

How Could Federal Debt Affect You?

The federal government's debt is growing faster than the economy—this is unsustainable over the long term.

Americans may find that rising federal debt hurts their own personal finances.

- **Higher borrowing costs.** Someone taking out a loan, for a house or a car for example, will likely have less money to spend on other priorities.
- **Stagnant wages.** Businesses could also face higher borrowing costs or find they have less money available to invest, leading to slower wage growth.
- **More expensive goods and services.** Because businesses may invest less in technologies that make it easier and cheaper to produce goods and services, prices are likely to increase, and shortages may be more likely.



How Do We Know If Federal Borrowing Is Sustainable?

Sustainable borrowing means that federal debt grows at the same—or slower—rate as the economy.

Borrowing can be an effective tool to support expensive investment, such as recovering from public health crises and natural disasters or building infrastructure that will last a long time.

But unsustainable borrowing—particularly for recurring and more predictable expenses—can have adverse effects, including causing interest rates to rise.

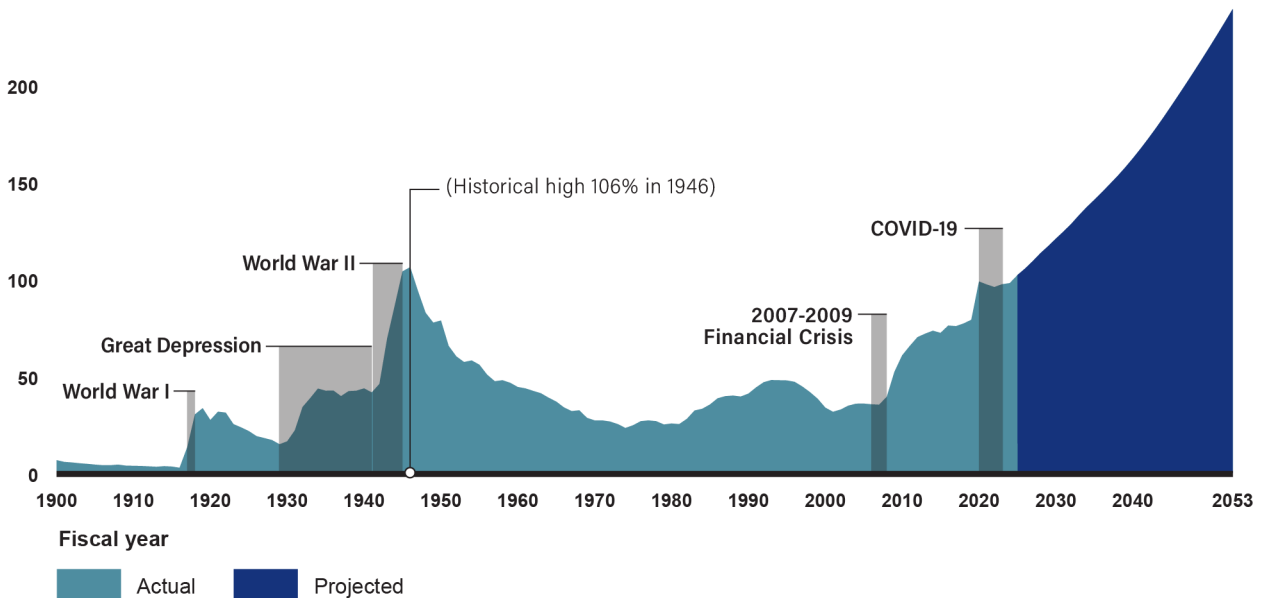
The nation’s current fiscal path is unsustainable.

In the past, debt would spike during recessions or crises, but then decline after those events. More recently, the government’s debt has grown even when the economy is doing well. For example, when the economy started growing again after the 2007-2009 financial crisis, debt grew even faster.



Debt Held by the Public Is Projected to Grow Faster Than the Economy

Percentage of gross domestic product
250%



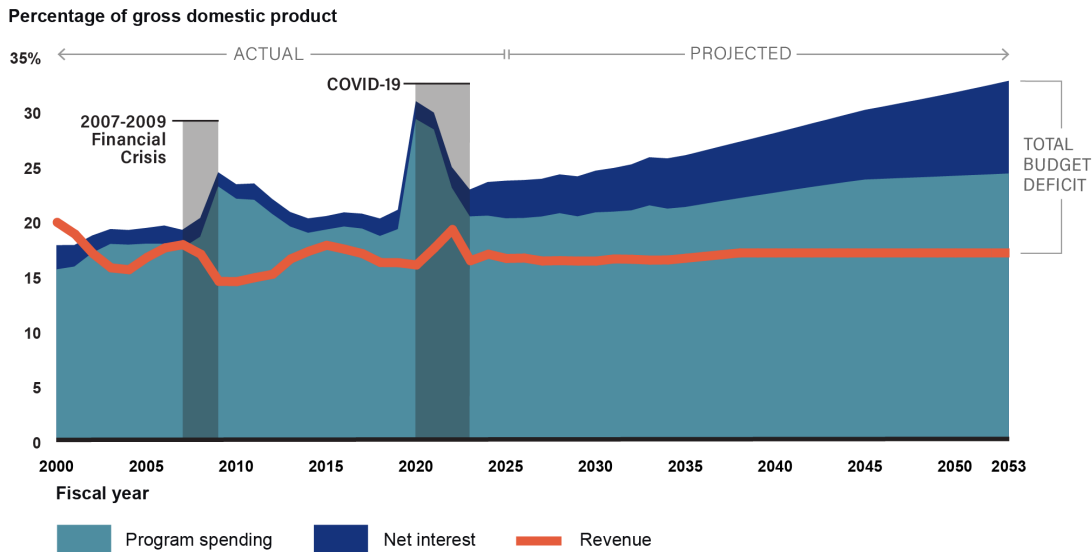
Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

Unless spending and revenue policies change, the debt will continue to grow faster than the economy—even during times of growth.

What Is Driving the Growing Debt?

Persistent and widening annual budget deficits. When the federal government spends more than it collects in revenue, it borrows money to make up that deficit. The federal debt is the accumulation of this borrowing.

Deficits Are Growing Because Spending Outpaces Revenue



Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

Despite strong economic growth, the fiscal year 2024 deficit was more than \$1.8 trillion, **the fifth year in a row the deficit exceeded \$1 trillion.**

A structural imbalance between revenue and spending policy is driving the debt.

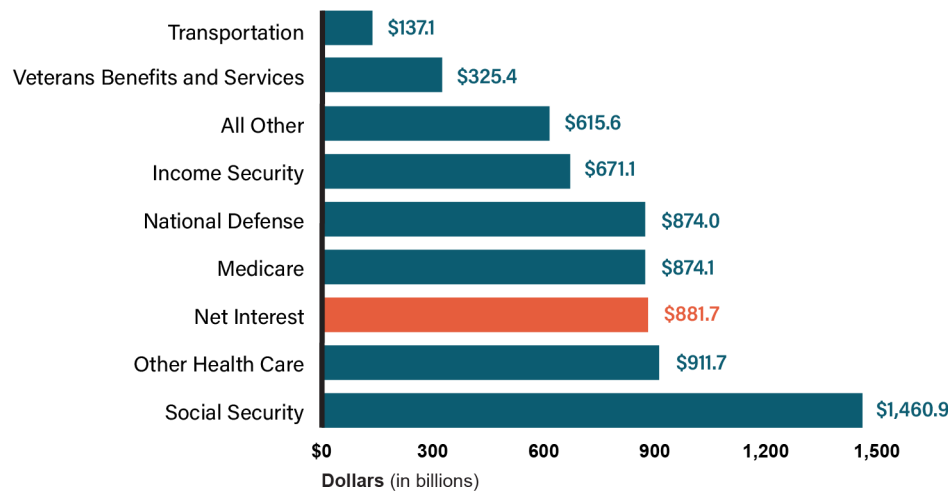
- Tax revenues have not kept pace with spending and are not projected to catch up over the long term, under current policy.
- A few drivers are causing spending to grow:
 - Spending on Medicare and Social Security are increasing as the U.S. population ages and health care costs grow rapidly.
 - The government has to pay more in interest as it accumulates debt.
 - Spending can increase suddenly and dramatically as the government responds to unexpected events like public health crises, natural disasters, and military conflicts.



How Much Interest Is the Government Paying on the Debt?

As federal debt grows and interest rates rise, the government’s cost to borrow increases and interest spending grows.

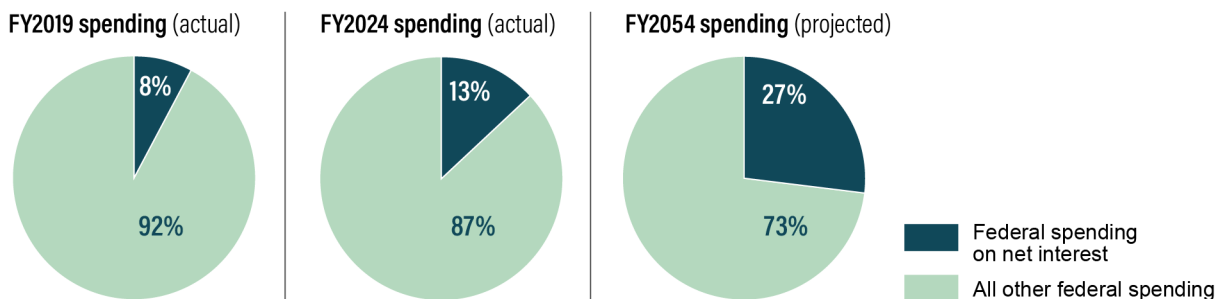
Net Interest Spending Now Exceeds Some of the Largest Categories of Federal Spending



Source: GAO analysis of Department of the Treasury information. | GAO-25-107714

By 2044, we project that interest costs will exceed spending for Social Security (the largest federal program), absent a change in fiscal policy.

Interest Spending Increases Relative to Other Federal Spending



Source: Congressional Budget Office and GAO simulation. | GAO-25-107714

From 2009 to 2022, interest rates were at historic lows. This helped keep down the nation’s borrowing costs. Higher interest rates will drive up interest spending.

The government will likely need to borrow more to pay for increased interest costs. That will further increase interest spending and add to future debt.

What Needs to Be Done?

Congress and the administration will need to make major changes to put the country on a sustainable fiscal path. These changes will involve hard choices to balance the potential effects on individuals and businesses.

GAO has suggested that Congress develop a strategy for achieving fiscal sustainability.

The sooner changes to revenue and spending policies are made, the less drastic these changes will need to be.

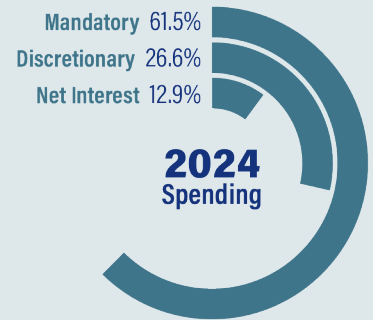


Address the spending and revenue imbalance

Congress and the administration will need to make decisions about spending programs, including mandatory spending programs—like Social Security and Medicare—that make up nearly two-thirds of federal spending.

For mandatory spending programs, anyone who is eligible receives benefits, so Congress does not approve program spending each year.

Revenue will also be an important piece of the puzzle. For example, in fiscal year 2024, we estimated that tax deductions, credits, and other tax benefits reduced federal revenue by \$1.6 trillion, compared to total revenue collections of almost \$4.9 trillion. It is not always clear how successful these tax policies are at meeting their goals.



Address financing gaps for Social Security and Medicare

Decisions will also need to be made to shore up the trust funds that support Social Security retirement and survivor benefits and the Medicare Hospital Insurance program. It is projected that in 8 and 11 years, respectively, the funds won't have enough money to pay for full benefits for all recipients (about 67 million people in 2024). Legislation will be needed to address the problem.



Pursue other opportunities to improve fiscal responsibility

There are other opportunities for the federal government to improve its fiscal position, though they wouldn't be enough to put the nation on a sustainable fiscal path. The government could save billions of dollars if it limited improper payments—those that should not have been made or that were made in the wrong amount. The government could also raise revenue by collecting a portion of the hundreds of billions of dollars in taxes that are owed but not paid.