National Debt Tops $26.5 Trillion, 2020 Deficit Could Hit $6 Trillion

July 15, 2020

by Gary Halbert

of Halbert Wealth Management

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Overview

The US National debt surged to a record $26.5 trillion at the end of June, the highest level of any country in the history of the world. At that level, our national debt is equal to 132.5% of Gross Domestic Product, also the highest level ever recorded. The federal budget deficit for fiscal year 2020 is projected to top $3.7 trillion, according to the Congressional Budget Office, and it will be considerably higher if Congress passes another stimulus bill just ahead.

As long-time clients and readers know, I have railed against government deficit spending and our national debt for decades – to no avail. There is no longer any talk of balancing our budget, not even among Republicans. Sadly, most Americans today are oblivious to the national debt. And why not? The media has assured us for decades that the national debt doesn't matter.

I haven't written about our national debt in some time, largely because I feel like a broken record no one wants to hear anymore. This year, however, we've seen our national debt explode as never before. For that reason, I feel obliged to bring it up once again.

National Debt Tops $26 Trillion, On Way To $30 Trillion Soon

According to the Treasury Department, the US national debt topped $26.5 trillion at the end of June. At the end of 2019, the debt stood at $22.8 trillion. So, in only six months, we have increased the national debt by almost $3 trillion, the fastest rise in US history.

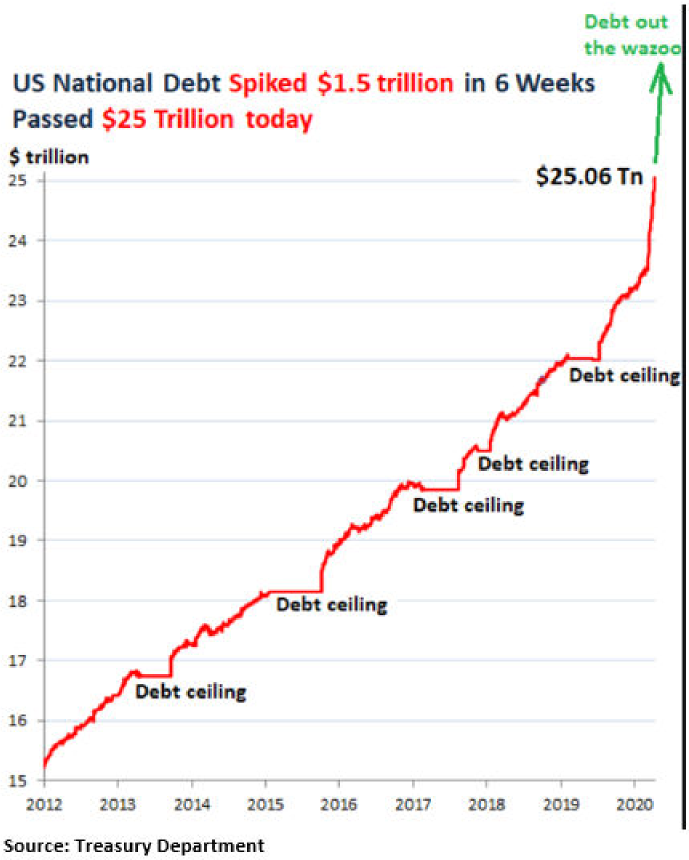
As you can see in the above chart (bottom right), our Debt-to-GDP Ratio is now at a record 132.5%. Gross Domestic Product, the value of all finished goods and services, is estimated at just over $20 trillion in 2020. As you can also see above, our Debt-to-GDP Ratio has more than doubled since 2000.

Notice also above that the "Debt Per Citizen" (men, women and children) is now at $80,313, the highest ever. The "Debt Per Taxpayer" is also at a record high of $213,102. That's what it would take to pay off today's record level of national debt.

There are those who believe that for countries which print their own currency, there is no limit to how much debt they can accumulate. This includes those in the *"we owe it to ourselves, so it doesn't matter"* crowd. Yet history is not on the side of that argument. There is always a limit to how much debt buyers will allow any country to accumulate. The question is: How much is too much? If there is a serious second wave of COVID-19 later this year, and the government decides to throw more trillions in stimulus at it, we may be about to find out.

The Cost of Servicing Our National Debt Can Only Go Up

Another important point regarding our ballooning national debt is the cost of servicing that debt. The Treasury Department reports it costs $386 billion a year to pay the interest on our national debt at the current level. That might not sound like a lot, relatively speaking. However, it is important to keep in mind this figure is based on the Zero Interest Rate Policy (ZIRP) currently in place at the Federal Reserve.



The current target range for the Fed Funds rate is 0.00-0.25%. While the Fed Chairman says the central bank has no plans to increase its target rate anytime soon, we all know short-term rates can't remain effectively at zero indefinitely.

It should be obvious that the super-low Fed Funds rate helps to lower the cost of servicing the national debt. The Treasury can issue new paper at very low interest rates with the blessing of the Fed. However, there is also the problem that keeping interest rates at zero or near zero is disastrous for banks, insurance companies, pension funds and savers.

The bond market is also deeply affected by ZIRP. The yield on the 30-year Treasury bond is currently around 1.35% and the yield on 20-year bonds is just 1.24%. These are historic lows. The average rate for a 30-year fixed home mortgage fell to 3.20% last week.

Whenever short-term rates normalize, say at 3-4-5%, the cost to service our national debt will skyrocket. Again, the only question is when.

Another Huge Economic Stimulus Bill Expected Just Ahead

All eyes will be on the Senate when it returns from its two-week July 4th recess on July 20th and will start crafting legislation for the next stimulus bill. A second stimulus check feels like a sure thing, but we are still missing a lot of key details: How big will it be? Who will qualify? And when can you expect one?

House Democrats passed their latest $3 trillion economic stimulus bill in mid-May – the *Health and Economic Recovery Omnibus Emergency Solutions Act*, or *“HEROES ACT.”* This monster bill would provide benefits to households with the same income restrictions as the *CARES Act* – single adults making $75,000 or less and married couples making a combined $150,000 or less.

The *HEROES Act* was much more generous that the *CARES Act* in that it would provide initial benefit payments of $1,200 for every family member, whereas *CARES* gave $1,200 per parent and $500 per child. For instance, in the *HEROES* Act, a family of four whose parents earn less than $150,000 would receive $4,800.

While President Trump neither endorsed or criticized the *HEROES Act*, he said he supports another big stimulus package of some kind and told reporters that his administration is working on a plan of their own.

When the *HEROES Act* was delivered to the Senate, Majority Leader Mitch McConnell declared it *“dead-on-arrival.”* The Senate is said to be eyeing a much smaller relief package of around $1 trillion – with benefits going mainly to people who earn $40,000 a year or less. If so, my guess is the two legislative bodies will compromise on something around $2 trillion with some change in the income requirements just ahead.

My point here is that we’re about to throw another $2 trillion (or more) onto a record budget deficit of $3.7 trillion, and this will ratchet the national debt up to at least $28.5 trillion. This means we will have added almost $6 trillion this year alone!

What To Do With the Extra $600/Week Jobless Benefit?

More than 40 million Americans have lost their jobs due to the COVID-19 pandemic, although some have returned to work over the past 2-3 weeks. Democrats and Republicans are split on whether to extend the $600 a week extra unemployment benefit, which was provided for 13 weeks under the *CARES Act* financial stimulus.

These supplemental unemployment benefits (paid by Uncle Sam) are available to workers who lost their jobs, in addition to traditional weekly unemployment benefits starting from the date one lost their job. Yet the 13 weeks is set to expire in the last week of this month, at which time the $600/wk. payments will stop, unless something is done.

As of the end of June almost 20 million Americans were still receiving these weekly bonus payments, according to the Labor Department.

The *HEROES Act* passed by the House would have extended those payments ($31,200 a year, by the way) until January 31, 2021. With the *HEROES Act* dead in the water, it remains to be seen what Republicans in the Senate will do to address this issue.

Some Republicans are rightfully concerned that the extra $600/wk. payments are providing an incentive for many workers to not go back to work – especially if that, plus their regular unemployment, pays them more than their old job provided.

When the Senate Republicans present their latest stimulus package, my guess is they will extend it for a period of time, maybe until the end of this year, but perhaps with lower income requirements to qualify. We’ll see.

I’ll end today with the craziest unemployment benefit of them all that has just been proposed: a “return to work” bonus. Senate Majority Leader McConnell recently proposed paying a bonus to jobless workers if they return to work. Can you believe it?

In response, Sen. Rob Portman (R-OH) proposed a $450 weekly bonus, paid for by the government, for qualified individuals who return to work, in addition to their salaries for several weeks after they go back to their job. I think this is a terrible idea, but in the last week President Trump and his top economic advisor, Larry Kudlow, have embraced the idea.

Even if the return to work bonus doesn’t go anywhere, the fact that we’re at such a point reinforces my main point today – that there is a total disregard for the budget deficit and the national debt.

And frankly, this scares me! When a nation decides it can print all the money it wants, with no regard to how large its debts become, I believe we are looking for trouble – and trouble has a way of creeping up on us when we least expect it.

Something to think about.

Best regards,
Gary D. Halbert