



We're Reaching the Point of No Return on Federal Debt

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Most people understand that there's a point at which borrowing more money isn't the solution — it's the problem. For people, bankruptcy offers a last resort escape from debt, and financial markets work diligently to avoid lending to those who might not be able to repay. The United States government, however, has no such safety net, making it imperative to gauge just how much debt is sustainable. This is where the concept of fiscal space becomes critical — it measures the buffer between current debt levels and the point of no return.

The challenge we face is not merely a collection of numbers. It's about the future economic stability of our nation. My recent analysis, underpinned by the Congressional Budget Office's projections, reveals that if we maintain our current fiscal trajectory, we will see our borrowing capacity, our fiscal space, begin to erode rapidly by 2032.

The federal government's historical reliance on borrowing has allowed it to tackle crises effectively. Yet since the pandemic, the public debt has ballooned by \$9.1 trillion. This could be manageable if our economy were growing rapidly or if we weren't consistently running deficits. But neither condition holds true. Thus, we're facing the possibility of a debt spiral, where borrowing to cover interest payments leads to ever-increasing debt levels. This isn't a hypothetical scenario. It's a realistic forecast if we don't alter our course.

Debt in itself is not the villain. It's a tool that can demonstrate a nation's strength when it is used wisely. U.S. Treasuries have been the cornerstone of the global financial system, offering a safe haven for investors around the world. This confidence has been key in navigating past crises. But continued borrowing must be tempered with sustainability, and it's here that we find our path wanting.



Fiscal space is influenced by numerous factors, including economic growth, interest rates, and the perceived stability of our institutions. We are accustomed to the ebb and flow of fiscal space with economic cycles, but the rate at which it is expected to shrink signals the urgent need for recalibration.

Economic growth and interest rates are the two main levers of fiscal space. Encouragingly, even modest economic growth can stave off the reduction of fiscal space. On the other hand, a rise in interest rates could hasten the approach of a debt spiral. Policy must focus on boosting growth and keeping borrowing costs manageable, requiring a hard look at federal spending.

Immigration and trade policy also play significant roles in preserving our economic health. A robust workforce fueled by net migration supports economic expansion, while open trade policies enable us to tap into global markets, increasing competitiveness and providing a cushion against fiscal shocks. Overly restrictive policies are not in the nation's interest because they risk constricting growth and diminishing fiscal space.

We stand at a crossroads with high stakes. Without proactive measures, our capacity to deal with future crises, whether a natural disaster, an economic recession, or a pandemic, could be severely compromised. The esteem in which U.S. financial instruments are held globally depends on our ability to manage our finances prudently.

Practically, this means we must address our budget deficit, targeting a reduction of around \$2.4 trillion over the next decade. It means sustaining economic growth by judicious tax policies that do not exacerbate our debt. It calls for a careful examination of discretionary spending to ensure that it contributes to, rather than detracts from, our innovation and competitiveness.

This is not a call for austerity or a reduction in our ability to invest in our nation's priorities. Rather, it's an argument for preserving our financial agility to ensure that when the next crisis hits, we can face it without endangering the economic stability of future generations.

Our choices today will define our nation's legacy. By acting wisely now, we can maintain our country's ability to borrow when necessary, keep our debt sustainable, and ensure that U.S. Treasuries remain the global standard of financial security. The responsibility falls not just on policymakers but on all of us to demand a sustainable fiscal strategy that will carry us into a secure future.

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