The Fiscal & Economic Challenge

America’s fiscal health and economic strength are closely linked. A strong fiscal foundation creates conditions that encourage economic growth, enabling an environment with greater access to capital, increased public and private investments, enhanced business and consumer confidence, and a solid safety net. These factors, in turn, improve the lives of Americans, supporting a vibrant economy with rising wages and greater opportunity, productivity, and mobility.

Unfortunately, America remains on an unsustainable fiscal path, which threatens our economy. Debt is already at its highest level since just after World War II, and annual deficits are on a steep upward trajectory in the years to come.

Our Current Fiscal Path

The non-partisan Congressional Budget Office (CBO) projects that national debt could rise to 147 percent of gross domestic product (GDP) by 2049 under current law. That level of debt would far exceed the 50-year historical average of 41 percent of GDP.
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One of the most damaging effects of rising debt is rapidly growing interest costs. Under current law, CBO projects that interest payments on the debt will quadruple over the next 30 years, climbing from 1.6 percent of GDP in 2018 to 6.3 percent in 2048. In 30 years, CBO projects that interest costs alone could be more than twice what the federal government has historically spent on R&D, nondefense infrastructure, and education combined.
Drivers of the Debt

What is causing the growth of our national debt? The growth of our debt stems from a fundamental imbalance between spending and revenues. Under current law, CBO anticipates that federal spending will grow from 20.6 percent of GDP in 2018 to 28.9 percent of GDP in 2049. Revenues are also projected to increase during this period, growing from 16.6 percent of GDP in 2018 to 19.6 percent in 2049 — but not by enough to match the projected growth of federal spending.
There are two primary drivers behind the large growth in spending: America’s aging population and rising healthcare costs per capita.

The most significant driver of spending is simple, predictable demographics. The leading edge of the baby boom generation has already reached retirement age. In addition, Americans are living longer, on average, which means that seniors will spend more years in retirement.

In the coming decades, these factors will add substantially to the number of people supported by programs targeted to older Americans, such as Social Security and Medicare. By 2034, when the Social Security Trustees estimate that the Old Age and Survivors Trust Fund will be depleted, the number of beneficiaries is projected to total 74 million people, or about 40 percent more than in 2018. Over the same period, the ratio of workers paying taxes to support each Social Security beneficiary will decline from 3:1 to 2:1.
The second primary driver of spending is growing healthcare costs per capita. Even after incorporating a modest recent slowdown of healthcare cost growth into its projections, CBO still expects that current-law spending by the federal government on major healthcare programs will rise sharply from 5.2 percent of GDP in 2018 to 9.2 percent of GDP in 2048. The Centers for Medicare & Medicaid Services projects that healthcare spending by all sectors of the economy — government, business, and consumers — will climb to 19 percent of GDP by 2025.

Why Debt Matters

With retirement and healthcare programs growing at a faster pace than tax revenue, our fiscal outlook is unsustainable — and that affects our economy. Within the budget, rising interest costs will squeeze other federal programs that help support future growth, including education, transportation and other physical infrastructure, research and development, and national security. Increased federal borrowing also crowds out private investments that promote growth in the economy and increases the possibility of a fiscal crisis in the future. In addition, programs that protect the most vulnerable Americans could face sharp, sudden reductions if we don’t have a sustainable fiscal outlook.
The good news is that this problem is solvable. We can choose a better path — a path of stabilized debt, faster economic growth, broader prosperity, and enhanced economic opportunity and mobility.

The content in this section examines our long-term fiscal challenges in greater detail, including the major drivers, and the fiscal and economic impacts of failing to act.

Key Drivers of the Debt

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