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If debt keeps growing at its current clip, a crisis is inevitable. But it isn't too late.



POLITICS & IDEAS

Make America Solvent Again

The late Stanley Fischer, a renowned economist and central banker, observed in a 2012 lecture at Oxford that financial crises “take much longer to develop than you expect, and then . . . they happen much more quickly than you expect.” When markets turn against you, he said, “you’re in deep trouble.”

Former Treasury Secretary Larry Summers, one of Mr. Fischer’s many distinguished students, echoed this warning on Sunday on ABC News. “I can’t tell you whether the financial crisis is going to come this year or whether the financial crisis is going to come five years from now,” he said. “But . . . we’ve never had deficits remotely like this or the prospect of debts remotely like this at a moment when the economy was strong and we were at peace anytime in our history. This is a risk that we don’t need to run.” *

Mr. Summers is right to be concerned. In January the Congressional Budget Office estimated that the U.S. was on track to run budget deficits averaging about 6% of gross domestic product over the next decade. During this period, the national debt held by the public was projected to rise by \$22 trillion, from about \$30 trillion to \$52.1 trillion, from about 100% of GDP to nearly 119%. Meanwhile, annual interest payments on the debt would nearly double, from \$952 billion to nearly \$1.8 trillion.

Whatever its merits may be, the One Big Beautiful Bill Act is likely to make our fiscal situation even worse. The CBO estimates that it will widen the gap between federal revenues and outlays for federal programs by more than \$3.3 trillion over the next decade. The Committee for a Responsible Federal Budget estimates that after taking into account increased interest payments, the new law will cost even more, adding \$4.1 trillion to the national debt through 2034, equivalent to 127% of GDP.

President Trump’s Council of Economic Advisers disputes this analysis. Based on assumptions about added investment, wages, economic growth, and revenues from tariffs, the council estimates that debt as a share of GDP will decline to 94% over the next decade. Mr. Summers partly characterized this prediction as “nonsense.” We shall see.

The consequences of a debt-induced financial crisis would be dire, and government officials would be wise to reduce the risk of such a crisis occurring. Stabilizing the burden of federal debt on the economy is a feasible, responsible target, and lawmakers should move toward it as fast as possible.]

The U.S. economy is projected to grow at a nominal rate of 3.8% annually over the next decade while the debt over the same period will grow by about 6% a year. The federal government’s task is to reduce the pace of annual debt accumulation by roughly 2 percentage points, and we can’t rely on faster economic growth to get the job done.

Although hitting this mark won’t be easy, it isn’t “Mission Impossible.” Studies based on the recently released Social Security and Medicare actuaries’ reports find that the longterm deficit amounts to 1.3% of GDP in the main Social Security trust fund and about 0.2% in the Medicare Hospital Insurance trust fund. Eliminating these deficits, as lawmakers must do anyway to keep the programs solvent, would slow the pace of annual debt accumulation by 1.5 percentage points of GDP. The remaining gap of 0.5 percentage point between economic growth and debt growth could be closed with relatively modest spending cuts, tax increases or some combination.

Conservative fiscal hawks will say that stabilizing the debt-to-GDP ratio falls short of what should be the target—balanced budgets achieved through spending cuts. That may be so, but Congress has proved itself incapable of such discipline for more than two decades. An all-hands-on-deck effort by a government under unified Republican control barely managed to enact \$1.2 trillion in spending reductions over the next decade, a fraction of what balanced budgets would require. Doing better would require cooperation across party lines to an extent not seen since the Clinton administration. It would also require attention to revenue and spending on both mandatory and discretionary programs.

The stakes are enormous. Foreign governments and investors already are diversifying their portfolios away from the U.S. dollar and stocks. If the U.S. government's annual issuance of Treasury securities continues to surge, at some point prospective investors will demand much higher interest rates, triggering an economic slowdown or crisis. The risk of continuing on our current fiscal trajectory is rising, and failing to take action would be irresponsible.

During his ABC interview, Mr. Summers asked, "How long can the world's greatest debtor remain the world's greatest power?" Elected officials should ponder this question and change course before it's too late.

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