

Debt Limit Drama

The US federal budget is on an unsustainable path...but not for the reasons that most people think.

Yes, the national debt is \$31 trillion, well higher than annual GDP, and only going higher. Yes, the budget deficit last year was more than a \$1 trillion for the third year in a row. None of this is good.

But the real root of the fiscal problem, and our biggest concern, isn't the debt or the deficits, *it's government overspending*. If the government had an enormous debt, but spent little, the private sector could produce the country's way out of the debt problem. And if the US had little debt, we could still have economic problems from too much government spending. Ultimately, the government funds itself by borrowing or taxing the wealth produced by private industry. If spending were high and borrowing low, taxes would have to be prohibitively high. The bottom line is that excessive spending leads to economic ills.

According to the CBO, spending on entitlements like Social Security, Medicare, Medicaid, and other health care programs will rise from 10.7% of GDP to 15.1% in the next thirty years. Meanwhile, the net interest on the national debt will almost certainly be higher than it was last year, unless and until we bring the deficit down and slow the growth in debt.

This is why the debt limit debate now going on in Washington, DC is so important. Don't fall for the false narrative that one group of politicians wants to push the country into default. Nor, should anyone want to abolish the debt ceiling altogether. If there is a way to shine some light on overspending, why shouldn't it be used?

If debt ceiling politics can focus attention on fiscal issues, it's done its job.

What we expect is a last-minute budget deal that includes either caps on discretionary spending for future years, some sort of commission or committee that can make proposals to reform entitlements (with expedited procedural rules so the proposals get a congressional vote), or both, as part of a bipartisan deal to raise the debt ceiling.

But let's go down the highly unlikely path that the debt limit isn't raised. The Treasury Department would still have enough cash flow to pay all securitized debt as it came due, as well as entitlements such as Social Security, Medicare, and Medicaid. It's true that other programs and agencies would have to take substantial cuts to make sure those higher priority payments get made; and yes, the Biden Administration will not enjoy making that choice. But it's still a choice that they alone get to make.

Ultimately, investors and voters need to realize that not every national debt is the same, even if they're the same amount. The US had a debt problem after the Revolutionary War, which was a small price to pay for starting an independent country. We had a debt problem after World War II, but that was a price we paid to win a crucial war. Our current debt problem is not like those. In too many cases, politicians spend to win favor with constituents. It's not wrong to use the debt ceiling as a way to focus attention on this problem and the endemic overspending that it creates. That's a habit this debt limit debate needs to break.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-31 / 9:00 am	Chicago PMI – Jan	45.0	42.4		45.1
2-1 / 9:00 am	ISM Index – Jan	48.0	48.7		48.4
9:00 am	Construction Spending – Dec	0.0%	+0.4%		+0.2%
afternoon	Total Car/Truck Sales – Jan	15.5 Mil	15.6 Mil		13.3 Mil
afternoon	Domestic Car/Truck Sales – Jan	11.6 Mil	12.3 Mil		10.5 Mil
2-2 / 7:30 am	Initial Claims – Jan 30	197K	195K		186K
7:30 am	Q4 Non-Farm Productivity	+2.4%	+2.4%		+0.8%
7:30 am	Q4 Unit Labor Costs	+1.5%	+1.4%		+2.4%
9:00 am	Factory Orders – Dec	+2.3%	+2.2%		-1.8%
2-3 / 7:30 am	Non-Farm Payrolls – Jan	185K	170K		223K
7:30 am	Private Payrolls – Jan	190K	165K		220K
7:30 am	Manufacturing Payrolls – Jan	8K	10K		8K
7:30 am	Unemployment Rate – Jan	3.6%	3.6%		3.5%
7:30 am	Average Hourly Earnings – Jan	+0.3%	+0.4%		+0.3%
7:30 am	Average Weekly Hours – Jan	34.3	34.3		34.3
9:00 am	ISM Non Mfg Index – Jan	50.5	50.4		49.6

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security. Such statements are generally identifiable by the terminology used, such as "plan", "anticipate", "intend", "expect", "estimate", or other similar wording. These forward-looking statements are subject to known and unknown risks and uncertainties and other factors that are beyond the control of the Funds, FT Portfolios Canada Co. and its affiliates, and First Trust Advisors L.P. and which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in securities prices, fluctuation in interest rates and foreign currency exchange rates; and actions by governmental authorities. Future events and their effects on a fund may not be those anticipated by us. Actual results may differ materially from the results anticipated in these forward-looking statements. We do not undertake, and specifically disclaim, any obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise. This information does not constitute a solicitation or an offer to buy or sell any security.