Causes of the Rise in the Debt-to-GDP Ratio

The debt-to-GDP ratio is set to increase substantially due to a combination of chronic structural imbalances and demographic strains. One of the main motives is the rising cost of key entitlement programs, namely Social Security and federal health care initiatives such as Medicare and Medicaid. The Government Accountability Office (GAO) estimates that federal health care expenditures will increase to 8.5% of the GDP in 2054, compared to 5.8% in 2023, and spending on social security will also rise to 6.2% of the GDP in 2054, compared to 5% in 2023 (GAO, 2025, p.9). This increase is highly driven by the aging population, whereby the proportion of Americans aged 65 and older is expected to exceed 20% of the total population within the next five years, and this will involve more beneficiaries than the working population (GAO, 2025, p. 9). Further enhancing this increase in spending, a structural imbalance exists between federal program spending and federal revenue. Over the past 20 years, federal program spending has grown at an average of 20.4% of GDP, while revenue has grown at an average of 16.6% (GAO, 2025, p. 21). In addition, the servicing costs of the current debt are already becoming a significant expense in itself. The GAO estimates that net interest expenditure will increase faster than the economy, and by 30 years it will reach 8.5% of GDP, surpassing the amount spent by the entire Social Security and Medicare in 2045 (GAO, 2025, p. 9). Reduced labor force growth due to lower fertility rates and the retirement of the baby boom generation is likely to limit future revenue growth from payroll and income taxation.

Fiscal Exposures and Risks that the GAO Identified

Fiscal exposures are a significant concern for the nation's fiscal well-being, and the GAO defines them as actions or obligations that can bind the federal government to spending large sums of money in the future (GAO, GOV. 2023). These shocks are among the factors that may trigger abrupt, drastic changes in the deficit. Among them, it is important to address natural disasters and climate change, for which total disaster assistance appropriations amounted to over $448 billion between 2015 and 2024 (GAO, 2025, p. 8). Another significant exposure is military battles, with the Congress allocating $2 trillion to Iraq and Afghanistan operations between 2001 and 2021 and over $174 billion to deal with the invasion of Ukraine by Russia (GAO, 2025, p.8). Another risky area is the financial system, as evidenced by the massive federal intervention during the 2007-2009 financial crisis. Lastly, there are public health emergencies like the COVID-19 pandemic that resulted in nearly $4.7 trillion in federal response spending because of their unpredictability and the extreme harm they cause to the fiscal outlook (GAO, 2025, p. 8). Those exposures are hazardous as they may hit when the budget is already structurally unbalanced, which will compel further borrowing.

A Plan to Enhance the Fiscal Health of the Nation

Both reports recommend a careful, holistic approach to correcting the unsustainable fiscal pathway. The GAO advises Congress and the administration to formulate a long-term plan to synchronize spending and revenue policies, and provides that a long-term plan should include the creation of fiscal rules and targets, solving financing gaps between Social Security and Medicare, and seeking opportunities to enhance budgetary responsibility (GAO, 2025, p.22). One item on the agenda should be reforming the most extensive mandatory spending programs. In the case of Social Security, the solutions would be to make the program more progressive by reducing the benefit increase rate among high-income earners, raising the retirement age over a long period of time, and using the chained Consumer Price Index to adjust the cost-of-living, which is a better gauge of inflation (McBride, York & Durante, 2023, p. 12). On the revenue side, the

Simpson-Bowles plan proposed gradually increasing the wage-based payroll tax limit to 90% of all wages (McBride, York & Durante, 2023, p. 13). In the case of Medicare, reform can involve abandoning fee-for-service reimbursement in favor of other payment models, such as bundled payment or capitation, under which a fixed amount is paid to the provider and encourages effective care (McBride, York & Durante, 2023, p. 13). Other suggestions include raising Medicare Part B premiums that cover outpatient care by about 25% and proposing a policy of so-called clinically comparable drug pricing to eliminate incentives for prescribing costly medications (McBride, York & Durante, 2023, p. 14).

On the revenue side, the Tax Foundation warns that, while a tax increase can be part of a solution, it must be crafted to cause the least negative impact on economic growth. Internationally, sustainability in fiscal consolidations is seen as more effective in spending-oriented consolidations, where 60% or more of the savings are generated through spending cuts (McBride, York & Durante, 2023, p. 6-7). In the case of increased taxes, consumption taxes or base-broadening reforms are less distortionary than raising the top marginal income tax rates, which decrease GDP by about 1.3% over the long run (McBride, York & Durante, 2023, p. 15). Process reform is also a necessity. The GAO suggests replacing the current debt limit, which exposes the nation to the significant risk of default on a regular basis and fails to solve the underlying fiscal imbalance (GAO, 2025, p. 18). The Tax Foundation supports the possible worth of a statutory fiscal commission, along with Simpson-Bowles, to establish agreement on difficult choices not within the context of urgent political demands (McBride, York & Durante, 2023, p. 10-11).

Consequences of Failing to Act

Unless the government cleans up its fiscal house, the repercussions will be dire and far-reaching. The first is the risk of a budgetary crisis when investors lose trust in the government because it fails to control its finances. This may cause an abrupt increase in interest rates, and the Treasury will not be able to borrow funds to support government activities and benefits (GAO, 2025, p. 4-5). Such a situation would probably require radical, short-term tax hikes and expenditure reductions. The constantly growing debt is dangerous to the economy even in the absence of a crisis. Since government borrowing absorbs capital in financial markets, there is less capital available to fund private investment in productive assets such as factories and new technologies. The effect of such crowding out may be low productivity, low wage rates for workers, and slow economic growth in the long run (GAO, 2025, p. 5). The country's creditworthiness has already been affected, as the major credit rating agencies have downgraded their reviews of U.S. debt, citing recurrent debt limit stalemates and the growing debt burden (GAO, 2025, p. 5). Moreover, excessive debt levels limit policymakers' flexibility, reducing the government's ability to respond to recessions, military conflicts, or health epidemics in the future.

Programs in the Public which should be reformed to be sustainable

Social Security and Medicare are disastrous in terms of the number of programs that the public has to deal with in order to reach a sustainable fiscal direction. These two initiatives continue to increase budgetary allocations and account for a major share of the long-term deficits (McBride, York & Durante, 2023, p. 11). The reason for their unsustainable course lies in demographic factors and existing legislation. The trust funds of Social Security, Old Age and Survivors Insurance, and Medicare Hospital Insurance are estimated to end or retire in 2033 and 2036, respectively (GAO, 2025, p. 16). When exhausted, there will be no revenue left to cover full benefits for the programs, and an automatic 20% reduction in Social Security benefits will be paid. An 11% reduction in Medicare hospital insurance payments will be automatically implemented unless reforms are enacted (McBride, York & Durante, 2023, p. 12). In addition to these two components of the social safety net, the GAO has identified other areas for improvement that would save hundreds of billions of dollars. They include curbing improper payments, which have amounted to an estimated $2.9 trillion since 2003, enhancing the management of fraud risks, enhancing tax compliance to deal with the $606 billion net tax gap, and reducing fragmentation, overlap, and duplication of federal programs (GAO, 2025, p. 16-17).

The Enduring Effect of the National Debt on the Fiscal Health

The long-term effect of the country's high and rising debt will be an irreversible limit on economic growth and national adaptability. Much of the federal tax revenue in the future will be spent not on government services, national infrastructure, or military spending, but rather on interest payments to bondholders. The GAO estimates that by 2054, net interest expenditures will be 27% of total federal spending, compared to 8% in 2019 (GAO, 2025, p. 11). This is an enormous redistribution of resources out of productive state expenditure. Also, the debt is too high and constantly threatens to trigger a fiscal crisis, casting a shadow of uncertainty over the economy. The Tax Foundation also indicates that high debt will lead to higher inflation and interest rates, which will adversely impact household finances by making borrowing for homes and cars costlier (McBride, York & Durante, 2023, p. 5). In the end, without a turnaround, the country stands to have a bleak future where economic growth will be at a lower level, taxation will increase, and the ability to handle the needs of the country and crises will be reduced, leaving an economy that is less strong than that of the present generation.

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