The Fiscal & Economic Impact

A strong fiscal outlook is an essential foundation for a growing, thriving economy. Putting our nation on a sustainable fiscal path creates a positive environment for growth, opportunity, and prosperity. With a strong fiscal foundation, the nation will have increased access to capital, more resources for public and private investments in our future, improved consumer and business confidence, and a stronger safety net.

However, if we fail to act, the opposite is also true. If our long-term fiscal challenges remain unaddressed, our economic environment weakens as confidence suffers, access to capital is reduced, interest costs crowd out key investments in our future, the conditions for growth deteriorate, and our nation is put at greater risk of economic crisis. If our long-term fiscal imbalance is not addressed, our future economy will be diminished, with fewer economic opportunities for individuals and families, and less fiscal flexibility to respond to future crises.

The following summarizes several of the negative ramifications of our growing debt:

**Reduced Public Investment.** As the federal debt increases, the government will spend more of its budget on interest costs, increasingly crowding out public investments. Over the next 10 years, the Congressional Budget Office (CBO) estimates that interest costs will total $6.9 trillion under current law. In just under a decade, interest on the debt will be the third largest “program” in the federal budget — and it is on pace to become the single largest by 2048. Interest costs, however, are not investments in programs that build our future. Instead, they are largely about the past. And as more federal resources are diverted to interest payments, fewer will be available to invest in areas that are important to economic growth. Although interest rates are currently low, we can’t expect that situation to last forever. As economic growth improves, interest rates are likely to rise, and the federal government's borrowing costs are projected to increase markedly. By 2048, 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.
Reduced Private Investment. Federal borrowing competes for funds in the nation’s capital markets, thereby raising interest rates and crowding out new investment in business equipment and structures. Entrepreneurs face a higher cost of capital, potentially stalling innovation and slowing the advancement of new breakthroughs that could improve our lives. At some point, investors might begin to doubt the government’s ability to repay debt and could demand even higher interest rates, further raising the cost of borrowing for businesses and households. Over time, lower confidence and reduced investment would slow the growth of productivity and wages of American workers.

Fewer Economic Opportunities for Americans. Growing debt also has a direct, real world effect on the economic opportunities available to every American. Based on data provided by CBO in its report The Deficit Reductions Necessary to Meet Various Targets for Federal Debt, the real (inflation-adjusted) income for a 4-person family could be reduced by as much as $16,000, on average, by 2048 as a result of rising federal debt. That amount would represent a 4.4 percent loss of income, compared to incomes if the debt is stabilized.

In addition, the debt negatively impacts economic opportunity and social mobility because it crowds out investments that help Americans get ahead. Higher interest rates make it harder for families to buy homes, finance car payments, or pay for college. Fewer education and training opportunities would leave workers without the skills to keep up with the demands of a more technology-based, global economy. Faltering support for research and development would make it harder for American businesses to remain on the cutting edge of innovation, and would hurt wage growth in the U.S. Slower economic growth generally would also make our fiscal challenges even worse, as lower incomes lead to smaller tax collections and put the federal budget further out of balance. Vital safety net programs would come under even greater budgetary pressure, threatening support for those who need them most.
Reduced Fiscal Flexibility. High levels of debt also reduce our government’s flexibility to respond to future emergencies, unanticipated challenges, wars, or recessions. Indeed, one reason why the United States was able to recover from the Great Recession more quickly than other countries was because our debt was fairly low — at 35 percent of GDP — before the financial crisis began. As a result, U.S. policymakers had considerable flexibility in addressing the crisis. If debt had been significantly higher at the start of the crisis as it is now, it would have been difficult to respond. Similarly, the United States had the fiscal wherewithal to meet the considerable demands of fighting World War II because debt was relatively low before the war.