



US National Debt & Deficit

As of March 2026, the United States national debt reached \$39 trillion, equivalent to over 120% of America's gross national product.¹ The debt grows by over \$8 billion per day.² Historically, issuing Treasury securities and borrowing from foreign governments has helped finance the Revolutionary War, the Civil War, World War I and II, bankroll significant infrastructure projects like the Transcontinental Railroad, and helped stabilize the economy during economic downturns.³ But today's mounting debt burden threatens economic prosperity, national security, and risks higher taxes and/or cuts to Social Security and Medicare benefits. Global confidence in U.S. Treasuries and America's credit rating remain strong, but the if the status quo continues America risks a weakened economy, eroded national security, and an unsustainable burden from falling on future generations.⁴

The National Debt & Deficit Explained: The United States national debt represents the total accumulation of annual federal budget deficits—when government spending exceeds revenues—plus accrued interest on past borrowing. Each year's deficit adds to mounting debt, as the government finances these shortfalls by issuing Treasury securities sold to investors worldwide, including foreign governments, institutions, and domestic trust funds. Today, persistent trillion-dollar deficits—projected at \$1.9 trillion for fiscal year 2026—have driven the debt to levels unseen in peacetime, raising serious concerns about long-term sustainability.⁵

To guard against unlimited borrowing, Congress has imposed statutory debt ceilings, beginning in 1917 with the Second Liberty Bond Act, to limit how much the Treasury can borrow to meet existing obligations.⁶ The debt ceiling (currently \$41.1 trillion) forces periodic congressional review whether to allow additional borrowing. If the limit is reached without Congress raising or suspending it, it would almost certainly harm America's credit rating and could trigger market instability and default-like consequences – delayed Social Security checks, Medicare benefits, military and veteran salaries.⁷ A true default would likely cause global financial turmoil, as U.S. Treasuries underpin worldwide markets.⁸

Debt-to-GDP Ratio: Though America's growing \$39 trillion in debt is concerning, it is the debt-to-GDP ratio that is the most alarming. The debt-to-GDP ratio compares the total national debt to the entire size of the U.S. economy (gross domestic product) in a given year. As of March 2026, the debt-to-GDP ratio is over 120% of GDP -- larger than the value of everything the American economy produces in a full year.⁹

This ratio reveals whether the debt is growing faster or slower than the economy itself. When the ratio is stable or falling, economic growth makes the debt more manageable over time. When the ratio of debt compared to GDP increases — as it has been for decades —the debt burden becomes heavier relative to the nation's ability to carry it.

The CBO estimates for every \$1 of additional deficit spending, roughly 33 cents of private investment is crowded out, reducing available capital, hurting productivity, and wage growth.¹⁰ It leads to higher interest rates and debt service payments, putting fiscal pressure on discretionary spending, infrastructure, R&D, and entitlement programs. It can also reduce the government's ability to adequately respond to future crises such as recessions, wars, or pandemics.

The debt-to-GDP ratio is the clearest warning sign that America's long-term fiscal health is in jeopardy.¹¹

History of the National Debt: The United States began its history as a nation already in debt, owing roughly \$75 million to France and domestic investors after the Revolutionary War. Treasury Secretary Alexander Hamilton's Funding Act of 1790 consolidated federal and state debts and committed the federal government to timely interest payments. This restored America's credit and

turned debt into a strategic tool. Through tariffs, land sales, and steady economic growth, the burden was gradually paid down. In 1835, under President Andrew Jackson, the entire national debt completely paid off—the only time in American history this has ever happened.

For much of its history, America managed high wartime debt through reduced peacetime spending (often 2-4% of GDP) and combined economic growth from 1800 until the Great Depression.¹²

Debt ballooned from the Civil War from \$60 million to over \$260 billion at the end of World War II. Despite the significant growth in the debt, peaking then at nearly 120% at the end of WWII, postwar economic growth, reasonable inflation, and fiscal discipline brought it down around 30% of GDP.¹³ America's exceptional economic growth and productivity, and its commitment to paying down war debts during peacetime kept the debt burden sustainable.

Since the 1980s, that has pattern shifted. Peacetime budget deficits became more routine—driven by rising entitlement spending, recessions, foreign entanglements post 9-11, the 2008 financial crisis, bailouts, and massive stimulus packages in 2020 and 2021. The debt crossed \$1 trillion in 1981, \$10 trillion in 2008, \$20 trillion in 2017, and now exceeds \$39 trillion in March 2026. Unlike earlier eras, there have been no sustained surpluses large enough to pay it down. Debt is no longer seen as a temporary wartime necessity and more as a permanent fixture of modern governance.¹⁴

Interest Payments: Interest payments on the debt have become an increasingly significant burden, exceeding \$1 trillion for the fiscal year 2026 according to the CBO, and on track to double in the coming decade as rates and debt principal rise, crowding out funding for defense, infrastructure, and other priorities.¹⁵

Much like credit card interest for individuals, the federal government owes payment to holders of Treasury securities, including domestic investors, institutions, and foreign governments. Average interest rates on outstanding securities and the size of the debt determine how much the government is obligated to pay out annually. Higher interest rates since 2021 have transformed debt service – interest payments on the debt – into one of the fastest-growing parts of the federal budget.¹⁶

The \$1 trillion in interest payments for 2026 already surpasses the \$960 billion in defense spending.¹⁷ As a share of the overall American economy, net interest has climbed from 1.5% of GDP in 2021 to over 3.2% in 2025 and is expected to grow into 2026.¹⁸ Overall, interest payments consume over 20% of the federal budget and is projected to grow. The greater portion of the federal budget that interest payments take up, the less funding will be available for other national priorities like defense, infrastructure, research and development, etc.

The rising cost of servicing the debt is no longer a side effect of borrowing—it is now one of the central fiscal realities shaping America's future.¹⁹

Ferguson's Law & National Security²⁰: Hoover Senior Fellow, Niall Ferguson, has articulated a sobering principle regarding the national debt, known as Ferguson's Law (named after 18th century philosopher and historian, Adam Ferguson): any great power that spends more on servicing its debt than it does on defense spending, ceases to be a great power for very long. That threshold for the United States happened in March 2024 when interest payments exceeded 3.2% while defense spending sat at 3.0%.

This is the first time this threshold has been crossed in the United States since 1930, at the outset of the Great Depression. As the interest payments grow, it threatens the defense budget, and risks weakening national security. It squeezes America's ability to deter adversaries like China or Russia, reduces flexibility to surge defense spending in future conflicts, and increases reliance on foreign governments – potentially adversarial nations – that hold large portions of U.S. debt.

Ferguson's Law is not a prediction of an inevitable outcome, but it is a warning. Past empires that did not take measures to take fiscal disciplinary experienced serious decline. The Ottoman Empire, Spain, France, and even post-World War I Britain all saw their influence decline after crossing this

threshold. Each time mounting debt and interest payments forced cuts or constraints, their military might suffered decline. America now faces the same dilemma.

The Economic Impact of America's National Debt: Growing debt and widening budget deficits exert a powerful drag on the broader U.S. economy and hurt ordinary Americans. When the government runs large annual deficits, the Treasury must borrow by issuing securities which competes directly with private borrowers for available capital, pushing up interest rates over time. Loans for businesses, homebuyers, and consumers become more expensive.²¹ Higher borrowing costs reduce investment in factories, equipment, technology, and housing; crowd out private-sector expansion; and slow the pace of productivity growth that has long been the engine of American prosperity.²²

Simultaneously, persistent deficits and surging interest payments can contribute to inflation which steadily erodes the purchasing power of the dollar, driving up the cost of rent, groceries, health-care, and daily essentials.²³ For younger workers and future generations, the burden grows even heavier. As interest costs exceed \$1 trillion annually, pressure mounts for higher taxes or reduced benefits in Social Security and Medicare. In effect, a growing share of tax dollars is transferred from working families to bondholders rather than being used for public investments that improve opportunity and living standards.²⁴

Over time, these pressures compound, eroding investor confidence, increasing borrowing costs across the economy, and limiting America's ability to respond to future crises. Ultimately, the mounting national debt translates into higher costs today, less opportunity, slower growth, and a less secure and prosperous future for the average American.²⁵

Solving the Debt Crisis: The path to solving America's \$39 trillion national debt crisis is straightforward in principle, even if politically difficult: the nation must close the gap between what it spends and what it collects. According to the CBO's February 2026 baseline, lawmakers would need roughly \$9.5–10 trillion in deficit reduction over the next decade just to stabilize debt at around 100% of GDP and bring annual deficits down to a sustainable 3% of GDP target.²⁶ This can be achieved through three complementary levers: increasing revenues, restraining spending (especially entitlements), and accelerating economic growth to expand the tax base naturally.²⁷

Raising revenues does not require massive rate hikes. Broadening the tax base by closing loopholes, limiting deductions, and simplifying the code could increase overall tax revenue.²⁸ Gradual entitlement reforms—such as slowly raising the Social Security retirement age, adjusting benefit formulas for higher earners, and modernizing Medicare payment structures—offer the largest long-term savings.²⁹ Sustained and rapid economic growth is the most powerful solution of all: every additional 0.5 percentage point of annual real GDP growth reduces the required policy changes dramatically because revenues rise automatically while the debt-to-GDP ratio falls without deep cuts or tax increases.³⁰

Serious attempts have already been put forward. Multiple bipartisan bills introduced in 2025–2026 call for an independent fiscal commission (H.R. 3289 and S. 4012) that would produce a comprehensive reform package for fast-track congressional consideration, with the explicit goal of stabilizing debt and restoring Social Security and Medicare solvency.³¹ Other proposals include a statutory 3% of GDP deficit target by 2030–2036 and renewed pushes for a constitutional balanced budget amendment.³² While none of these ideas are painless in the immediate term, history shows America has repeatedly mastered when serious action is taken.

ENDNOTES

- ¹ <https://www.usdebtclock.org/>
- ² <https://www.jec.senate.gov/public/index.cfm/republicans/2026/1/national-debt-hits-38-43-trillion-increased-2-25-trillion-year-over-year-8-03-billion-per-day>
- ³ <https://home.treasury.gov/about/history/history-overview/history-of-the-treasury>
- ⁴ <https://www.reuters.com/business/sp-affirms-aa-credit-rating-us-cites-impact-tariff-revenue-2025-08-19/>
- ⁵ <https://www.cbo.gov/topics/budget>
- ⁶ <https://www.congress.gov/crs-product/RL31967>
- ⁷ <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/debt-limit>
- ⁸ <https://www.npr.org/2023/05/24/1177668000/default-debt-ceiling-limit-negotiations-recession-global-financial-crisis>
- ⁹ <https://fred.stlouisfed.org/series/GFDEGDQ188S>
- ¹⁰ <https://www.cbo.gov/publication/60319>
- ¹¹ <https://www.pgpf.org/wp-content/uploads/2025/05/EY-Rising-National-Debt-Will-Cause-Significant-Economic-Damage.pdf>
- ¹² <https://www.cato.org/sites/cato.org/files/2021-03/edwards-fiscal-cliff.pdf>
- ¹³ <http://www.econ2.jhu.edu/People/Ball/w31577.pdf>
- ¹⁴ <https://www.treasurydirect.gov/government/historical-debt-outstanding/>
- ¹⁵ https://www.crfb.org/sites/default/files/media/documents/February_2026_CBO_Baseline_Webinar.pdf
- ¹⁶ <https://www.crfb.org/blogs/net-interest-costs-will-double-again-over-next-decade>
- ¹⁷ https://comptroller.war.gov/Portals/45/Documents/defbudget/FY2026/FY2026_Budget_Request_Overview_Book.pdf
- ¹⁸ <https://www.crfb.org/blogs/net-interest-costs-will-double-again-over-next-decade>
- ¹⁹ <https://budget.house.gov/imo/media/doc/icymi.pdf>
- ²⁰ <https://www.hoover.org/sites/default/files/research/docs/HAHWGWorkingPaper-202502-Ferguson%27s%20Law-Final.pdf>
- ²¹ <https://www.gao.gov/americas-fiscal-future/how-could-federal-debt-affect-you>
- ²² <https://www.pgpf.org/article/the-national-debt-can-crowd-out-investments-in-the-economy-heres-how/>
- ²³ <https://budgetlab.yale.edu/research/inflationary-risks-rising-federal-deficits-and-debt>
- ²⁴ https://www.congress.gov/crs_external_products/RL/PDF/RL32162/RL32162.11.pdf
- ²⁵ <https://bipartisanpolicy.org/explainer/why-the-national-debt-matters-for-the-dollar-and-global-economic-strength/>
- ²⁶ <https://www.crfb.org/blogs/10-trillion-get-3-and-other-fiscal-goals>
- ²⁷ <https://budgetmodel.wharton.upenn.edu/p/2024-04-22-policy-options-for-reducing-the-federal-debt-spring-2024/>
- ²⁸ <https://taxpolicycenter.org/briefing-book/what-options-would-increase-federal-revenues>
- ²⁹ <https://manhattan.institute/article/a-comprehensive-federal-budget-plan-to-avert-a-debt-crisis>
- ³⁰ <https://www.nber.org/system/files/chapters/c15154/revisions/c15154.rev0.pdf>
- ³¹ <https://bpcaction.org/bpc-action-supported-fiscal-policy-bills-in-the-119th-congress/>
- ³² <https://www.crfb.org/press-releases/crfb-urges-broad-use-3-target-budgets>

The opinions expressed are those of the authors and do not necessarily reflect the opinions of the Hoover Institution or Stanford University. © 2026 by the Board of Trustees of Leland Stanford Junior University.



HOOVER INSTITUTION
TENNENBAUM PROGRAM
FOR FACT-BASED POLICY

The Tennenbaum Program for Fact-Based Policy is a Hoover Institution initiative that collects and analyzes facts, provides easy-to-digest nontechnical essays and derivative products, and shares reliable information on the nation's highly debated policy issues.

