

Opinion **US economy**

The trouble with American exceptionalism

Deepening deficits now make the US one of the most fiscally irresponsible nations

RUCHIR SHARMA



Biden used the sense of crisis generated by the pandemic to launch a latter-day New Deal, building infrastructure and industry, but no other government plans to spend as heavily © Gary Leonard/Getty Images

Ruchir Sharma YESTERDAY

The writer is chair of Rockefeller International

The buzz around “American exceptionalism” keeps on growing, boosted by the strength of the US economy and markets compared with other developed countries — and to a stumbling China. But this confident talk overlooks the extent to which US growth now depends on deficits and debt.

Based on those measures, the US has started to look exceptional in a bad way. Once typical, it is now the biggest deficit spender in the developed world. During the pandemic, the [US budget](#) deficit tripled to more than 10 per cent of gross domestic product, more than double the peak in other developed economies. In coming years, the US deficit is expected to average close to 6 per cent of GDP — well above its historic norm, and a full six times the average in other developed economies.

How did the US steer so deeply into the red? Most countries have ended the spending programmes that were launched to ease the pain of pandemic-induced lockdowns. But all the \$6.7tn in new spending from the Biden administration came after 2020 was over. Most of it had nothing to do with pandemic relief.

Instead, Joe Biden used the sense of crisis to launch a [latter-day New Deal](#), building

infrastructure and industry ostensibly to compete with China and combat climate change. No other government plans to spend as heavily, leaving the US all but alone on the road to deeper deficits. Fans of Bidenomics see it as smart investment. But they ignore the curve-busting scale of new spending and its potential consequences for [US debt](#), inflation, and growth in the long run.

The US has been running deficits almost every year since the 1960s without triggering a serious financial crisis. So the conventional wisdom is that deficits don't matter. Many economists argue that they pay for themselves if the [economic](#) growth generated by new public spending exceeds the government's interest payments. That feat was easier to achieve when interest rates were near zero, however. Now that rates are rising, it's almost impossible.

Though public debt is at historic highs — more than 100 per cent of GDP across the developed world — it is stabilising in Europe but rising relentlessly in the US. With interest rates rising rapidly at the same time, the interest paid on public debt is increasing — and doing so much faster in the US.

Within 10 years, US government interest payments will exceed spending on defence and on social programmes such as Medicaid. The Bank for International Settlements says developed economies need to bring deficits down sharply in this high-rate environment or end up with more new debt than new growth. The Biden team clearly feels this advice doesn't apply to the world's leading economic superpower.

Through 2025, the trillions unleashed by this administration will push government spending up to 39 per cent of GDP, most of it not covered by new revenue. In other big developed economies, spending is poised to fall sharply as a share of GDP, while revenues hold up relatively well.

Under pressure from Congress last month, Biden signed the [Fiscal Responsibility Act of 2023](#), creating the appearance of a new restraint. Despite what look like large spending cuts of \$1.3tn over 10 years, the US deficit is still projected to hover near 6 per cent of GDP throughout the next decade.

Though inflation dipped last week, it's still running well above 2 per cent, and Biden's defenders blame its return on anything but his spending plans, including the lingering effect of global supply chain disruptions. While inflation did spike worldwide, it did so most sharply in nations that spent the most during the pandemic. Few spent more than the US. A recent study from the Federal Reserve attributed two-thirds of America's recent inflation surge to excess demand, and half that increase in demand to deficit spending.

But the positive view on American exceptionalism still dominates. Many favour Biden's calls for bigger government, dismissing fears of a deficit-driven crisis as crying wolf and preparing for a threat that never comes. They scoff at the idea that foreigners might ever tire of financing US spending habits or buying into US markets. America's flaws pale and its technology dazzles in comparison to rivals in Europe and Asia.

So why should anyone care about the US's deepening debt and deficits? Because it is now one of the most fiscally irresponsible nations. Its deficit has climbed the ranks to worst in the developed world, its public debt is already the third highest after Japan and Italy. To wilfully ignore this new reality is an exceptionally risky mistake.

[Copyright](#) The Financial Times Limited 2023. All rights reserved.
