, but is still well short of pre-pandemic levels.

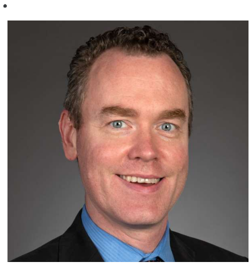




Source: CBO

Debt limit discussions, thus far, have been centered on what *won't* be cut. Both Republicans and Democrats agree that Medicare and Social Security benefits are off limits. Amid high geopolitical tensions, no one is proposing to reduce military spending. Skipping interest payments is certainly not an option. The remainder of discretionary spending left to cut is quite limited. And any proposal to raise taxes will meet a quick end in the current divided government.

As illustrated by the Committee for a Responsible Federal Budget's **interactive Debt Fixer tool**, any path to a balanced budget will require more substantial policy changes than are currently on the table. This week's CBO report outlines the urgency for all parties to come to the table soon.



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