

WHY DEBT MATTERS

“WHAT DOES THIS MEAN FOR ME?”

Put simply, a stable fiscal foundation is essential for a strong and prosperous American economy. Rising debt matters because it harms our economy and threatens the opportunities available to every American, today and in the future.

A nation saddled with debt will have less to invest in its own future, as higher interest costs crowd out important public investments that can fuel economic growth – areas like education, research and development, and infrastructure. In fact, interest costs are the fastest-growing part of the federal budget, and are projected to climb from \$315 billion in 2018 to \$914 billion by 2028. Over the next decade, interest will total nearly \$7 trillion, rising to become the third largest federal “program.” Remarkably, by 2020 we will spend more on interest than on children.

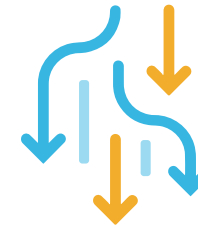
Growing federal debt also diminishes the amount of private capital for investment, which reduces income over time. It shrinks business and consumer confidence and lowers certainty. Our growing debt pushes up interest rates, which makes it harder for Americans to afford college, buy a home or start a business. And it also depresses wages: if we fail to improve our fiscal outlook, a four-person family, on average, could see its income reduced by \$16,000 annually in 30 years.

Our fiscal security is also closely linked to our national security and our ability to maintain a leading role in the world. As a result of our fiscal irresponsibility, the United States stands alone as the only advanced economy in the world whose debt-to-GDP ratio is anticipated to rise over the next five years. As debt grows, not only are we more beholden to creditors around the globe, but we have fewer resources to invest in strength at home. By 2023, the Congressional Budget Office (CBO) projects that the United States will spend more on interest than on national defense.

Additionally, dangerously high debt not only makes a fiscal crisis more likely, it leaves policymakers with less flexibility to deal with unexpected events, such as significant recessions, wars or natural disasters.

And, importantly, America’s debt imperils the safety net and the most vulnerable in our society. If our government does not have the resources and the stability of a sustainable budget, these essential programs, and those who need them most, are put in jeopardy.

THE IMPACT OF HIGH AND RISING DEBT



LOWER PRODUCTIVITY, CERTAINTY AND ECONOMIC OPPORTUNITY



CROWDING OUT OF PUBLIC AND PRIVATE INVESTMENTS, WHICH WILL REDUCE FUTURE ECONOMIC GROWTH



LESS FISCAL FLEXIBILITY TO RESPOND TO UNFORESEEN CHALLENGES



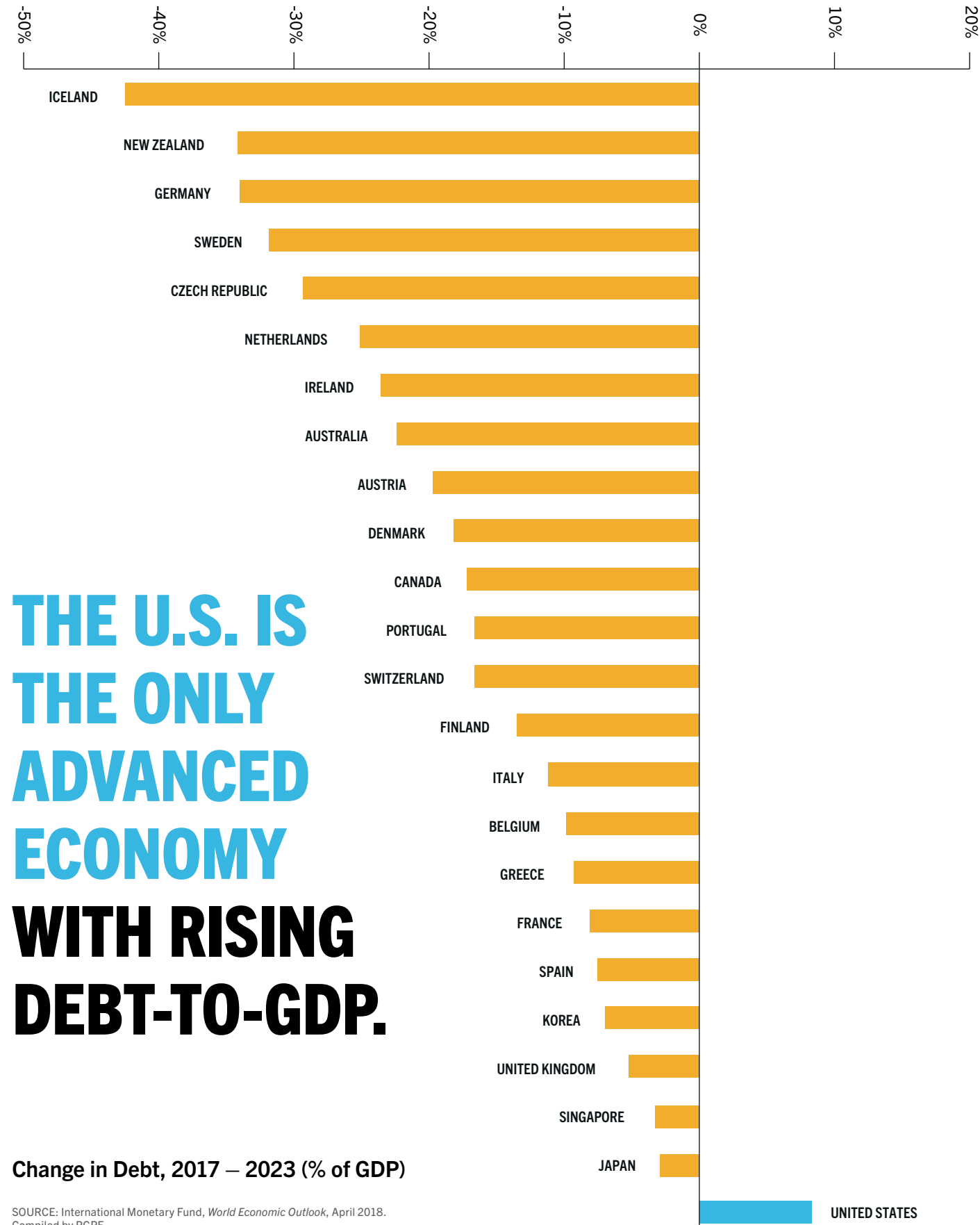
HIGHER LIKELIHOOD OF A FISCAL CRISIS IN THE UNITED STATES



SPENDING MORE ON INTEREST THAN ON CHILDREN BY 2020



REDUCTION IN 4-PERSON FAMILY INCOME BY \$16,000 IN 2048



THE U.S. IS THE ONLY ADVANCED ECONOMY WITH RISING DEBT-TO-GDP.

Change in Debt, 2017 – 2023 (% of GDP)

SOURCE: International Monetary Fund, *World Economic Outlook*, April 2018. Compiled by PGPF.

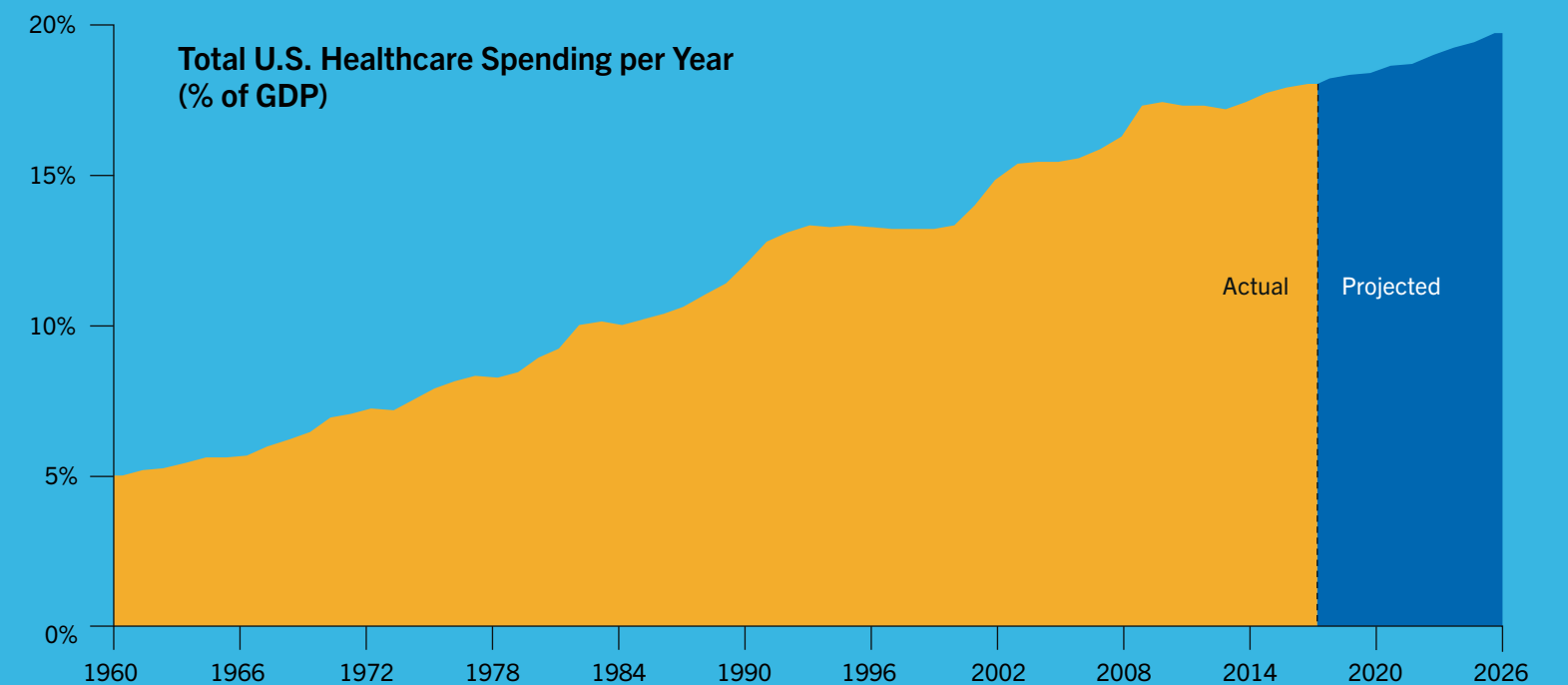
HEALTHCARE: OUR CENTRAL FISCAL AND ECONOMIC CHALLENGE

By definition, addressing America’s fiscal and economic challenges means addressing the future of healthcare in this country. Rising healthcare costs are a key driver of our fiscal imbalance – accounting for 70% of the increase in federal mandatory spending over the long term relative to the size of the economy.

An expensive healthcare system that delivers poor outcomes threatens our health, undermines our economy and strains the federal budget. At a total expenditure of approximately \$3.7 trillion, or 18% of the national economy, the U.S. healthcare system is the most expensive in the world. Yet our health outcomes are worse than those of many other nations.

An inefficient healthcare system leaves our economy less competitive, reducing incomes and leaving fewer resources for productive activities that drive growth and innovation. This spending crowds out important public investments in our future like education, research and infrastructure.

Recognizing the significant economic and fiscal impacts of rising healthcare costs, the Foundation launched the Peterson Center on Healthcare in 2014. The Center is working to transform U.S. healthcare into a high-performance system by finding innovative solutions that improve quality and lower costs and then accelerating their adoption on a national scale. Read more on page 75.



SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditure Data*, February 2018. Compiled by PGPF.