

COVID-19 Didn't Cause a Debt Problem... Because We Had One Before the Crisis

The federal government is spending a gargantuan amount of money on COVID-19 relief. The Congressional Budget Office estimates the total to be about \$2.8 trillion over the 2020 and 2021 fiscal years. This has brought the topic of debt and deficits back to public debate in some quarters.

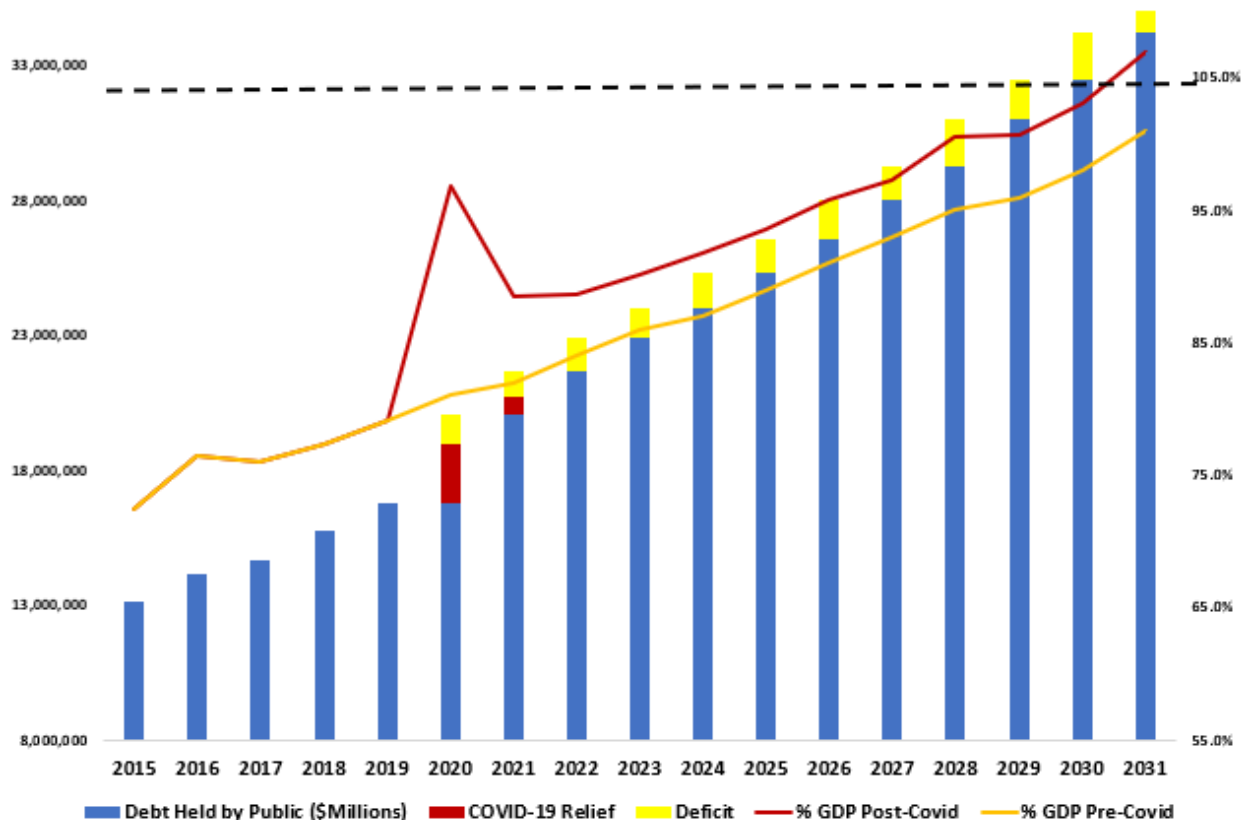
The hard truth is that COVID-19 spending will not cause a debt problem. But only because we had one before the virus struck. The extra necessary emergency spending has just accelerated the issue.

Debt is the amount of money the federal government owes public bond holders (the money it owes the Social Security systems is excluded from this analysis). The deficit is the amount the government spends in excess of revenues each year. Each yearly deficit adds to the national debt.

A general rule of thumb is that countries run into debt problems when their debt exceeds 100% of the size of their economy (GDP). Every country varies and facts and circumstances matter too. There are reasons to believe the U.S. can surpass the threshold, for instance. But the threshold is a useful general tool.

Prior to the COVID-19 crisis, the national debt was under 80% at the end of 2019 and was projected to grow to 81% by the end of this year. Because of a combination of the extra COVID-19 spending and a smaller economy, it could be 97% at year end. It will fall back down as the spending surge declines and the economy resumes growth.

Debt was on an Unsustainable Path before COVID-19 Relief



However, the debt will continue to mount. As the chart shows, COVID-19 spending pushes the deficit up for 2020 and 2021. Then yearly continuing annual deficits drive the growth until the debt hits 100% of GDP in 2028. Prior to COVID-19 spending, the debt would have hit that mark in 2031. The increasing yearly deficit mostly comes from the growth of Social Security and Medicare entitlements.

Congress should have dealt with this looming calamity years ago. After the current health crisis abates, it should turn its attention to this long-ignored problem.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce