Debt Threat: The National Debt and You

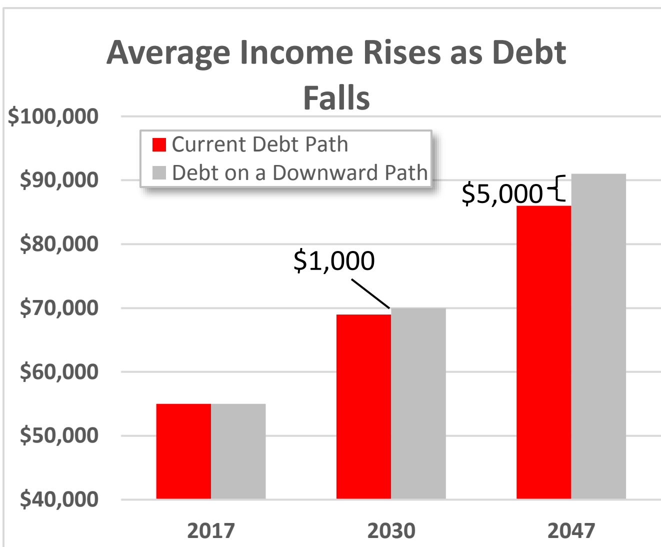
The U.S. national debt is at post-war record highs, both in dollars and as a share of the economy. And not only has it grown from 35 percent of GDP in 2007—about the post-war average—to 77 percent today, it is projected to exceed the entire economy in less than 20 years.

Ever-growing levels of debt threaten citizens' and families' economic well-being in a number of ways. A large debt:

- Hurts wages and jobs
- Makes borrowing more expensive for important investments
- Harms our children
- Threatens the safety net
- Risks a real crisis
- Prevents us from growing the economy

Lower Income and Fewer Job Opportunities

As the government continues to issue more and more debt, the debt "crowds out" productive investments in people, machinery, technology, and new ventures. This diminished private investment results in fewer job opportunities and lower income.



According to the Congressional Budget Office, average income will grow more slowly over the next 30 years than if Congress put debt on a downward path.[1] **<u>In today's dollars, that's $5,000 less income per person. Over 30 years of working, it represents $55,000 in lost income.</u>**

Increased Costs of Home, Auto, Student and Credit Card Loans

Growing national debt can drive up interest rates throughout the economy, leading to higher interest payments on mortgages, car loans, student loans, and credit card debt.

Although rates are currently low – due mainly to the weak economy and temporary efforts by the Federal Reserve to keep them down – they will most certainly rise as the economy recovers, and they will rise much higher if debt continues to grow.

[1] Debt on a "downward path" is measured by $4 trillion of additional savings over the next ten years, as opposed to staying on the current path. Figures based on per-capita GNP, a measure of the country's income divided by the country's population.

1900 M Street, NW · Suite 850 · Washington, DC 20036 · (202) 596-3597 · www.fixthedebt.org

Reducing the debt will help lower costs for middle-class families. Growing debt levels, on the other hand, will increase interest costs, squeeze family budgets, and put important family investments out of reach. In 30 years, interest rates would be about three-quarters of a point higher because of debt.[2] Put another way, a family with a $300,000 mortgage can expect to pay at least $45,000 more over the course of the mortgage.

Less Room for Investment in Infrastructure, Research, and the Next Generation

Growing national debt means that the government must pay higher interest payments to service that debt. Interest will represent the fastest growing part of the federal budget. The nonpartisan Congressional Budget Office projects interest costs will triple from $270 billion in 2017 to $820 billion in ten years. By 2029, 100 percent of the revenue we collect will go toward interest payments and mandatory spending. That leaves little room for important priorities and investments such as national defense, education, infrastructure, low-income support, and basic research. As more of our budget goes to financing today's spending and yesterday's promises, spending targeted toward the next generation will continue to dwindle.

A Threatened Social Safety Net

The trustees who oversee Social Security and Medicare estimate both are on a road to insolvency. Social Security's Disability Insurance trust fund will become exhausted in about a decade in 2028, and Medicare's Hospital Insurance trust fund will be exhausted in 2029. By 2034, the combined Social Security trust funds are expected to run out of money, at which point all beneficiaries – regardless of age, income, or ability to work – will receive an immediate 23 percent cut in benefits. For a typical 40-year old today, failure to act will mean more than $120,000 in reduced lifetime Social Security benefits, in today's dollars.[3]

An Increased Likelihood of a Fiscal Crisis

Failure to get the national debt under control could precipitate a crisis where investors are no longer willing to loan money to the government at affordable rates. Although no one knows when such a crisis would come and exactly what it would look like, international examples suggest there could be large investment losses, tanking markets, sharply rising interest rates, mass unemployment, rapid inflation, and/or devastating austerity causing sharp drops in public investment.

A Missed Opportunity to Grow the Economy

Deficit reduction legislation presents an opportunity to enact pro-growth tax reform, improve government programs to reward work and savings, re-orient spending to important investments, and capture the economic benefits of putting the debt on a sustainable path. The Congressional Budget Office estimates debt reduction alone could increase the size of the economy by nearly 6 percent by 2047.[4] Tax reform has the potential to generate up to **another** 3.5 percent over the long run, and a few modest entitlement reforms could add an additional 2 percent by 2035.[5] Putting in place a credible, smart plan now would allow us to implement changes gradually in a way that actually accelerates the recovery through increased certainty and confidence. A comprehensive debt plan represents the best opportunity to enhance long-term economic growth.

---

[2] CBO, "2017 Long-Term Budget Outlook."

[3] Calculated using Census and SSA data for the average wage, life expectancy, and benefit payment. See How Old Will You Be When Social Security's Funds Run Out? for your age.

[4] CBO, "2017 Long-Term Budget Outlook."

[5] Tax reform: Joint Committee on Taxation; Entitlement reform: CRFB