



US Debt Hits Limit Before Interest Payments Risk Crisis

Description

Soaring U.S. debt and forecasts suggesting even higher levels in the near future have sparked growing concern about potential financial instability. The Penn Wharton Budget Model (PWBM) indicates that a debt level exceeding 210% of GDP could be a tipping point.

This threshold represents the "outer bound" for federal debt. Above this level, it may become impossible to meet interest payments on U.S. debt through feasible taxes on income. PWBM warns that exceeding this figure could lead to defaults on Treasury debts and social benefits like Social Security.

Currently, the debt-to-GDP ratio is around 100%, and predictions from the Congressional Budget Office estimate it could reach 175% by 2056. However, increasing healthcare costs and Medicare spending could push this limit to be reached much sooner, potentially within 14 years under historical healthcare growth rates.

The PWBM report suggests that addressing federal finances effectively would require a significant, permanent tax increase of about 15 percentage points on all labour income. This would eliminate income caps that currently protect higher earnings. Rising debt could lead to negative economic effects, including weaker wages and slower growth.

Yet, two key assumptions underpin these projections. First, if financial markets become unstable, a sudden market crash could push debt holders to demand higher yields, increasing overall debt costs. Second, confidence in Congress and the White House restoring fiscal health must remain stable; any loss of belief could shorten timelines for necessary reform.

While some point to Japan's high debt levels as a counter-argument, the U.S. has unique financial advantages, including the global reserve currency status of the dollar. However, changes in international investment trends could complicate these factors. Current bond yields are rising, suggesting potential changes in funding patterns, particularly as the insolvency of Social Security and Medicare trust funds approaches in 2034. This could pressure lawmakers to act on reforms.

Vocabulary List:

1. **soaring** //ˈsɔːrɪŋ// (adjective): rising quickly to a much higher level
2. **instability** //,ɪnstəˈbɪləti// (noun): when things are likely to change or fail
3. **threshold** //ˈθreʃhoʊld// (noun): a level or point where something changes
4. **feasible** //ˈfiːzəbl// (adjective): possible and able to be done
5. **defaults** //dɪˈfɔːlts// (noun): failures to pay money that is owed
6. **yields** //jɪldz// (noun): how much money someone earns from an investment



Comprehension Questions

Multiple Choice

1. What is the debt level that the Penn Wharton Budget Model indicates could be a tipping point?
Option: 175%
Option: 210%
Option: 100%
Option: 150%
2. According to the Congressional Budget Office, what is the predicted debt-to-GDP ratio by 2056?
Option: 150%
Option: 175%
Option: 200%
Option: 225%
3. What percentage point increase in labor income tax is suggested by PWBM to address federal finances?
Option: 5
Option: 10
Option: 15
Option: 20
4. By what year are Social Security and Medicare trust funds expected to become insolvent?
Option: 2025
Option: 2030
Option: 2034
Option: 2040
5. What could happen if debt levels exceed 210% of GDP?
Option: Stronger economic growth
Option: Defaults on Treasury debts
Option: Increased confidence in Congress
Option: Lower healthcare costs
6. What role does the U.S. dollar play in its financial advantages?
Option: It is the global reserve currency



- Option: It has a fixed exchange rate
- Option: It is backed by gold
- Option: It is less volatile than other currencies

True-False

7. A debt-to-GDP ratio of around 100% is currently observed in the U.S.
8. The PWBM report suggests that no tax increase is needed to address federal finances.
9. Rising healthcare costs are predicted to delay the approach to the 175% debt-to-GDP ratio.
10. Market instability could lead to higher yields demanded by debt holders.
11. Confidence in fiscal health restoration must remain stable for the projections to hold.
12. Japan's debt levels serve as a valid comparison due to the same financial environment as the U.S.

Gap-Fill

13. The Penn Wharton Budget Model indicates a debt level exceeding 210% of GDP could be a tipping point. This threshold represents the outer bound for federal debt to meet interest payments on U.S. debt through feasible taxes on income. Therefore, exceeding this figure could lead to defaults on

_____.

14. The Congressional Budget Office predicts the debt-to-GDP ratio could reach 175% by

_____.

15. To address federal finances effectively, a significant tax increase of about 15 percentage points on all labour income is suggested. This includes eliminating income caps for _____.



16. Current bond yields are rising, which may change funding patterns, especially with the _____ of Social Security and Medicare trust funds approaching in 2034.
17. If confidence in Congress and the White House wanes, it could shorten the timelines for necessary _____.
18. The U.S. has unique financial advantages, one of which is its status as the _____ currency.

Answer

Multiple Choice: 1. 210% 2. 175% 3. 15 4. 2034 5. Defaults on Treasury debts 6. It is the global reserve currency

True-False: 7. True 8. False 9. False 10. True 11. True 12. False

Gap-Fill: 13. Treasury debts 14. 2056 15. higher earnings 16. insolvency 17. reform 18. global reserve

Vocabulary quizzes

Multiple Choice (Select the Correct answer for each question.)

1. What does liquidity refer to in finance?
- Option: The ability to meet short-term obligations
 - Option: The amount of cash in circulation
 - Option: The speed of market transactions
 - Option: The total assets owned
2. What is the term for the return of an investor's principal in a financial product?
- Option: Yield
 - Option: Redemption
 - Option: Liquidation
 - Option: Maturity
3. What is a significant change in form or appearance called?
- Option: Adjustments
 - Option: Gradual change
 - Option: Transformation



Option: Modification

4. What does it mean if a borrower defaults?

Option: They pay back on time

Option: They negotiate new terms

Option: They fail to fulfill a loan obligation

Option: They refinance their loan

5. What are limitations on activities or behaviors often referred to as?

Option: Guidelines

Option: Rules

Option: Restrictions

Option: Terms

6. What do we call the state of being intricate or complicated?

Option: Simple structures

Option: Complexities

Option: Straightforwardness

Option: Basic concepts

7. What word describes a reversal or check in progress?

Option: Advancement

Option: Improvement

Option: Setback

Option: Success

8. What term refers to a deficit or lack of something?

Option: Excess

Option: Surplus

Option: Shortfall

Option: Abundance

9. What does it mean if progress is obstructed?

Option: Facilitated

Option: Hindered

Option: Accelerated

Option: Enhanced

10. What does it mean if a person is realistic and reasonable?



- Option: Idealistic
- Option: Grounded
- Option: Ambitious
- Option: Unrealistic

Gap-Fill (Fill in the blanks with the correct word from the vocabulary list.)

11. In finance, the return on investment is often referred to as _____ on an asset.
12. The maximum limit on an investment fund is known as the _____.
13. Economic _____ can lead to market fears and reduced investor confidence.
14. The _____ of the industry requires adapting to new technologies and practices.
15. The project received financial _____ from several major investors.
16. The company's _____ was reduced due to budget cuts and layoffs.
17. Many workers were _____ during the economic downturn.
18. To improve efficiency, businesses often seek to _____ their processes.
19. To reduce manual labor, companies may choose to _____ certain tasks.
20. Legal decisions are often based on previous _____ set by earlier cases.

Matching Sentences (Match each definition to the correct word from the vocabulary list.)

21. The company's profits have been soaring due to increasing demand.
22. The plan is considered feasible with the resources we have.
23. The night sky was filled with a constellation of sparkling stars.
24. The field was scorched by the intense summer heat.
25. He dug a deep trench to lay the foundation for the fence.
26. Timing is crucial when it comes to launching a new product.



27. The team is poised for success with their innovative approach.
28. They experienced a significant setback during their project timeline.
29. The artist attributed his inspiration to nature and personal experiences.
30. Her grounded perspective helped the team stay focused on their goals.

Answer

Multiple Choice: 1. The ability to meet short-term obligations 2. Redemption 3. Transformation 4. They fail to fulfill a loan obligation 5. Restrictions 6. Complexities 7. Setback 8. Shortfall 9. Hindered 10. Grounded

Gap-Fill: 11. yields 12. cap 13. instability 14. transformation 15. backing 16. workforce 17. laid off 18. streamline 19. automate 20. precedents

Matching sentence: 1. soaring 2. feasible 3. constellation 4. scorched 5. trench 6. crucial 7. poised 8. setback 9. attributed 10. grounded

CATEGORY

1. Business - LEVEL5

POST TAG

1. C1
2. crisis
3. ESL learning
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