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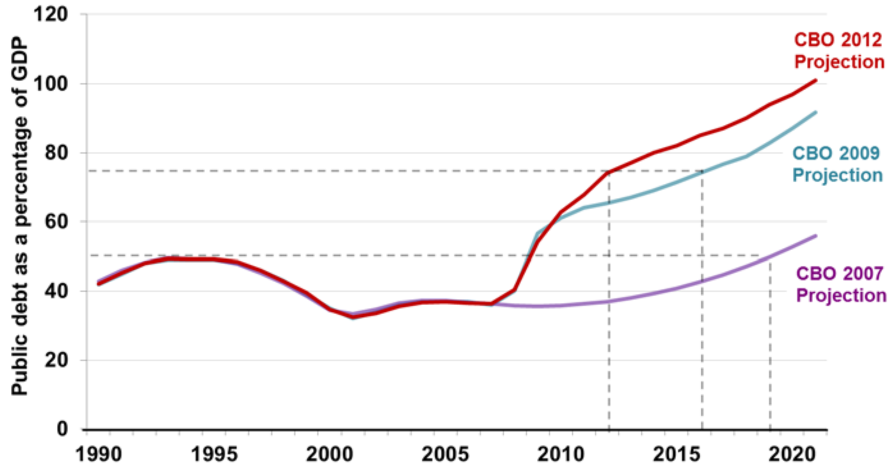
Projections of U.S. Public Debt Continue to Accelerate



Source: Congressional Budget Office, "Long Term Budget Outlook" from various years (2007, 2009, 2012).
Data Note: Figures represent CBO alternative scenario projections of debt held by the public.
Produced by Veronique de Rugy, Mercatus Center at George Mason University.

This chart compares Congressional Budget Office (CBO) long-term projections of the debt held by the public as a percentage of GDP, or the debt-to-GDP ratio. Public debt comprises over two-thirds of gross national debt, and is owed to individuals, businesses, and foreign and state/local governments.

In the five years between the long-term projections calculated in 2012 and 2007, public debt milestones have moved up by nearly a decade on several occasions. In 2007, the CBO projected that public debt would equal up to half of total U.S. economic output by 2019. In reality, public debt-to-GDP passed this milestone in 2009—ten years ahead of the CBO's 2007 projection. Importantly, the long-term projections used in this chart come from the CBO's alternative scenario, which incorporates policy changes that were likely at the time. Hence, this is a more realistic projection than the CBO's baseline scenario.

Using the same methodology, CBO currently projects that debt will reach 80 percent of GDP by 2014, which is five years ahead of the 2009 projection, and thirteen years ahead of the 2007 projection.

This means that the U.S. is slipping down an unsustainable fiscal path at a much faster rate than before. This unforeseen acceleration in the public debt is important because high levels of debt can have a negative impact on the economy. Economists Carmen Reinhart and Ken Rogoff have shown that when a country's level of debt reaches 90 percent of GDP, its economy could start shrinking by 1 percentage point every year. The U.S reached this milestone four years ago. One percentage point may not seem like a lot, but as Mercatus Senior Research Fellow Matthew Mitchell has shown, if the U.S. had reached this point in 1975, our standard of living could be 30 percent lower than it is today.

Veronique de Rugy discusses future debt growing at a faster rate than economy in a Mercatus chart.

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