Breakout Briefings
Our Worldview in Charts

BREAKOUT CAPITAL
in strategic partnership with Rockefeller Capital Management

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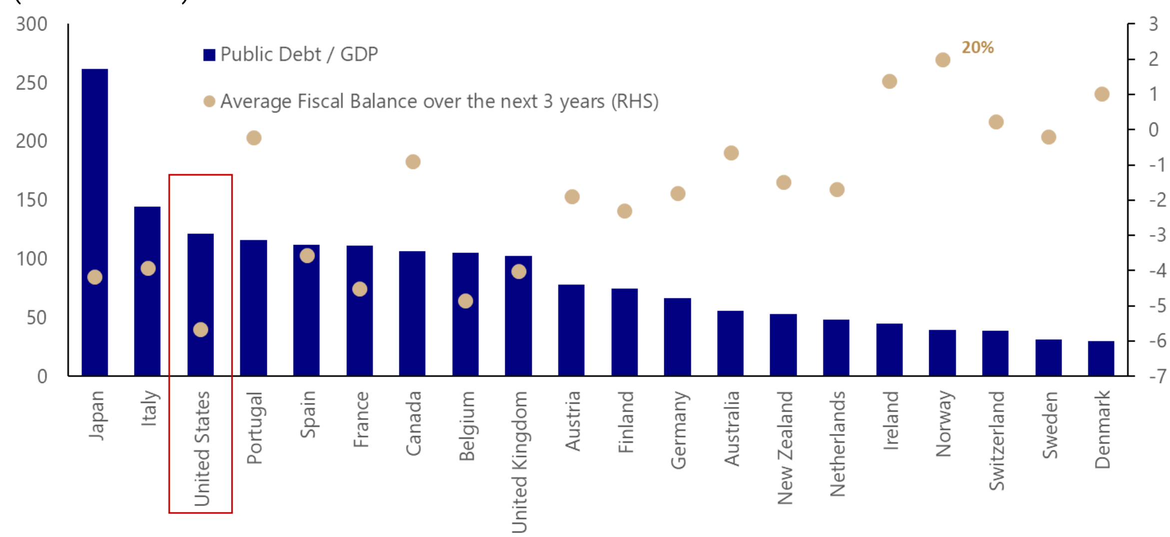
America is Increasingly Exceptional, in the Wrong Way

President Joe Biden came to power aspiring to be the next Franklin Delano Roosevelt and launch a latter-day New Deal. Progressives think he has fallen short, by not making pandemic relief spending programs permanent, and compromising on budget cuts in the recent debt ceiling deal. The reality is that he has gone beyond FDR, who raised spending to ease a depression and fight a world war. Biden is raising spending in a peacetime recovery. All of his nearly $7 trillion in new spending came after the 2020 recession was over, and most had nothing to do with covid relief. Bidenomics is a plan to reshape the economy, revive manufacturing, compete with China, and fight climate change. Once typical, the US is now the biggest deficit spender in the developed world, on track to become an even more extreme outlier. Rating agencies have started to take notice too, with US' first downgrade since 2011.

When First is Worst

The United States has gone from near the middle of the pack to first among developed economies, in size of its deficit as share of GDP.

Chart 1. Public Debt and Fiscal Balance Snapshot across major advanced economies (Percent of GDP)



Source: IMF, Bloomberg Forecasts, Breakout Calculations. Public debt to GDP is for 2022, and the fiscal balance is based on estimates for 2023-25.

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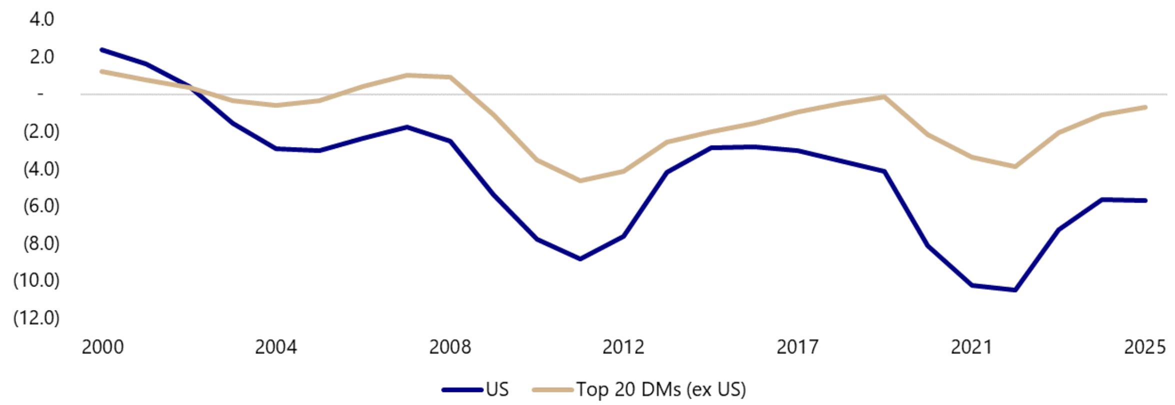
When forecasts clash with facts, what do you do?

Over the next three years, the US deficit is expected to run at a historical high of nearly 6 percent of GDP, which is more than 6 times higher than the expected average for other developed economies.

Chart 2. Budget Balance
(Percent of GDP; Forecasts from 2023-25 based on Bloomberg data)

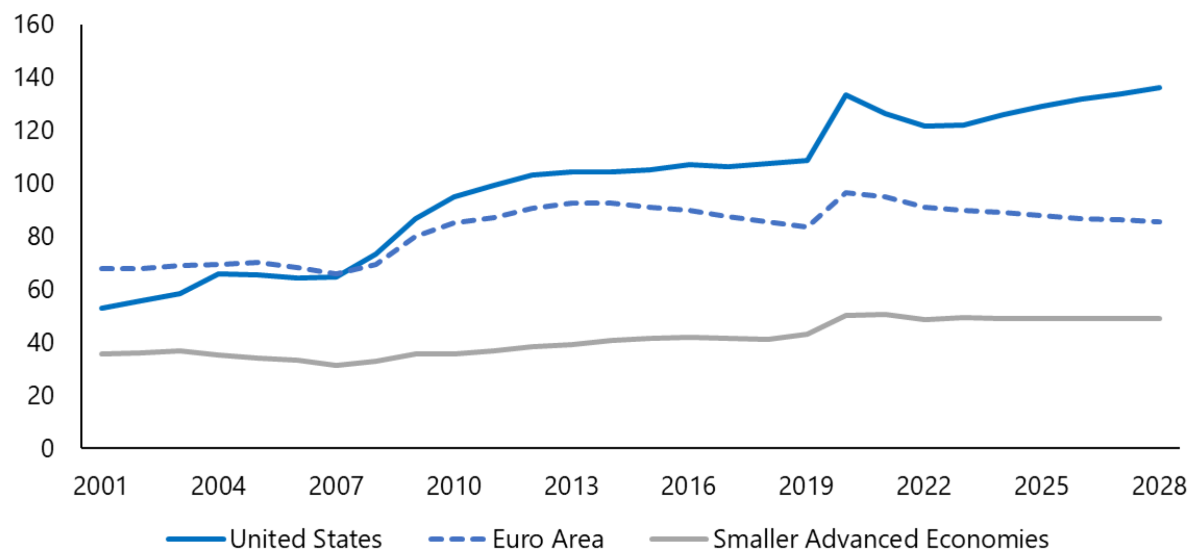


Source: Bloomberg, Breakout Capital Calculations

Unusually high deficits foretell unusually high debt.

While public debts are expected to decline slightly across other developed economies, they are expected to continue rising in the United States, so the gap is on course to widen dramatically.

Chart 3. Public Debt to GDP
(Percent)

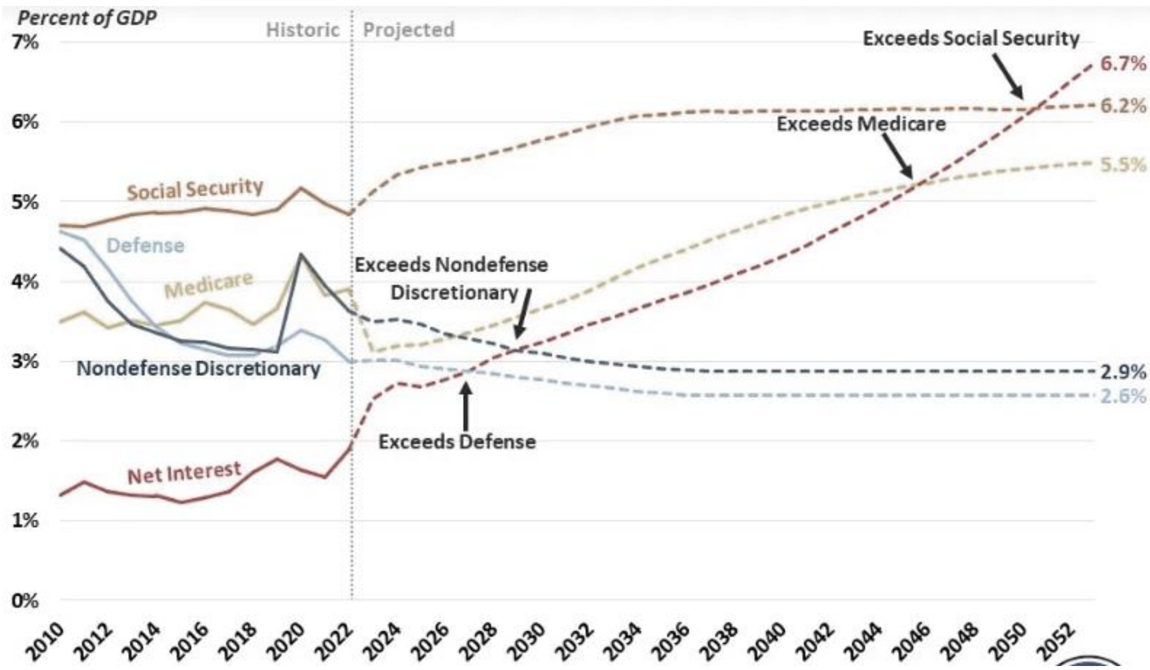


Source: Haver, IMF Forecasts. The chart plots the general government gross debt across all catgories. Smaller Advanced economies include the advanced economies excluding US and G7 countries.

The Interest Burden

As public debt rises, the interest payments on that debt will become a growing burden—soon topping US spending on defense, and on other discretionary items such as veteran medical services, rental assistance etc.

Chart 4. Spending on different Programs
(Percent of GDP)



Source: Congressional Budget Office, Committee for a Responsible Federal Budget Estimates

Why It Matters for EM

The United States is now virtually alone on a path toward higher spending, deeper deficits and debt. Its deficits are highest in the developed world, its public debt third worst (after Italy and Japan). If its position deteriorates as expected in coming years (see chart below), compared to both developed and emerging economies, well, markets are going to take notice. There are signs the deteriorating finances are already being noticed, as Fitch Ratings recently downgraded the US sovereign rating for the first time since 2011. The likely result, we would expect, is that money managers will rebalance portfolios away from the US towards international markets which have remained away from investors' radars over the last decade.

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Chart 5. Key Ratios Related to Government Finance (Shown as Percent of GDP)

Revenue	**2022**	**2025**	**2022-25**
US	33	31	(1.3)
DM Average ex US	44	44	(0.6)
EM Average	24	23	(0.3)

Expenditure	**2022**	**2025**	**2022-25**
US	36	39	2.3
DM Average ex US	49	46	(2.6)
EM Average	28	28	(0.3)

Interest Expense	**2022**	**2025**	**2022-25**
US	2.4	3.2	0.8
DM Average ex US	2.0	1.9	(0.0)
EM Average	3.0	3.3	0.4

Source: IMF based on the data in the Article IV Reports, Breakout Capital Staff Calculations. The table shows figures based on the general government finances and not just federal finances.

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