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Borrowed Time: The New Math of the US Federal Debt Crisis

By

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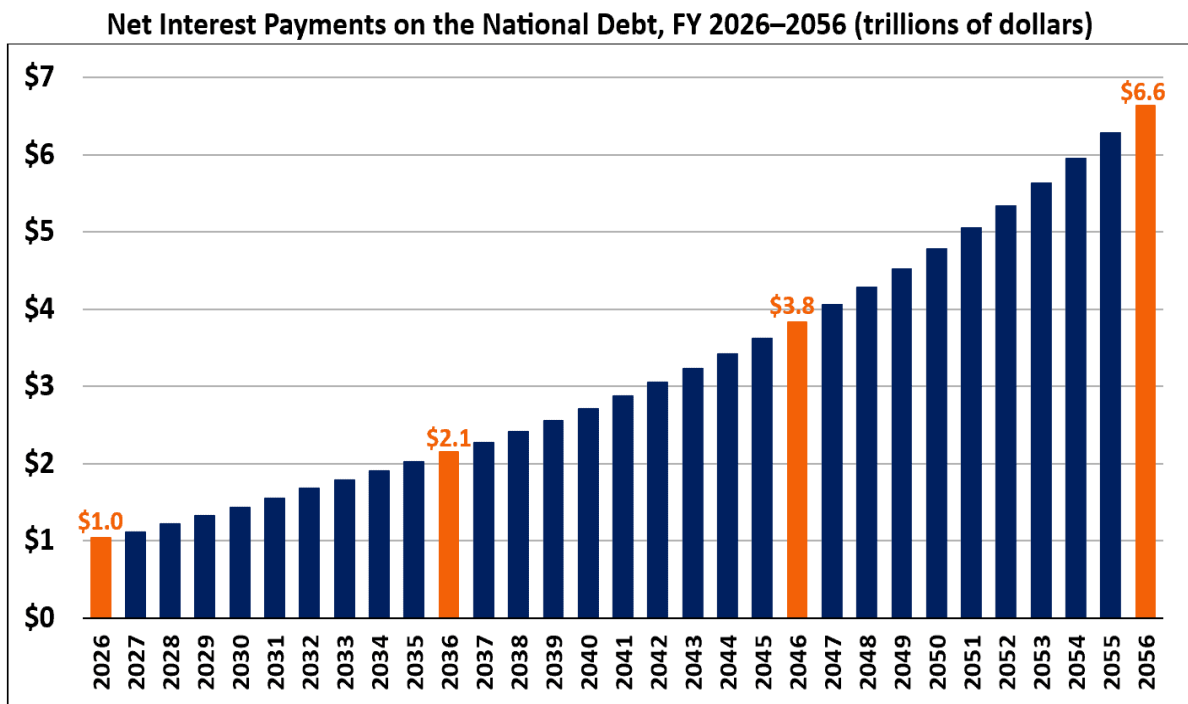
Borrowed Time: The New Math of the Federal Debt Crisis

1 July 2026

Executive Summary

- ✦ The era of cheap borrowing has ended as the 10-year US Treasury yield anchors above the 4.5% threshold, forcing lawmakers to face a pressing political and legislative crisis rather than a simple financial challenge.
- ✦ Rapidly growing net interest payments are outpacing all other budget segments, creating a structural crowding-out effect that systematically displaces crucial funding for national defense, Medicaid, and discretionary programs.
- ✦ The bond market has transformed into a powerful political constraint on the executive branch, leaving the administration dependent on rhetorical de-escalation regarding international conflicts to keep volatile yields from harming the broader domestic economy.
- ✦ Persistent inflation and elevated benchmark yields are straining household affordability via higher mortgage and loan costs.
- ✦ Total gross national debt has expanded rapidly over the past year to an unprecedented \$39.20 trillion, forcing the federal government to spend over \$2.8 billion per day on interest payments alone.
- ✦ Long-term projections show that a massive public debt burden exceeding 100% of GDP will double net interest outlays to over \$2.1 trillion, trapped in a cycle where acute electoral pressures drive new debt-financed spending despite soaring capital costs.

Key Picture: The Cost of Capital



Source: CBO.

Source: [AmericanAction](#)

The Anatomy of a Compounding Crisis: Mathematical Realities and Political Overdrive in the Modern Debt Era

For decades, the US operated under a comforting economic paradigm: the federal debt could expand almost indefinitely because the cost of servicing it remained negligible.¹ However, as the 10-year US Treasury yield anchors itself above the 4.5% threshold, that period of fiscal impunity has officially come to an end.² What began as an operational challenge for financial markets has transformed into a pressing political crisis for the federal government. High borrowing costs are no longer just an abstract macroeconomic indicator, they are actively reshaping the legislative agenda.

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According to a fiscal assessment by the Committee for a Responsible Federal Budget, these elevated interest rates mean that net interest payments are growing faster than any other segment of the budget, systematically displacing funding for national defense, Medicaid, and discretionary programs. This structural crowding out forces lawmakers to confront a reality where the sheer cost of financing existing debt actively limits the government's capacity to launch new initiatives or respond to national emergencies.³

This pressure is being acutely felt inside the executive branch, where the bond market is testing the administration's policy limits. Reporting highlights growing anxiety within the White House over rising fuel prices and the trajectory of the bond market, especially as the 10-year yield recently peaked at 4.69% following geopolitical shocks from the war with Iran. The intersection of higher borrowing costs for consumers and energy-driven inflation expectations has created severe tactical problems for policymakers.

Market strategists note that the administration's primary tool to calm volatile bond yields has been rhetorical de-escalation, as investors react directly to official comments regarding peace negotiations. This reality shows a profound shift: the bond market is acting as a powerful political constraint, forcing the US to moderate its stance to prevent soaring yields from damaging the broader economy.⁴

The political fallout of this yield regime extends directly to upcoming electoral prospects, creating friction between the administration's spending ambitions and fiscal realities. While the White House and the Treasury Department maintain that these elevated yields are a temporary consequence of energy disruptions, lawmakers are increasingly concerned about the long-term impact on voters.

Federal Reserve officials are discussing rate hikes rather than cuts to combat persistent inflation, while congressional representatives worry that continued spending proposals could jeopardize thin legislative majorities in the upcoming midterm elections. Because the benchmark yield drives the cost of mortgages, auto loans, and credit lines, a sustained period above 4.5% directly reduces household affordability. Ultimately, this ensures that the cost of capital will remain a defining political vulnerability, as the administration is forced to balance its long-term growth agenda against the immediate discipline imposed by the bond market.⁵

From Zero Baseline to Multi-Trillion Realities: The New Rate Regime

While Washington treats budget debates as ideological posturing, the underlying mathematical reality of this new yield regime acts as an unyielding boundary for the broader legislative agenda. In its updated June 2026 report, the US Senate Joint Economic Committee noted that total gross national debt has expanded rapidly over the past twelve months, rising by nearly \$3 trillion to reach an unprecedented \$39.20 trillion, with publicly held debt sitting at \$31.60 trillion. This means the average interest rate on total marketable national debt has climbed steadily to 3.386%, a drastic departure from the near-zero baseline seen a few years ago.⁶

As the federal debt mounts, the government will spend more of its budget on interest costs, increasingly crowding out public investments that are critical to economic growth. Right now, the US spends over \$2.8 billion per day on interest payments. As more federal resources are diverted to interest payments, there will be less available to invest in areas that are important for economic growth. The Congressional Budget Office predicts that within 30 years, interest costs will be the largest federal spending program and would be nearly three times

what the federal government has historically spent on R&D, non-defense infrastructure, and education combined.⁷

The \$57 Trillion Strain: Compounding Projections and Displaced Policy Ambition

The underlying mathematical reality of this new yield regime is structurally unforgiving for the broader legislative agenda. Public debt already exceeds 100% of Gross Domestic Product (GDP) and is on a trajectory to expand drastically over the coming decade, with net interest outlays alone projected to double from roughly \$970 billion to more than \$2.1 trillion.⁸ When a country carries an immense debt burden, even modest upward shifts in interest rates carry enormous fiscal consequences. Landmark economic research establishes that each single percentage point increase in the national debt-to-GDP ratio drives up long-term interest rates by roughly three basis points.

As debt levels soar from approximately 100 percent of GDP today, this rule of thumb implies that interest rates could climb more than four percentage points higher. This upward pressure locks the government into a severe fiscal strain, where just a one percentage point increase in the rate paid on federal debt adds a \$57 trillion in interest costs over three decades - an amount roughly equal to funding an entire additional Department of Defense, leaving little room for other legislative ambitions.⁹ This multi-trillion dollar pressure effectively transforms the 4.5% yield threshold from a financial benchmark into a tool of permanent fiscal containment.

Political Mandates vs Fiscal Discipline

The underlying pace of American deficit spending is laid bare by real-time tracking from the Congressional Budget Office and the Treasury Department. In June 2026, official data confirmed that the cumulative federal deficit for the first eight months of Fiscal Year 2026 had already reached \$1.2 trillion.¹⁰ The Treasury Department's own internal projections indicate that the US is on track to exceed a staggering annual deficit of \$2.0 trillion by the close of the fiscal year, making multitrillion-dollar shortfalls a structural normalcy rather than a crisis-driven anomaly.¹¹

This borrowing pace underscores a fundamental friction within the US, where pressing political mandates routinely override macro-fiscal caution. For example, on June 10, 2026, the federal government bypassed standard spending thresholds by passing the Secure America Act via the budget reconciliation process. This massive emergency legislation carved out approximately \$70 billion in direct, statutory funding to fully finance immigration enforcement agencies (ICE and CBP) through 2029.¹² This legislative development encapsulates the precise structural tension hobbling US fiscal policy: acute domestic pressures continuously force lawmakers to authorize new, debt-financed legislative outlays. Even as high yields signal that the government cannot afford its current debt, acute electoral pressures ensure that lawmakers cannot afford to stop spending.

NOTES

¹ Garrison Fathom, “The Debt Delusion: America’s Long Reckoning With Borrowed Power”, Medium, accessed 22 June 2026, <https://medium.com/@garrisonfathom/the-debt-delusion-americas-long-reckoning-with-borrowed-power-98e80c625f41>.

² “10-year Treasury yield holds near 4.45% as Fed seen on hold”, MSN News, accessed 22 June 2026, <https://www.msn.com/en-us/news/insight/10-year-treasury-yield-holds-near-4-45-as-fed-seen-on-hold/gm-GMFB33AD51?gemSnapshotKey=GMFB33AD51-snapshot-1&uxmode=ruby>.

³ “Rising Interest Rates are Exploding the Debt”, Committee for a Responsible Federal Budget”, accessed 26 June 2026, <https://www.crfb.org/blogs/rising-interest-rates-are-exploding-debt>.

⁴ Gertrude Chavez-Dreyfuss and Nandita Bose, “US Treasury rout tests Washington's tolerance for higher borrowing costs”, Reuters, accessed 22 June 2026, <https://www.reuters.com/business/finance/us-treasury-rout-tests-washingtons-tolerance-higher-borrowing-costs-2026-05-24/>.

⁵ Ibid.

⁶ “Growth of the national debt”, United States Congress Joint Economic Committee, <https://www.jec.senate.gov/public/vendor/accounts/JEC-R/debt/Monthly%20Debt%20Update.html#:~:text=Over%20the%20past%20year%2C%20the,person%20or%20%2422%2C180.93%20per%20household>.

⁷ “America’s National Debt Challenge”, Peter G. Peterson Foundation, accessed 22 June 2026, <https://www.pgpf.org/our-national-debt/>.

⁸ Annie Shuppy, Rory Gaudette, and Zach Moller, “Explaining Federal Debt, Interest Rates, and the Economy”, accessed 22 June 2026, <https://www.thirdway.org/report/explaining-federal-debt-interest-rates-and-the-economy.pdf>.

⁹ Jessica Riedl, “The federal debt path is worse than reported”, Brookings Institute, accessed 22 June 2026, <https://www.brookings.edu/articles/the-federal-debt-path-is-worse-than-reported/>.

¹⁰ “Monthly Budget Review: May 2026”, Congressional Budget Office, accessed 22 June 2026, <https://www.cbo.gov/publication/61981#:~:text=June%208%2C%202026,of%20CBO's%20Monthly%20Budget%20Review>.

¹¹ Scott Peters, “U.S. deficit projected to hit \$2 trillion, double fiscal target”, accessed 22 June 2026, <https://scottpeters.house.gov/in-the-news/us-deficit-projected-to-hit-2-trillion-double-fiscal-target#:~:text=The%20federal%20government%20is%20projected,from%20%241.7%20trillion%20last%20year>

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¹² “Trump signs \$70bn immigration act ensuring ICE funding through 2029”, accessed 22 June 2026, *The Guardian*, <https://www.theguardian.com/us-news/2026/jun/10/trump-signs-70-billion-dollar-immigration-act-ice>.