



Testimony

Before the Subcommittee on Financial
Institutions and Monetary Policy,
Committee on Financial Services,
U.S. House of Representatives

For Release on Delivery
Expected at 10 a.m. ET
Tuesday, June 6, 2023

THE NATION'S FISCAL HEALTH

Action Needed to Address Projected Unsustainable Debt Levels

Statement of Jeff Arkin, Director, Strategic Issues

June 6, 2023

Chairman Barr, Ranking Member Foster, and Members of the Committee:

Thank you for the opportunity to join you today to discuss the nation's unsustainable fiscal path, the risks posed by debt limit impasses, and actions Congress can take to address these challenges.

Last month we issued our seventh annual fiscal health report to examine the current fiscal condition of the federal government and its future fiscal path, absent policy changes in revenue and program spending.¹ The report highlights long-term projections from GAO and others showing that the balance of current revenue and program spending policies result in debt growing faster than the economy. This is unsustainable over the long term. Rising debt, relative to economic growth, could increase borrowing costs for both the federal government and private borrowers and could slow economic growth. In addition, delays in raising or suspending the debt limit—the legal limit on the total amount of money that the federal government is authorized to borrow to meet its existing legal obligations—pose additional risks to the long-term fiscal outlook.²

My testimony is based on our prior reports on the nation's fiscal health and federal debt management. A detailed discussion of the prior reports' objectives, scope, and methodologies, including our assessment of data reliability, is available in each of the reports cited throughout this statement. The work upon which this testimony is based was conducted in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

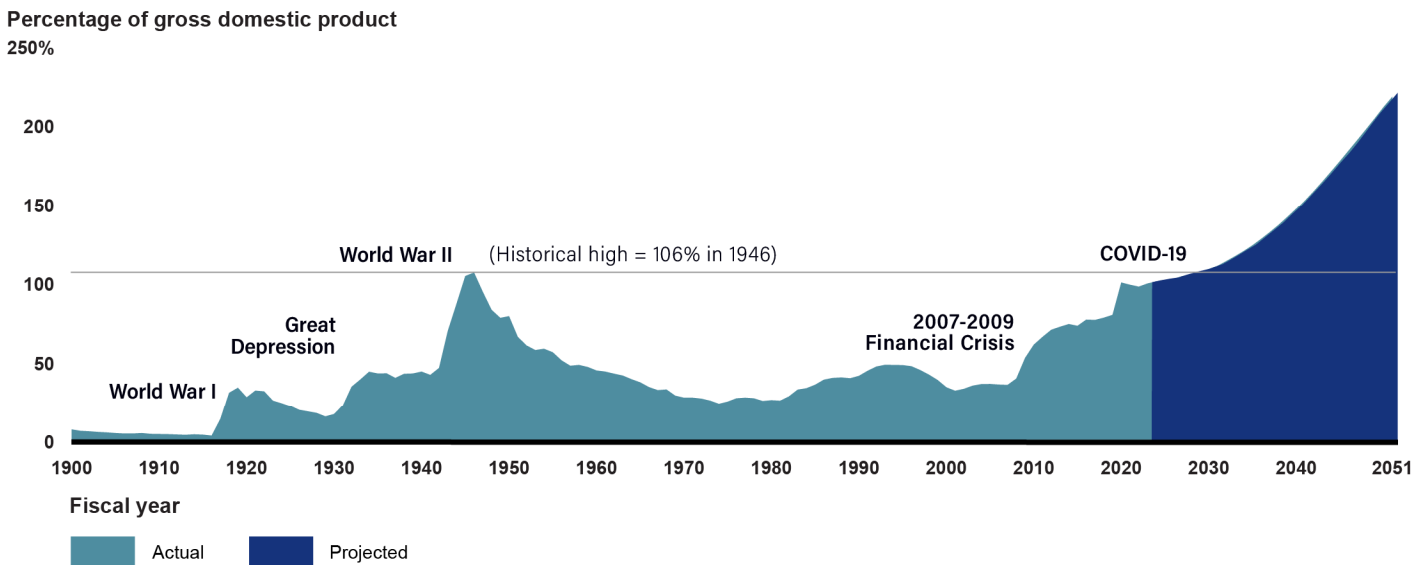
¹GAO, *The Nation's Fiscal Health: Road Map Needed to Address Projected Unsustainable Debt Levels*, [GAO-23-106201](#) (Washington, D.C.: May 8, 2023).

²The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and includes federal debt issued pursuant to authority under Title 31, Chapter 31 of the United States Code.

Increasingly Large Budget Deficits Drive Unsustainable Long-Term Debt Levels

For most of the nation’s history, the federal government’s debt held by the public as a share of the economy—gross domestic product (GDP)—has increased during wartime and recessions but decreased during peacetime and economic expansions (see fig. 1). For example, publicly held debt as a share of GDP rose significantly during World War II but decreased rapidly in the post-war years. More recently, this pattern has changed and debt held by the public as a share of GDP grew during three of the four most recent economic expansions.

Figure 1: Debt Held by the Public Projected to Grow Faster Than Gross Domestic Product



Source: Congressional Budget Office data and GAO simulation. | GAO-23-106873

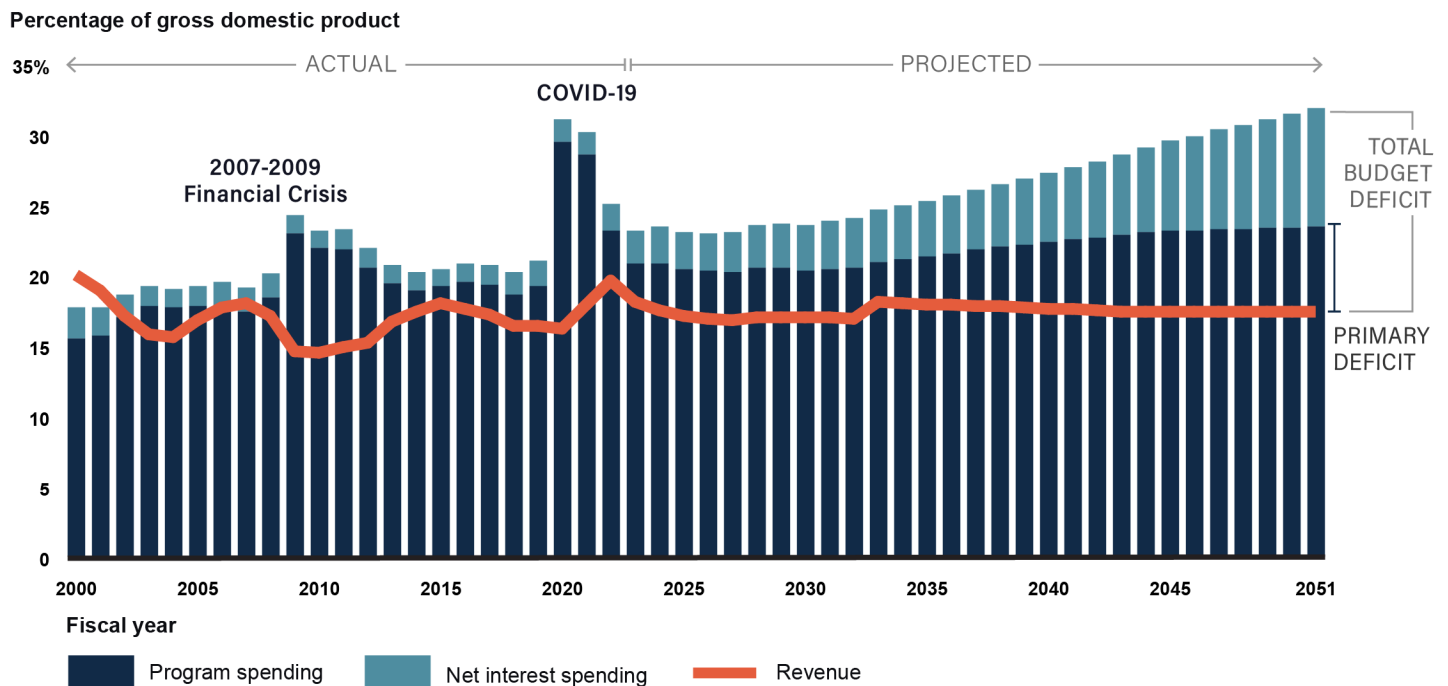
At the end of fiscal year 2022, debt held by the public was about 97 percent of GDP. Debt held by the public is projected to reach its historical high of 106 percent of GDP within 10 years and to continue to grow at an increasing pace. We project that this ratio could reach more than 219 percent of GDP by 2051, absent any changes in revenue and spending policies.

The growing debt is a consequence of borrowing to finance increasingly large annual budget deficits. The federal government has run a deficit—where spending is greater than revenues—in every fiscal year since 2002. Our simulations show that

- Federal program spending (including Social Security and federal health care programs; such as Medicare) increases more than revenue, resulting in the primary deficit—the gap between program spending and revenue;³ and
- net interest spending, which primarily represents the federal government’s cost to service its debt, steadily increases over the next 30 years, further widening the total budget deficits.⁴

Our simulation shows that by 2051 the primary deficit would be 6.1 percent of GDP, compared to 2.9 percent in 2019 (before the COVID-19 pandemic). Our simulation also shows that the total budget deficit—including net interest spending—would reach 14.5 percent of GDP in 2051, up from 4.6 percent in 2019 (see fig. 2).

Figure 2: Primary Deficit and Total Budget Deficit, Actual, and Projected



Source: Congressional Budget Office data and GAO simulation. | GAO-23-106873

³The primary deficit is the driver of the debt-to-GDP ratio over which policymakers have the most control—program spending and revenue reflect policy decisions, whereas net interest spending reflects the consequences of those prior policy decisions.

⁴Net interest primarily encompasses the cost to the government of financing debt held by the public, net of certain income recognized from loans and other sources.

Rising Interest Costs Are a Risk to the Fiscal Outlook

In recent years, the federal government's net interest spending has represented a relatively small share of GDP and total federal spending, primarily because interest rates have been relatively low. However, interest rates are projected to rise in the long term, and federal net interest spending is projected to increase. In our simulation, net interest spending would increase steadily over the next 30 years as a share of GDP, total federal spending, and revenue.

Average net interest spending was 1.5 percent of GDP over the last 20 years. In our simulation, net interest spending grows from 1.9 percent of GDP in 2022 to 8.4 percent of GDP in 2051, and reaches 24.6 percent of GDP in 2096. Net interest spending was \$475 billion in 2022 and is projected to exceed \$1 trillion in 2029.

Recent interest rate increases demonstrate the effects of rates on net interest spending. During fiscal year 2022, interest rates on 10-year Treasury securities rose from 1.48 percent to 3.83 percent. The government's net interest spending is sensitive to changes in interest rates and depends on the maturities of the Treasury securities issued. As debt held by the public matures, Treasury will have to replace it, potentially at higher interest rates. This refinancing, in turn, would increase the government's interest costs. Of all Treasury marketable securities held by the public, 28 percent will mature in fiscal year 2023 and 70 percent will mature within 6 years. Treasury may also need to issue more debt to finance new deficits at higher market interest rates. If interest rates rise more than the rates assumed in our simulations it would further increase projected deficits and debt.

Debt Limit Impasses Disrupt Treasury Markets and Increase Interest Costs

Many investors accept low interest rates on Treasury securities because they are considered one of the safest assets in the world—they are backed by the full faith and credit of the U.S. government.⁵ However, delays in statutorily raising or suspending the debt limit could compromise the perceived safety of Treasury securities. The debt limit is a statutory limit on the total amount of money that the federal government is authorized to borrow—subject to very limited exceptions—to meet its

⁵For more information on demand for Treasury securities, see *Federal Debt Management: Treasury Should Strengthen Policies for Market Outreach and Analysis to Maintain Broad-Based Demand for Securities*, [GAO-20-131](#) (Washington, D.C.: Dec. 5, 2019).

existing legal obligations.⁶ The debt limit does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt, nor does it otherwise constrain fiscal policy.

Delays in raising or suspending the debt limit require Treasury to deviate from its normal cash and debt management operations. Such delays have occurred in 12 of the last 13 fiscal years. Treasury must take extraordinary actions to avoid exceeding the debt limit, such as suspending investments to some federal employees' retirement funds.⁷

If Treasury has exhausted all extraordinary actions and does not have enough cash on hand to meet its financial commitments, it could be forced to delay payments until sufficient funds become available or the debt limit is either statutorily increased or suspended. That is, Treasury might eventually be forced to default on legal debt obligations.

Failure to raise or suspend the debt limit could force Treasury to delay payments on maturing securities and interest until sufficient funds are available, which would constitute a default. A default could have devastating effects on U.S. and global economies and the public.

Our work has shown that even without a default, a debt limit impasse can be costly. Uncertainty surrounding raising or suspending the debt limit disrupts financial markets, and may cause investors to require higher interest rates to hedge against the increased risks—a risk premium. Higher interest rates, in turn, increase Treasury's borrowing costs—even if action is taken in time to pay investors. For example, we found that primarily during the final 10 days of the 2013 debt limit impasse, estimated total increased borrowing costs escalated rapidly.⁸ We estimated that total increased borrowing costs incurred through

⁶A very small amount of total federal debt is not subject to the debt limit. This amount primarily comprises unamortized discounts on Treasury bills and Zero Coupon Treasury bonds; certain debt securities issued by agencies other than Treasury, such as the Tennessee Valley Authority; and certain debt securities issued by the Federal Financing Bank.

⁷Extraordinary actions are actions that Treasury takes as it nears the debt limit to avoid exceeding the limit. These actions are not part of Treasury's normal cash and debt management operations. For more information, see GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, [GAO-15-476](#) (Washington, D.C.: July 9, 2015).

⁸[GAO-15-476](#).

September 30, 2014, on securities auctioned by Treasury during the impasse ranged from roughly \$38 million to more than \$70 million.

We were pleased that Congress took action in time to avoid the catastrophic effects of defaulting on the nation's debt. Failure to timely raise the nation's debt ceiling would have had dire economic and reputational consequences.

Action Is Needed to Avoid Debt Limit Impasses and Change the Fiscal Path








Since 2017, we have stated that a plan is needed to address the government's fiscal outlook and promote a sustainable fiscal policy—where government spending and revenue policies cause the debt-to-GDP ratio to be stable or decline over the long term. A long-term plan can provide a cohesive picture of the government's long-term goals. It can also serve as a mechanism for building consensus around these goals, as well as a road map for achieving them. Our work in recent years has identified several components of an effective fiscal plan for Congress's consideration.

Incorporate Well-Designed Fiscal Rules and Targets

In September 2020, we suggested that Congress consider including fiscal rules and targets as part of a long-term fiscal plan.⁹ Fiscal rules and targets can help manage debt by controlling factors such as spending and revenue to meet a deficit or debt-to-GDP target. For example, a primary balance rule would establish a target for the primary deficit or surplus each year. We identified key considerations for the design, implementation, and enforcement of fiscal rules and targets (see fig. 3).

⁹GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, [GAO-20-561](#) (Washington, D.C.: Sept. 23, 2020).

Figure 3: Key Considerations for the Design, Implementation, and Enforcement of Fiscal Rules and Targets

Key consideration	Supporting explanation
 <p>Alignment with Fiscal Policy Goals and Objectives</p>	<p>Setting clear goals and objectives can anchor a country's fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.</p>
 <p>Design Tradeoffs and Features</p>	<p>The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the time frames over which the rules apply.</p>
 <p>Legal Framework and Permanence</p>	<p>The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or nonbinding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.</p>
 <p>Integration with Budgetary Processes</p>	<p>Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.</p>
 <p>Flexibility to Address Emerging Issues</p>	<p>Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.</p>
 <p>Clear Roles for Supporting Institutions</p>	<p>Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and target.</p>
 <p>Transparency and Communication</p>	<p>Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.</p>

Source: GAO. | GAO-23-106873

Assess the Drivers of the Primary Deficit

To change the long-term fiscal path, policymakers will need to consider policy changes to the entire range of federal activities—both revenue and spending. When decisions about revenue and spending must be made, policymakers should have information about the various policy tools—mandatory spending, discretionary spending, and tax expenditures, such as deductions and tax credits—in any given area and the ability to compare them.

Decisions on these policy changes will be difficult. For example, if at the end of 30 years (2022 to 2051) Congress wanted to achieve a debt-to-GDP ratio of 100 percent—about the ratio over the past 3 years—it would need to implement revenue increases or program spending reductions—or a combination of both—of \$34.7 trillion, in present value terms. Those changes equate to increasing projected annual revenues by 23.2 percent or decreasing projected annual program spending by 18.6 percent.

Consider Alternative Approaches to the Debt Limit

To avoid disrupting the Treasury market and increasing borrowing costs and to improve federal debt management, Congress should consider alternative approaches to the debt limit. The 116th and 117th Congresses considered legislation that, if enacted, could have helped avoid debt limit impasses.¹⁰ We have identified alternative approaches, each of which has strengths and weaknesses. All approaches would maintain congressional control and oversight of federal borrowing and better align decisions about the level of debt with decisions on spending and revenue at the time those decisions are made.¹¹ We do not endorse a specific option, but have suggested Congress consider such approaches.

¹⁰For example, in the 116th Congress, S. 2765, a bipartisan bill that included a provision that would have automatically adjusted the debt limit to conform to levels established in the budget resolution, was introduced in the Senate but never voted out of committee. S. 2765, 116th Cong. (2019). Several relevant bills were also introduced in the 117th Congress. For example, H.R. 6393, 117th Cong. (2022), would, among other things, have allowed the President to suspend the statutory debt limit under certain conditions unless a congressional joint resolution of disapproval was enacted. H.R. 5415, 117th Cong. (2021), would have allowed Treasury to increase the public debt limit.

¹¹See [GAO-15-476](#).

Alternative approaches to avoid impasses on the debt limit include

- linking action on the debt limit to the budget resolution;
- providing the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame; or
- delegating broad authority to the administration to borrow as necessary to fund enacted laws.

Chairman Barr, Ranking Member Foster, and Members of the Committee, this concludes my prepared remarks. I look forward to answering any questions you may have.

GAO Contact and Staff Acknowledgments

If you or your staff have questions about this testimony, please contact Jeff Arkin, Director, Strategic Issues, at (202) 512-6806 or arkinj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

GAO staff who made key contributions to this testimony were Margaret McKenna Adams, Shelby Kain, Barbara Lancaster, Christina Liu Puentes, Brian Sakakeeny, Andrew J. Stephens, and Mercedes Wilson-Barthes.

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