



Weight of the Nation: Understanding National Debt

Center Forward Basics

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Overview

With \$28.9 trillion in publicly held debt and an average of \$910 billion in Treasury securities changing hands daily, the U.S. bond market is a cornerstone of domestic and global financial systems. While that number may seem abstract, it has real consequences for the economy, both now and in the future. National debt refers to the total amount of money a government owes to creditors, both domestic and foreign. The dependability of U.S. Treasuries—alongside the U.S. dollar's central role in international trade—has cemented their status as one of the safest and most liquid investment options available worldwide.

Though some debt can help stimulate growth or fund critical programs, excessive or poorly managed debt can pose serious economic risks. This Basic explores the national debt, its significance, and how it impacts long-term economic stability. It also examines how sustained high borrowing without a clear path to debt stabilization could alter investor behavior and market dynamics.

Understanding National Debt

National debt is generally divided into two categories: public debt and intragovernmental debt. Public debt refers to the amount of money the government owes to outside investors, including individuals, corporations, and foreign governments. Intragovernmental debt, on the other hand, represents what the government owes to its own agencies, such as Social Security or Medicare. Debt accumulates when a government consistently spends more than it collects in tax revenue, resulting in a budget deficit that must be financed through borrowing.

One primary concern with rising national debt is its potential to slow economic growth. When the government borrows heavily, it can lead to what is known as "crowding out"—where government borrowing competes with private sector borrowing, pushing up interest rates and reducing business investment. Over time, this can lead to lower productivity and hinder job creation. A high level of debt can also influence interest rates and inflation. If investors begin to worry about a government's ability to repay its debt, they may demand higher returns, increasing the cost of borrowing. Additionally, if a government attempts to finance its debt by printing more money, it may trigger inflation, reducing the purchasing power of consumers.

Heavy debt burdens reduce a government's ability to respond to future crises. In emergencies, such as wars, pandemics, or economic downturns, a government needs fiscal room to increase spending quickly. If a significant portion of the budget is already committed to interest payments on existing debt, less flexibility is available when it matters most. If debt levels are deemed unsustainable, credit rating agencies may downgrade a country's rating, thereby increasing the cost of borrowing. This can trigger a negative cycle of rising debt costs and declining market trust.

Despite the risks, national debt is not always harmful. Borrowing can be beneficial, especially during recessions or to finance long-term investments in infrastructure, education, or technology, boosting future growth. The key is maintaining a

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Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

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sustainable debt-to-GDP ratio. Rather than focusing solely on the total dollar amount, economists often examine the amount of debt a country has relative to its economy's size. A growing economy can support more debt, while a stagnant one cannot.

Who Buys the United States' Debt?

A diverse array of investors purchase U.S. Treasuries, each with different motivations:

- **The Federal Reserve** actively buys and sells Treasuries as part of its monetary policy toolkit, using these operations to influence interest rates, inflation, and employment outcomes.
- **Foreign governments and central banks** hold U.S. debt to manage foreign exchange reserves and stabilize their currencies. The U.S. dollar's long standing role as the world's primary reserve currency has made Treasuries especially attractive, though that dominance is increasingly being questioned.
- **Private investors, both domestic and international**, turn to Treasuries as a safe investment option. Some types, such as Treasury Inflation-Protected Securities (TIPS), offer protection against inflation. For foreign investors in particular, holding Treasuries also helps build dollar reserves that can be used to buy U.S. goods, services, or other dollar-denominated assets.
- **Banks, state and local pension funds, and private retirement plans** rely on Treasuries as a stable, low-risk component of their broader investment strategies and capital management.

Roughly one-third of U.S. publicly held debt—around \$8.5 trillion—is owned by foreign and international investors, with holdings split relatively evenly between government and private sector entities. The top three foreign holders are Japan (\$1.1 trillion), China (\$761 billion), and the United Kingdom (\$740 billion), reflecting the scale of their economies and their deep trade and financial ties with the United States.

Financial Market Impacts

Continued high government borrowing without a clear, credible path to debt stabilization can have far-reaching effects on investor behavior and the stability of financial markets. When investors perceive that a government is not taking meaningful steps to address mounting deficits or slow the growth of debt, their confidence in the country's fiscal management may begin to erode. This loss of confidence can lead investors to demand higher yields on government bonds to offset the increased risk, effectively raising the government's borrowing costs. Over time, this can push interest rates upward across the broader economy, affecting everything from mortgage rates to business loans, and potentially slowing down economic activity.

Uncertainty about a country's fiscal outlook can lead to heightened volatility in financial markets, as investors shift their portfolios away from government securities, which were once seen as safe havens. This could lead to reduced demand for long-term bonds, shorter investment horizons, and increased capital flow into alternative assets, such as foreign markets or commodities. In some cases, credit rating agencies may respond by downgrading the country's sovereign credit rating, which further amplifies borrowing costs and reduces investor appetite. If such dynamics persist, they could undermine the role of government debt as a foundation for financial markets, especially in countries like the United States, where Treasury securities are deeply integrated into global finance. In short, sustained borrowing without a plan for stabilization doesn't just impact public finances; it can fundamentally shift how investors perceive and interact with the entire economic system.

Looking Ahead

National debt plays a critical role in shaping a country's economic landscape. While borrowing can serve as an important tool for financing essential services and responding to crises, the long-term sustainability of national debt remains a significant concern. Excessive debt, if left unchecked, can lead to higher borrowing costs, reduced fiscal

flexibility, and increased market volatility. Investors, as demonstrated, may lose confidence in a government's fiscal management, leading to shifts in market behavior that can potentially exacerbate economic challenges. Thus, responsible debt management is crucial to ensuring the economy remains on a stable growth trajectory without jeopardizing the financial stability of future generations.

Looking ahead, the challenge will be finding a balance between necessary borrowing and long-term debt stabilization. As global economic dynamics shift and governments face rising costs associated with issues such as aging populations, climate change, and technological investment, the need for thoughtful fiscal policy becomes even more pressing. While some argue for continued borrowing in the short term to stimulate growth, without a clear path to debt reduction or stabilization, future fiscal health could be compromised. It will be essential for policymakers to develop strategies ensuring that debt is managed effectively, with careful consideration of both current economic needs and future risks. How the world handles national debt in the years to come will shape not only the stability of individual economies but also the broader global financial system.

Links to Other Resources

- Fiscal Debt – [Understanding the National Debt | U.S. Treasury Fiscal Data](#)
- Investopedia – [What the National Debt Means to You](#)
- Peter G. Peterson Foundation – [What Is the National Debt Right Now?](#)
- U.S. Debt Clock – [Debt Clock](#)