

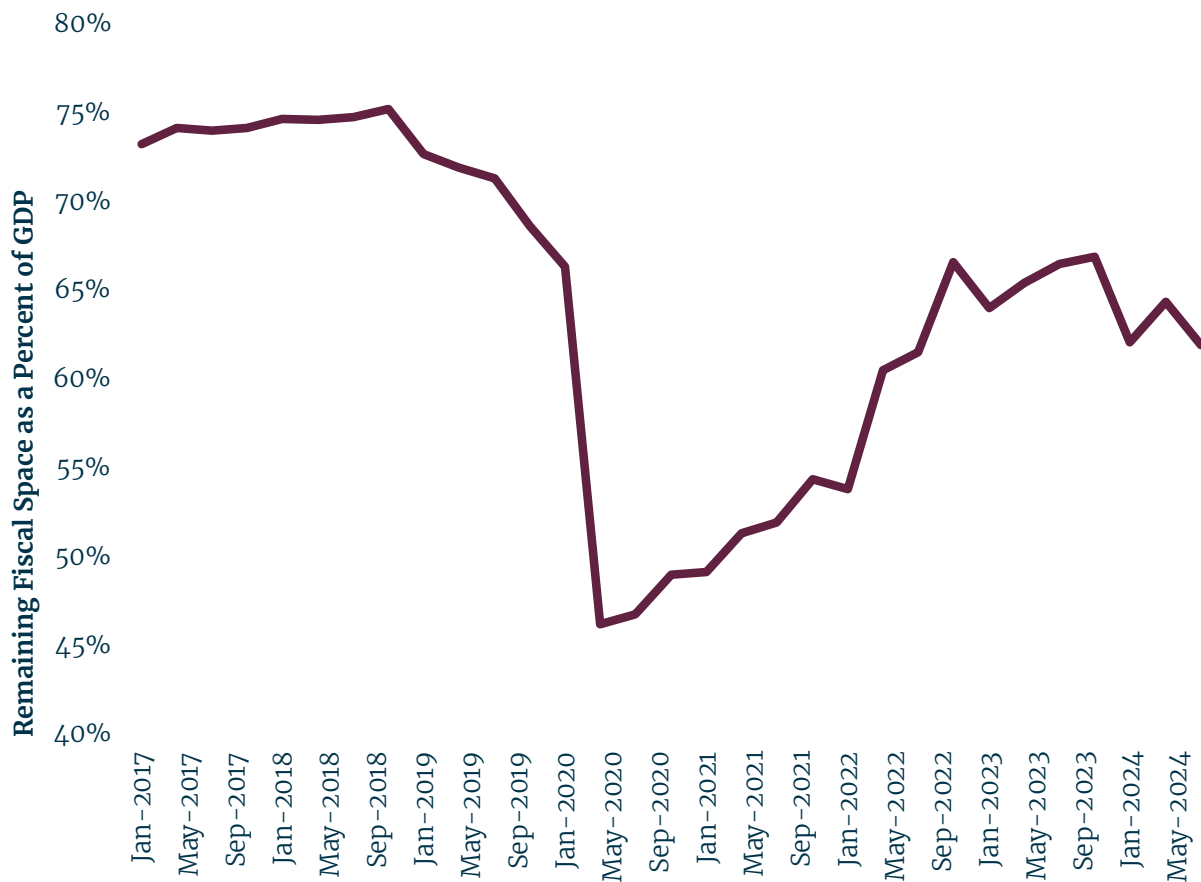


## ECONOMIC POLICY INNOVATION CENTER

### The Fiscal Red Line: How Close is the U.S. to Its Borrowing Limit?

The United States' fiscal space has narrowed considerably since 2017. The fiscal response associated with the pandemic and Biden-era legislation has reduced remaining fiscal space. Under current law, fiscal space erodes within the next two decades primarily because of compounding costs associated with servicing the federal debt.

Figure 1. Fiscal space as a percent of GDP, 2017 to 2024.



Read the full paper at: [EPICforAmerica.org](https://epicforamerica.org)

## What is the ‘Fiscal Limit’ and ‘Fiscal Space’?

The fiscal limit marks the debt threshold beyond which government borrowing becomes unsustainable. Fiscal space, then, is the gap between current debt and the fiscal limit. It is the room a government has to undertake additional borrowing without undermining debt sustainability or risking a loss of market confidence. Maintaining sufficient fiscal space is a form of insurance against events that have fiscal responses such as war, natural disasters, pandemics, or recessions.

Dr. Paul Winfree discovered that from 2017 to 2015, U.S. fiscal space declined from roughly 73 percent of GDP to about 62 percent.

## What Can Congress Do to Prevent a Debt Spiral?

While the U.S. still retains significant fiscal space, that space has been shrinking as debt rises faster than GDP. If current policies remain unchanged and another major fiscal shock (comparable to the COVID-19 response) occurs, the U.S. could approach or surpass its estimated fiscal limit.

The Trump administration and Congress can build fiscal space back to its 2017 level, while extending the expiring provisions of the TCJA. This can be achieved by implementing policies that increase annual economic growth and reducing spending by an achievable \$100 to \$140 billion per year. This would set up base level reforms on which to build more comprehensive reforms in the next decade to prevent a complete erosion of fiscal space.