

Policy Backgrounder: US National Debt and Federal Budget Negotiations

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Concerns regarding the US national debt and deficits are top-of-mind for US CEOs as Congress works to finalize a budget agreement for FY2024 and avoid a damaging government shutdown.

- In [The Conference Board's C-Suite Outlook for 2024](#), US CEOs ranked the US national debt and deficits as the top geopolitical risk to their business operations. The US national deficit reached \$1.7 trillion in FY2023, bringing the total US national debt to \$34 trillion as of [November 2023](#). The cost of servicing the US national debt has risen rapidly to \$879 billion, a \$162 billion (23 percent) increase from FY2022. Rising debt service costs continue to consume the discretionary budget and can cause higher interest rates and borrowing costs for the public and private sectors, weaken investment, and erode the standard of living through diminished economic growth.
- In an effort to prevent a government shutdown, Congressional leaders have agreed to a topline government spending number of \$1.59 trillion (\$886 billion for defense and \$704 billion for nondefense programs) for FY2024. Adding roughly \$69 billion from side deals on nondefense spending agreed at the time the Fiscal Responsibility Act (FRA) was enacted last year brings FY2024 total government spending to \$1.66 trillion.
- This topline number aligns with the [agreement](#) between Congress and the President outlined in the FRA from the Spring, which sparked anger among House Republican conservatives and contributed to Speaker McCarthy's ouster, while also including \$16.1 billion in concessions from Democrats. Concessions to the Speaker included \$10 billion in IRS cuts and the clawback of \$6.1 billion in unused COVID funds.
- Congress must still pass the 12 appropriations bills that fund the federal government by its self-imposed deadlines of January 19 and February 2 or risk a government shutdown.

US National Debt is #1 Geopolitical Risk According to US CEOs

US CEOs rank the US national debt and deficits as the number-one geopolitical risk for their business operations in 2024, according to The Conference Board's recently released C-Suite Outlook for 2024, [Leading for Tomorrow: Winning Through Change and Disruption](#). For US CEOs, the issue of the US national debt and deficits ranks higher as a geopolitical risk than war in the Middle East, higher energy prices, and the war in Ukraine spilling over into a broader NATO conflict. The issue of the US national debt and deficits also ranks in the top 10 geopolitical risks in 2024 for other categories of respondents, including global other C-Suite (#5), global CEOs (#6), and Europe CEOs (#9).

Final figures from the Treasury Department for FY2023 illustrate these concerns from US CEOs. The [US national deficit for FY2023 was \\$1.7 trillion](#), \$320 billion more than in FY2022 and equal to 6.3 percent of GDP. The rising national deficit brought the total US national debt to \$34 trillion as of November 2023. The cost of servicing the US national debt also rose to record levels, now standing at \$879 billion. These

costs are a \$162 billion (23 percent) increase from FY2022 and are largely because of higher interest rates. As a result, the cost of servicing the US national debt is now larger than the annual spending on appropriations for national defense.

The ballooning US national debt and deficits [threaten business growth](#) by crowding out private investment. The US Treasury must increase debt issuance to fund these surging deficits, diverting investment dollars away from the private sector and toward US Treasury bonds that are used to finance existing government obligations as opposed to new private-sector initiatives. This growing debt burden could undermine confidence in the US dollar and lead to a downgrade of the US's sovereign debt ratings if investors begin to lose confidence that the government can continue to finance the US national debt. Moreover, domestic investors will increasingly bear more of the burden and risk of rising US debt as foreign investors (e.g., China and Japan) diversify their portfolio holdings away from US Treasuries.

Update on Federal Budget Negotiations

Speaker Mike Johnson (R-LA) and Senate Majority Leader Chuck Schumer (D-NY) [have agreed](#) to a “topline” number for government spending (i.e., the sum of spending in all appropriations bills) of \$1.59 trillion for FY2024. The agreement includes \$886 billion for defense spending and \$704 billion for nondefense spending. This topline number aligns with the [agreement](#) between Congress and the President outlined in the Fiscal Responsibility Act (FRA) from the Spring.

At the time of the FRA, Congress and the President also committed to a side deal for additional nondefense spending of approximately \$69 billion. In his announcement of the topline numbers, Speaker Johnson said that Republicans have “[secured hard-fought concessions](#)” to this side deal, including \$10 billion in cuts to the Internal Revenue Service ([brought forward from FY2025](#)) and the rescinding of \$6.1 billion in unused COVID-19 pandemic relief funds. Senator Schumer and House Minority Leader Hakeem Jeffries (D-NY) referenced this side deal in their [statement](#) on the topline number agreement, which noted that the agreement has secured “\$772.7 billion for non-defense discretionary funding.” Including the nondefense spending in the side deal moves total nondefense spending to roughly \$773 billion and total FY2024 spending to \$1.66 trillion overall.

To avoid a government shutdown on January 19, Congress [must pass](#) four appropriations bills covering agriculture; energy and water; military construction and veterans affairs; and transportation, housing, and urban development. The remaining eight appropriations bills must be enacted by February 2. Speaker Johnson [has stated](#) that the agreement on the topline numbers will provide House Republicans with a path to: “1) move the process forward; 2) reprioritize funding within the topline towards conservative objectives...and 3) fight for the important policy riders included in our House FY24 bills.” The last item may prove to be challenging in the negotiations with Democrats as both Senator Schumer and Representative Jeffries [have signaled](#) they will not support any “poison pill policy changes” in any of the twelve appropriations bills before Congress.

Some Republicans have reacted negatively to the agreement on the topline numbers. The conservative House Freedom Caucus [said](#), “It’s even worse than we thought. This is total failure.” Representative Chip Roy (R-TX) [added](#), “As usual, we keep spending more money we don’t have.” With Republicans on the verge of holding only a [two-seat majority](#) in the House, Speaker Johnson will be mindful of this criticism from his party while trying to negotiate with Senate leaders and the White House to pass the appropriations bills over the next several weeks.

Supplemental Funding Request for Ukraine, Israel & the Border

In addition to the spending outlined above, Congress and the President are negotiating [supplemental legislation](#) focusing on Ukraine, Israel, and border enforcement. President Biden has requested \$106

billion in supplemental funding for foreign aid, including military, economic, and humanitarian aid to Ukraine (\$61 billion), military assistance to Israel (\$14.3 billion), and funding for the Department of Homeland Security for border operations (\$7 billion). A bipartisan group of senators has been discussing a [deal over border security](#) that could facilitate the passage of aid to Ukraine and Israel. However, some House Republicans [oppose](#) any further aid for Ukraine and want any border security agreement to include elements from [H.R. 2](#), which passed the House without any Democratic support. [The bill would](#) require all employers to use the E-Verify system to ensure employees have work authorization; build at least 900 miles of wall on the southern border, including mandatory waivers of environmental reviews; reestablish family detention; and deny migrants from making an asylum claim unless Customs and Border Protection believes the claim would ultimately succeed. Outlining their strategy to use the upcoming appropriations bills as leverage for stricter immigration policies, Representative Jim Jordan (R-OH) [said](#), “We should use every opportunity, every must-pass bill, we should be looking to put on that legislation language that would address the problem. What I think we should do is fund our government and deal with the border situation.”

Conclusion

Congressional leaders face a challenging task to come to a budgetary agreement for FY2024 by the January 19 and February 2 deadlines. Senate leaders [are considering](#) another continuing resolution to give the Senate more time to allocate funding within the 12 appropriations bills, draft the legislative texts, have members review the bills, and debate each bill. If lawmakers fail to pass the appropriations bills for FY2024 and instead rely on a continuing resolution beyond April 30, the FRA [mandates](#) across-the-board discretionary spending cuts of 1 percent for all federal agencies (including defense) starting on May 1. The Congressional Budget Office [estimates](#) these automatic budget cuts, known as “sequestration”, would reduce nondefense spending by 5 to 9 percent and defense spending by 0 to 1 percent. To avoid these haphazard cuts, Congress must continue to work in a bipartisan manner—and very quickly—to enact the FY2024 appropriations bills. Otherwise, rising US national debt and another government shutdown will continue to undermine investor and business confidence, elevating the need for Congress to consider [bipartisan solutions](#) that promote fiscal responsibility.

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