

Debt Hole, Tough Choices

Some economists believe that the U.S., with its \$40 trillion national debt, crossed a red line when the debt-to-GDP ratio—that is, the amount of debt divided by the total economic activity of the country—crossed 100%. (It's now in the 123% range.) That means that even if the country were somehow able to tax every dollar spent or accumulated by individuals and companies in a given year, the amount collected would still fall short of repaying its debt. It's a hole that will realistically take years to climb out of.

The U.S. is not alone, but it's not in good company. This year, for the first time, Ukraine's debt-to-GDP ratio crossed 100% (101% currently), which is obviously a consequence of defending itself in a prolonged war with the Russian empire. Senegal (111%) and ever-indebted Greece (146%) are also in the over-100% club. So is Canada (114%) and war-torn Lebanon (139%). China (99.2%) is close.

But the global indebtedness leader is Japan, with a debt-to-GDP ratio of 249%.

There's a difference between Japan and the rest of the world, however; Japan's debt is held mostly by Japanese citizens, who regard the country's bonds as their safe income source. Also, major Japanese institutions, in agreements with the government, hold the country's debt instruments in their pension plans. This keeps interest rates relatively low: Japanese 30 year bonds currently pay 4.05%, compared with 5.38% (and rising) in the U.S. Unlike the U.S., Japan issues 40-year bonds with rates hovering around 4.11%.

So how dire is that so-called red line in the U.S.? Annual interest costs will exceed \$1 trillion sometime next year, roughly double the 2022 cost. Interest payments currently make up 18.5% of all the taxes collected by the government. The bottom line is that the next decade is going to require some very hard fiscal choices—a combination of higher taxes and lower spending. Expect those choices to dominate our political discourse beginning as early as next year.

Sources:

<https://tradingeconomics.com/country-list/government-debt-to-gdp>

<https://www.pgpf.org/programs-and-projects/fiscal-policy/monthly-interest-tracker-national-debt/>

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