$31.5 Trillion Debt Crisis Of USA

A CNBC news article titled “U.S. will default this summer unless Congress raises debt limit, CBO,” warns that it is likely that the United States Treasury will default on its national debt around September. In response to this assessment from the Congressional Budget Office, the Congress has voted to raise the $31.4 trillion debt ceiling.

Exact date of this predicted default will depend on April tax collections received by the IRS, according to the most current projections. CBO estimates that the deficit will increase by more than 20% over the next decade, from $15.7 trillion to $18.8 trillion.

In January of this year, the United States exceeded its debt ceiling, requiring Treasury Secretary Janet Yellen to implement a series of, in her words, "extraordinary cash management measures," for meeting the financial obligations of the USA. Phillip Swagel, director of CBO, noted at a news conference on Wednesday afternoon that the CBO would release a fresh estimate in May, along with tax receipts for 2022.

Republicans and Democrats on Capitol Hill have repeatedly assured the public that the United States would not default on its debt and that a deal will be reached and legislation will be approved in time to avert the crisis.

However, uncertainties about the debt prevention legislation, and how it will get a majority support have been expressed. This highlights the effects of having a marginally Democratic-controlled Senate and a narrowly Republican-controlled House.

Before they will vote to raise the debt ceiling, a large number of House Republicans have demanded substantial cuts to government spending, effectively using their influence inside the GOP to press their concerns in the spotlight.

According to the US treasury department, the current Federal Debt of the USA is approximately $31.5 trillion, or $94,260 per US citizen, as of the date this paper was authored. Every year, there is a mismatch between expenditures and receipts, which contributes to America's ever-growing debt. Each year's deficit contributes to the accumulating national debt.

3 Key Reasons For Budget Deficits

1) Insufficient Tax Revenue

Complexity our tax system inadvertently creates many loopholes which are exploited by taxpayers in industries and small businesses alike. Additionally, some set of citizens are completely exempt from paying taxes. Furthermore raising taxes has always been an unpopular move, and so politicians are reluctant to raise taxes even when needed.

2) Economically Unsuitable Demographics

America is experiencing a substantial demographic shift. By 2029, 10,000 people will turn 65 every day and retire. Moreover , it is expected that individuals would live longer on average. While great news, there are financial implications due to a longer retirement placing a growing strain on federal budget. This as a result of critical programmes serving older and more disadvantaged Americans, such as Social Security, Medicare, and Medicaid.

3) Inefficient Healthcare System

Our healthcare system accounts for roughly 20% of our economy, and is the second-fastest rising portion of our budget. An inefficient healthcare system is thus one of the most crucial economic issues that our country faces currently. Enhancing the functioning of the U.S. healthcare system would not only enhance the lives of its citizens, but also contribute to the stabilisation of our debt crisis.

Federal Debt: Economic Characterisation

In 2023, CBO estimates that budget deficit takes up over 5.3% of the gross domestic product (GDP) of USA. Moreover, since 2003, the budget deficit percentage has been on a fluctuating downward spiral. A detailed representation of budget deficit percentages can be observed in the graph above. Note that the highest peak of budget deficit from 2001 to 2023 was -15% of GDP. This negative GDP from budget deficits inevidently leads to increase in debt in order to meet the loss of GDP. (Data Appendix Table 1)

Since 1973, USA has been stuck in a vicious cycle of GDP deficit and debt. In fact, the debt ceiling of $31.4 trillion has once again been raised. CBO further projects that net deficit percentage will increase 1.2% from 2023 to 2033; further exacerbating the debt cycle. As the federal debt rises, real GDP growth will stop in 2023 as a consequence of rising interest rates.

CBO's projection clearly shows a recession of -5.5% GDP from 2024 to 2033; 21st century's greatest recession (Data Appendix Table 2).

GDP recession will lead to problematic scenarios such as rising unemployment, inflation, reduced fiscal space, greater geopolitical risk, and growing generational imbalances. It is thus imperative that an economic policy be implemented to prevent further federal debt, and avoid this prediction.

Macroeconomic Policy To Solve The Debt Crisis

The aim of this paper is to propose a macroeconomic policy that should control, and curb rising federal debt. Following this, **the author proposes a contractionary fiscal policy for the Department Of Defence's annual budget.**

In 2023, the currently active National Defence Authorisation Act has allocated $816.7 billion to the Department Of Defence ($966 billion in 2032 after inflation). It is evident that this amount accounts for a sizeable portion of federal budget expenses, thus a reduction in the annual budget would help control debt. Moreover, in accordance with the 2021 interim NSS strategic direction, the composition and emphasis of armed forces have begun to shift, and so a reduction in budget is inevitable.

Lowering the Department of Defence's budget would need a combination of reducing the size of the force, acquiring fewer or less costly weapons, reducing the cost of running and maintaining equipment in service, and lowering staff training expenditures. The policy should lower Department of Defence (DOD) budget by$1.1 trillion over 10 years ($1.0 in 2023). This reduction would be accomplished by lowering the number of full-time active component forces by 18% compared to the force in 2023 (Theoretical Appendix Table 1) Budget reductions would be phased in over the first five years of the plan, after which funding would increase at the rate of inflation. Overall, in 2032, the DoD budget would be 9% lower (after subtracting the impacts of inflation) than it was in 2023(Theoretical Appendix Table 1). Following the 2021 interim NSS strategic direction, allies and coalitions would be expected to provide support in order to make up for the reduction .

Benefits of this policy

DoD contractionary fiscal policy would save $1.1 trillion in budget authority for the period 2023–2032 compared to the DoD's 2023 FYDP plan. The additional budget can be used to solve the previously mentioned 3 key reasons for budget deficit.

1. Expansionary Trade policy

Investments in infrastructure, lifting domestic and international trade restrictions, increasing volume of production of goods, etc. would promote an increased level of trade. These investments will not only help increase GDP, but also pave the way for further economic relief policies.

2. Regulatory Healthcare policy

Pushing for regulations, and quality standards for our healthcare system will surely bring us one step closer towards solving the debt crisis. As was mentioned earlier, the US healthcare system accounts for roughly 20% of the nation's economy. Enhancing the functioning of the U.S. healthcare system would not only enhance the lives of its citizens, but also contribute to the stabilisation of our debt crisis.

3. Long-term expansionary GDP Monetary Policy

This policy is a catch-all term for investments in innovation and research, specialised skilled training, mega-infrastructure projects, and most importantly reformation of the US tax system from a long-term GDP growth perspective. Budget investments in these avenues would ensure a stable GDP growth, and consequently budget growth; the key solution for lifting USA out of its debt crisis.

Below, the author will focus on the **application of Production Possibilities Frontier (PPF) model that highlights <u>economic expansion</u> that arises from the saved $1.1 trillion budget.** (The two factors in the PPF will be GDP, and Budget)

Let's assume that 100% of the $1.1 trillion budget was used to equally expand all facets of production resources (physical capital & human capital) of the entire US economy. By definition, an outwards shift of the PPF model's frontier represents overall economic growth. Hence, the PPF model will be applied for the usage of additional $1.1 trillion budget, in order to analyse possible economic growth.

USA spent $6.27 trillion by the end of fiscal year 2022. Let's assume this value to be our baseline. The GDP of USA at the end of fiscal year 2022 is $23.32 trillion. Now, the PPF graph clearly shows that adding $1.1 trillion to the $6.27 trillion (overall budget expenditure $7.37 trillion and overall GDP $24.42 trillion) will significantly push the frontier outwards, thus leading to US' economic expansion(Theoretical appendix table 2).

To conclude, the additional revenue gained from the application of the above described DoD contractionary fiscal policy will lead to economic expansion, GDP growth, and hence stabilise federal debt.

Data Appendix

Table 1: GDP Percentage Loss From Budget Deficit

Year	**GDP Loss(%)**
2001	-5
2005	-2.5
2008	-10
2011	-2.5
2014	-5
2018	-15
2023	-5

Each dot on the graph below represents each year in the above table, from top to bottom

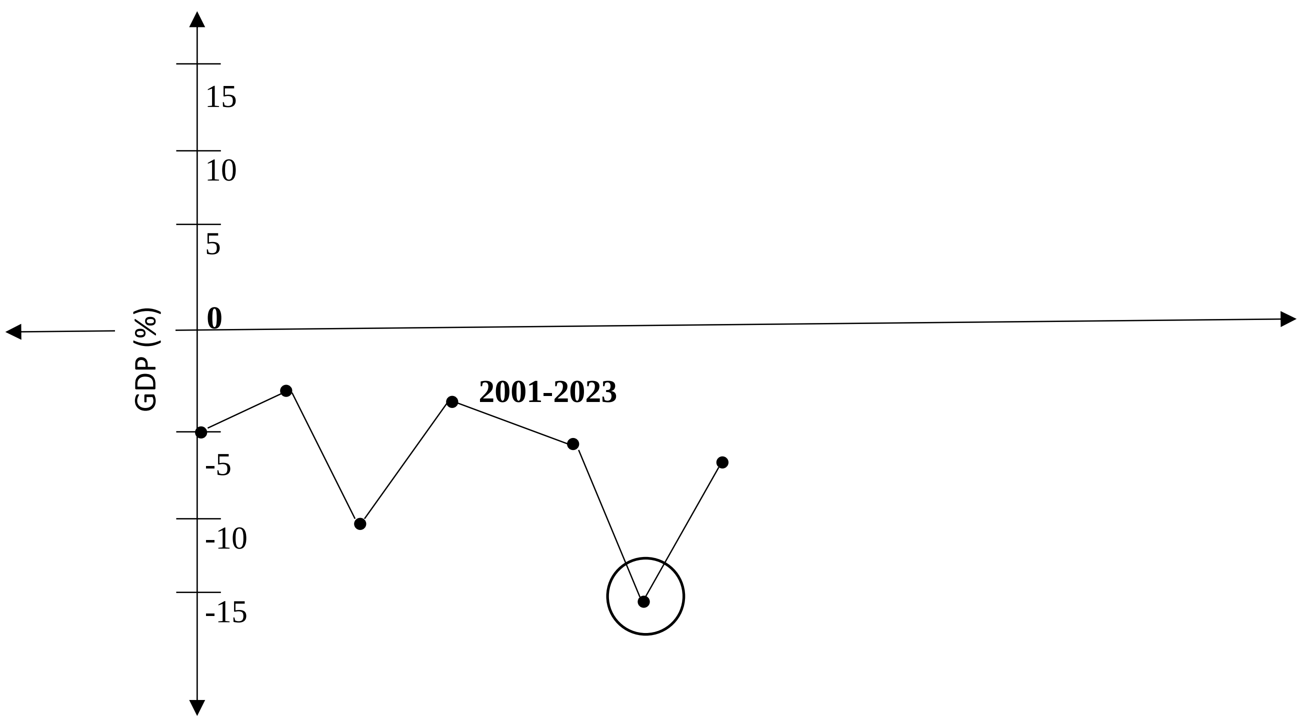
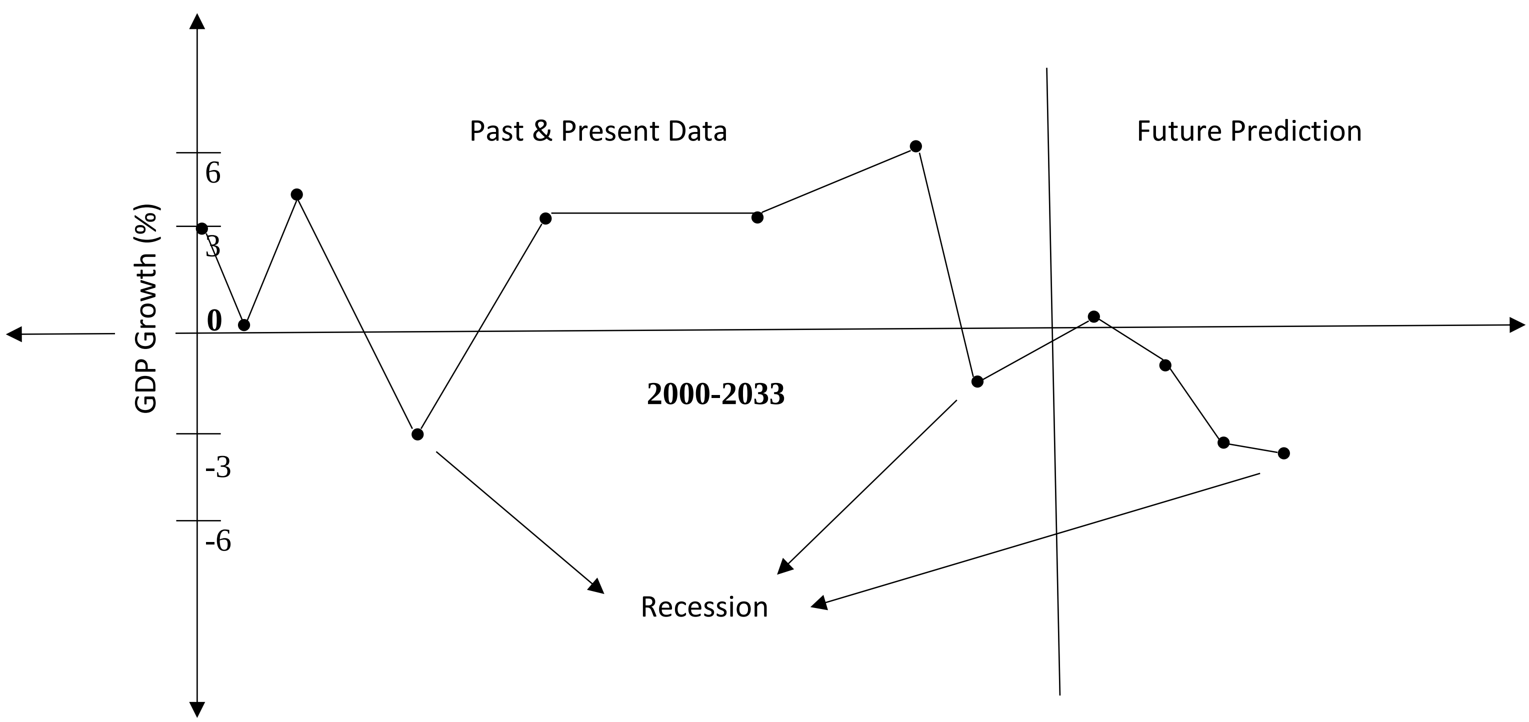


Table 2: GDP Growth Of USA From 2000 to 2033

Year	**Real GDP Growth(%)**
2000	3
2003	0
2006	4.5
2009	**-3**
2012	3
2015	3
2018	6
2021	**-1.5**
2024	0.2
2027	-1.5
2030	-4.5
2033	**-5.5**

Each dot on the graph below represents each year in the above table, from top to bottom

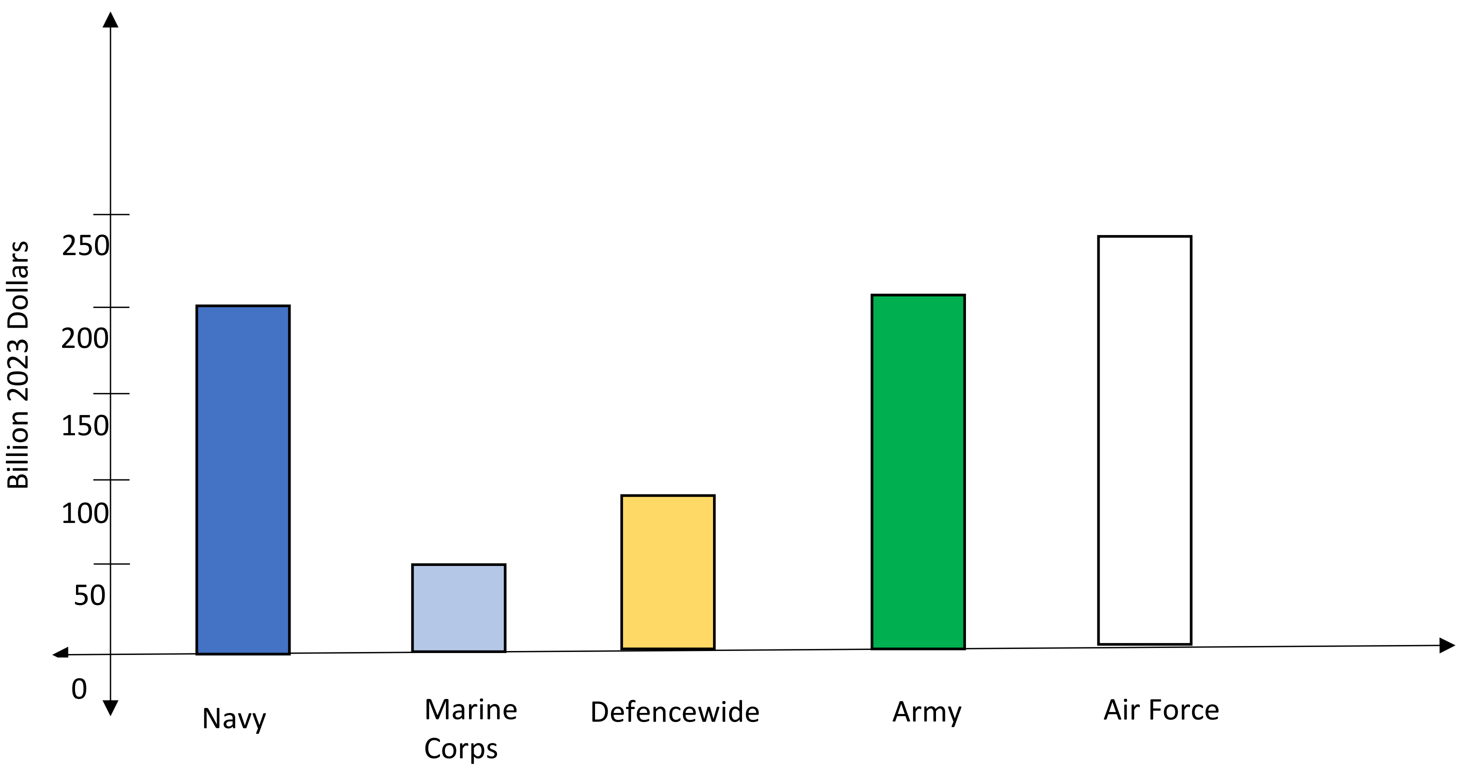


Theoretical Appendix

Table 1: Policy's proposed 18% cut in DoD's annual budget in billions of 2023 USD

Military Branch	2022	2032
Navy	200	171
Marine Corps	51	44
Defensewide	92	79
Army	210	169
Air Force	248	212

Year 2022



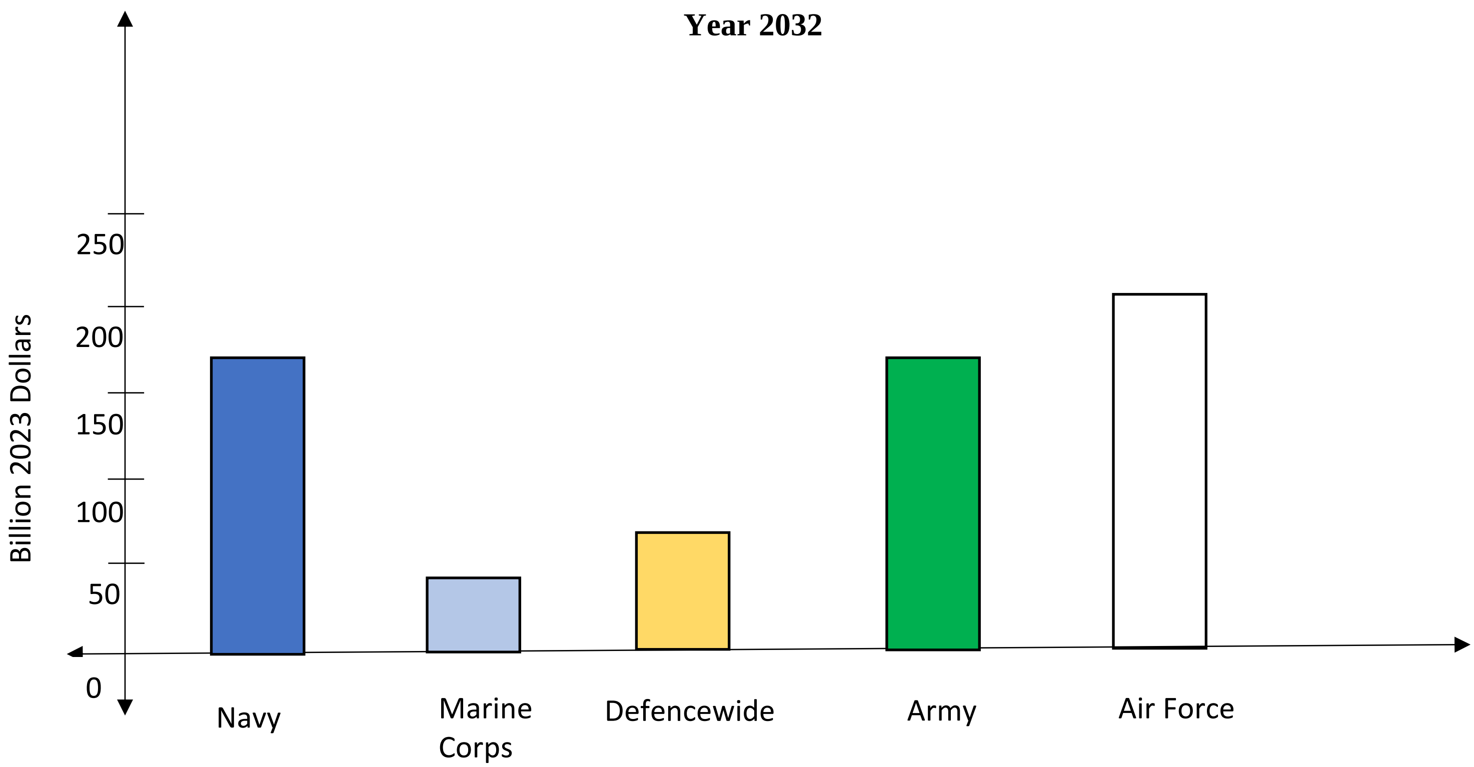
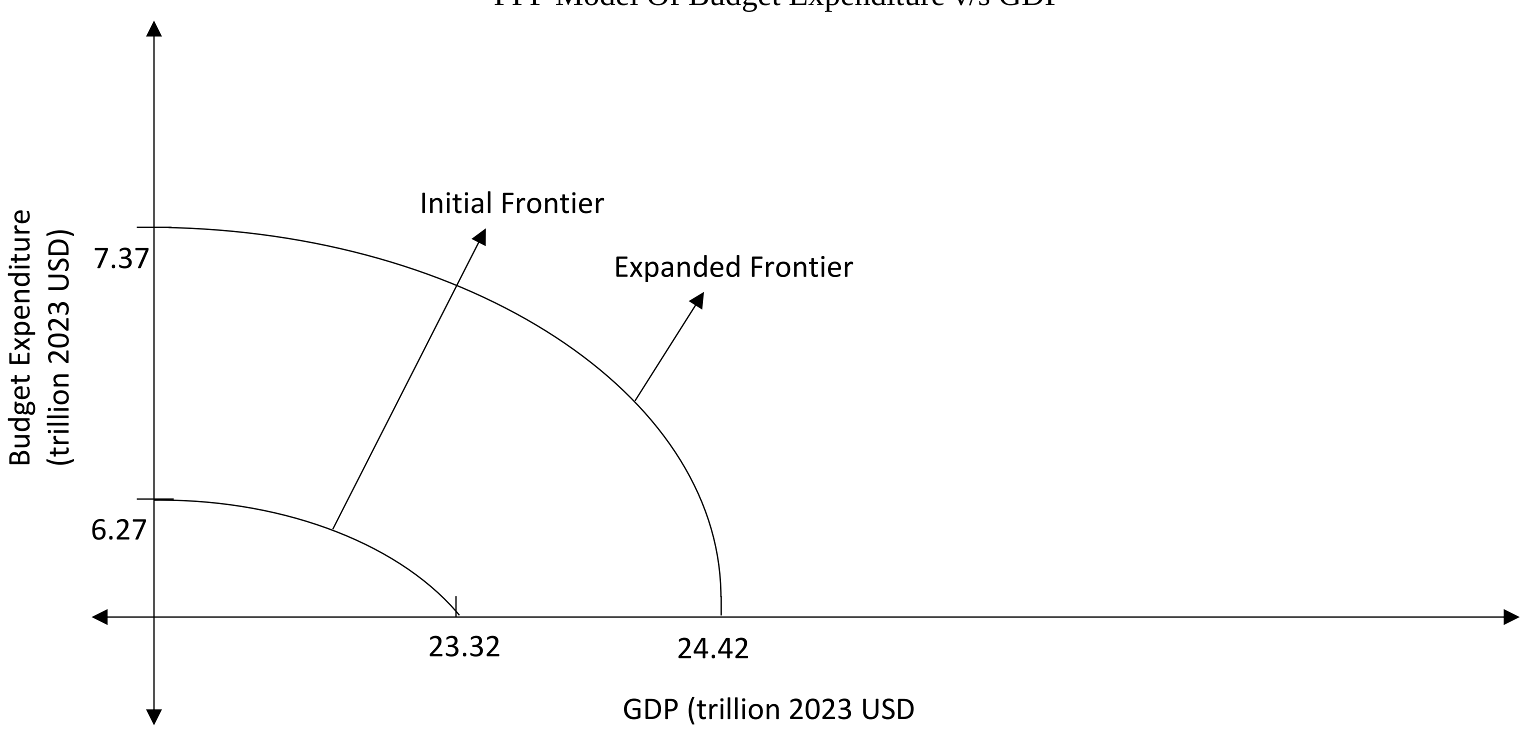


Table 2: PPF Model of GDP v/s $6.27 trillion and $7.37 trillion expenditure

GDP(trillion 2023 USD)	**Budget Expenditure**(trillion 2023 USD)
23.32	6.27
24.42	7.37

PPF Model Of Budget Expenditure v/s GDP



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