Is 130% Debt to GDP a Tipping Point?

Cullen Roche, Founder, Discipline Funds

The short version

- I can't find any debt to GDP level that reliably predicts default or high inflation for a country that borrows in its own currency. The UK ran debt near 250% of GDP after WWII. Japan sits around 230% today. Neither defaulted.
- The US government isn't a household. It issues the currency it borrows in, and its debt is the private sector's asset. The real constraint is inflation, not running out of money.
- The US is also enormously wealthy. Household net worth is roughly six times GDP and about five times the federal debt.
- I actually think the risk is that 130% goes higher, not that it's a cliff. Demographics, inequality and technology are going to push the government to spend more.
- The real historical cost is quieter. Slower growth and years of negative real returns for people holding long bonds. That argues for short duration in ALM and a little portfolio insurance.

Where the 130% number comes from

The recent rise in interest rates and US government debt surpassing $40T has sparked worries about sovereign default. The logical response to these fears is that today's interest rates aren't that high in historical terms and that you can't focus on debts without also considering the unparalleled size of assets in the USA. But debt sustainability isn't purely a balance sheet item. It's also sensible to consider the debt to income analysis, and by that metric you could argue the USA is worse off than it has ever been, with debt to GDP fast approaching 130%.

The 130% figure comes from a December 2023 Vanguard paper that estimated US fiscal space at roughly 130% of GDP. It's worth being clear about what that is. It isn't an empirical finding. It's a model output built on an IMF framework, and the model's endgame is default. Debt service gets too expensive, bondholders demand more, and eventually the government can't pay.

Other people using the same basic logic land all over the place. Penn Wharton says 175% to 200% of debt held by the public. The IMF says 160% to 183%. One recent study puts the US limit at 221% using historical interest rates and growth. The CBO says it can't identify a threshold at all. When the tipping point moves 90 points depending on who builds the spreadsheet, you're not looking at a tipping point. You're looking at different guesses about interest rates and growth.

Governments aren't households

The whole debate goes sideways because people think about the government the way they think about their own finances. That's understandable, but it's wrong in a few important ways.

The US issues the currency it borrows in. The government still funds its spending. It taxes and it borrows, just like a household or a business has to find the money before it spends it. The difference is that the government has an option nobody else has. It can create the currency its debt is denominated in, so it can

never be forced into default the way a household or Greece can. And in the case of the US, it taxes the wealthiest private sector that has ever existed. That's a very different credit profile than a family with a mortgage. The catch is that printing money isn't free. Lean on it too hard and you get inflation and a weaker currency, which is just a different way of stiffing bondholders.

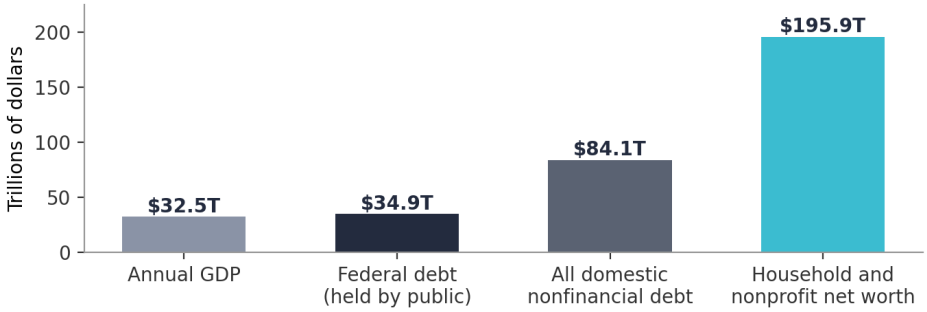
Treasury auctions always clear. The primary dealer system guarantees that every auction gets filled. The only question is the yield it clears at, and the Fed sets the short end of that curve. So the risk to a bondholder isn't getting stiffed. It's getting paid back in dollars that buy less.

One sector's debt is another sector's asset. Every dollar of Treasury debt is a dollar of safe assets held by someone else, mostly households, pensions, banks and funds. When the government runs a deficit, the private sector runs a surplus of exactly that size. I think of Treasury bonds as a form of interest bearing money more than a mortgage.

The constraint is real, it's just a different one. None of this means the government can spend without limit. The limit is inflation. If spending pushes demand past what the economy can actually produce, you get higher prices and a weaker currency. That's the risk worth watching, and it has nothing to do with crossing 130%.

The US balance sheet in perspective

Debt headlines almost never mention the other side of the ledger. Looking only at federal debt is like judging a business by its liabilities without looking at its assets. As of mid 2026 the numbers look like this.

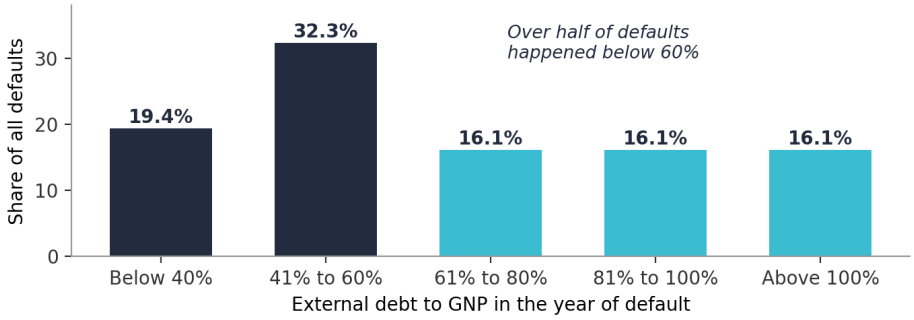


Sources: Federal Reserve Z.1 Financial Accounts, Q2 2026. BEA nominal GDP (annual rate) via FRED, Q2 2026. Z.1 measures federal debt on a held by the public basis, so it runs below the roughly $40T gross debt figure.

US households and nonprofits are sitting on about $196 trillion of net worth. That's roughly six times annual GDP and about five times the federal debt. A big chunk of that wealth is the federal debt itself, held as safe savings. This is an extraordinarily wealthy country with the deepest capital markets in the world and the reserve currency. That's the tax base and the productive capacity backing the dollar. It's hard to square that with the idea that the country is one debt ratio away from going broke.

Debt levels don't predict default

If high debt caused default you'd expect defaults to cluster at high debt levels. They don't. Reinhart, Rogoff and Savastano found that about half of all defaults and restructurings since 1970 happened with external debt below 60% of GNP. Only about one in six happened above 100%.

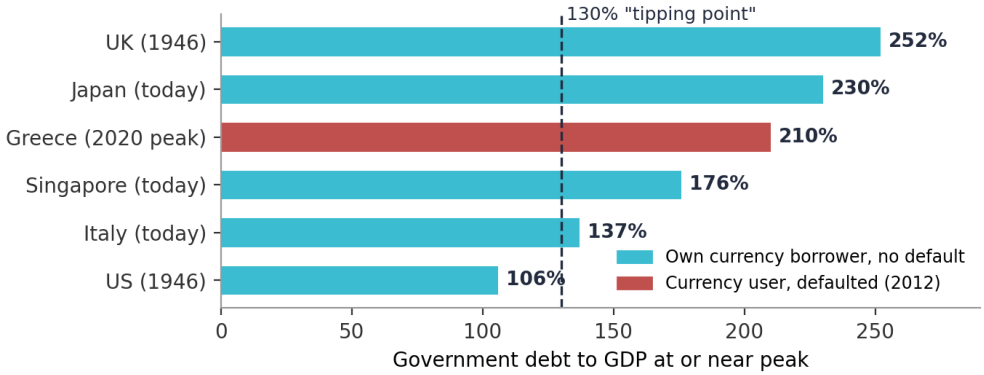


Source: Reinhart and Rogoff (2009), middle income country defaults and restructurings. Debt measured at end of first year of default.

Their conclusion was that the "safe" level depends on a country's history and can be as low as 15% for serial defaulters. The ratio tells you very little. What matters is what currency the debt is in, who holds it and whether the country has a track record of paying.

What happened to countries that actually got there

When you look at countries that went well past 130%, the debt ratio doesn't sort the outcomes. The currency does.



Sources: UK Parliament, NBER (Acalin and Ball), IMF World Economic Outlook via Visual Capitalist, FRED (Greece).

Country	Peak debt/GDP	Default?	High inflation?	What made the difference
UK 1946	~252%	No (domestic)	Moderate	Own currency, capital controls, financial repression
US 1946	106%	No	Short burst	Own currency, rate peg, primary surpluses
Japan today	~230%	No	No (1.9% Aug 2026)	Own currency, mostly domestic holders
Italy today	~137%	No	No	ECB backstop despite no currency of its own
Greece	Default 2012	Yes	No	Euro user with no central bank of its own

My favorite example is the UK. It hit 252% of GDP in 1946, the same year it passed the acts that created the NHS and National Insurance. It never defaulted on that debt. It did default in 1934, but on WWI debt owed to the United States, which was a foreign obligation. Same country, same era, two very different results

depending on the currency. Greece is the flip side. It defaulted at a lower ratio than Japan or postwar Britain because it borrows in a currency it doesn't issue.

To be fair, domestic currency defaults aren't impossible. Reinhart and Rogoff count 68 of them over roughly 250 years. But they show up alongside wars, regime changes and foreign currency crises. They're political choices under extreme stress, not the result of drifting past some ratio.

Debt and inflation

The best cross-country test I know of comes from IMF economists Kwon, McFarlane and Robinson. Rising public debt feeds inflation strongly in highly indebted developing countries, weakly in other developing countries and generally not at all in developed economies.

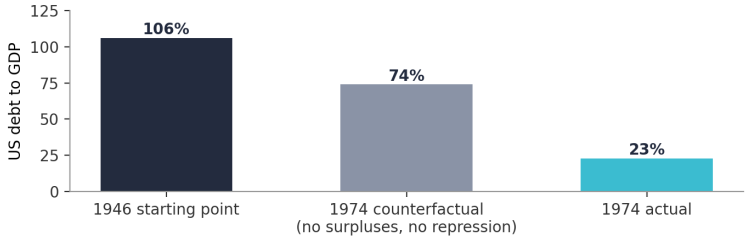
The famous hyperinflations back this up. Weimar Germany owed reparations it couldn't pay in marks. Zimbabwe's land seizures cut output roughly in half and maize production fell 76%. Hungary's postwar reparations ate close to half of government revenue. Every case had a collapse in what the economy could produce plus obligations the country couldn't print. That's a real resource story, which is exactly what the sovereign currency view would predict.

The real cost is slow erosion

High debt isn't free. It just doesn't blow up the way people expect. Reinhart, Reinhart and Rogoff found 26 advanced economy episodes where debt stayed above 90% for at least five years. Growth averaged about 1.2 points lower and the average episode lasted 23 years. The causality is debated, but the pattern keeps showing up.

The part that matters most for investors is how the debt actually got worked down. Reinhart and Sbrancia estimate that negative real interest rates wiped out 3% to 4% of GDP of debt per year in the US and UK after WWII, and closer to 5% in Italy and Australia. Real rates in advanced economies were negative about half the time from 1945 to 1980. That's financial repression, and it works best with steady, unspectacular inflation.

Even the story that the US simply grew out of its WWII debt doesn't hold up well. Acalin and Ball show that without primary surpluses, surprise inflation and the pre-1951 rate peg, US debt only falls to 74% of GDP by 1974 instead of 23%.



Source: Acalin and Ball, "Did the U.S. Really Grow Out of Its World War II Debt?" IMF Working Paper 24/005 (2024).

So who paid? Mostly the people holding government bonds, especially long bonds, through years of returns that trailed inflation. No default notice. No failed auction. Just a slow transfer from savers.

The bigger risk is that 130% goes higher

Here's where I part ways with both the doomers and the people who say deficits never matter. I don't think 130% is a cliff. But I also don't think it's a ceiling. If anything, the risk to the ratio is to the upside, and not because Congress is reckless. It's because some big secular forces are going to require it.

Demographics. The population is aging and the programs that support older Americans grow with it. The CBO projects federal outlays rising from 23.3% of GDP in 2026 to 24.4% in 2036, driven by Social Security, Medicare and interest costs. It has debt held by the public going from 101% of GDP to 120% over the same window. That's the baseline, before any recession or new program.

Inequality. The top 1% holds about 32.5% of household net worth. The bottom half holds about 2.3%. When that much of the country has so little cushion, every downturn turns into a political demand for fiscal support. We saw it in 2008 and again in 2020, and I don't see why the next one would be different.

Technology. Automation and AI are likely to be great for productivity and great for the owners of capital. They're also likely to displace a lot of workers along the way. Governments historically respond to that kind of disruption with spending, retraining and transfers. I'd expect the same here.

Put those together and you have a government that likely gets pushed to spend more whether it wants to or not. So the planning question isn't "what happens when we hit 130%?" It's "what happens if we live at 130% and beyond for a long time?" History says the answer is slow erosion, not a crisis, and that's the outcome I'd plan for.

What this means for portfolios

The difference between default and inflation matters more than anything else in this paper. A default hits every bondholder, short or long, because the issuer stops paying. Inflation doesn't work that way. It does the most damage to long duration, fixed rate debt, while short term paper keeps maturing and rolling into higher rates. So if the real risk is inflation and not default, the key decision isn't whether to own government bonds. It's how long those bonds are.

If the realistic risk is a long stretch of moderate inflation, suppressed real rates and a debt ratio that keeps drifting up, you need to be careful about how much duration you own and make sure part of the portfolio holds up when bonds don't. Here's how I think about it.

1 **Keep bond duration short and matched to real liabilities**

Repression works by holding rates below inflation for a long time. Short government paper reprices every time it matures, so it can't get trapped the way a 20 or 30 year bond can. In an asset-liability framework I want bonds sized to the spending needs of the next several years, not stretched out to reach for yield. Default risk on short Treasuries is essentially zero and the inflation risk is limited by the holding period.

2 **Treat long nominal bonds as the asset most at risk**

Long nominal bonds are the asset that historically got liquidated in high debt periods. They lose if inflation runs hot and they lose if rates are held down. Unless a specific long dated liability justifies owning them, I'd rather not carry much of that exposure. Duration should come from the plan, not from a benchmark.

3 Use portfolio insurance to add certainty

The whole point of ALM is to make the plan more certain. The weak spot in a bond heavy plan is the scenario where stocks and bonds fall together, which is exactly what happens when inflation is the problem. A modest sleeve of assets that don't depend on nominal government cash flows, like gold, managed futures and broad commodities, can help cover that gap. I treat these as insurance, not core holdings. They don't have reliable cash flows, so they don't belong in a time horizon bucket. Their job is to hold up when the traditional assets don't.

4 Let long horizon money own real assets

Money that isn't needed for 15 years or more should be in globally diversified equities. Stocks are claims on real businesses that can raise prices, and they're the most direct way to own a piece of the productive capacity that backs the currency. Global diversification protects against any one country's policy mistakes.

5 Watch the right signals, not the debt ratio

The things I'm watching are a Fed that tolerates above target inflation because of fiscal pressure, rules that push banks and pensions into holding more government debt, any shift toward foreign currency borrowing, and long rates rising while the dollar falls with no growth story behind it. We also track our own Leading Inflation Index, along with government expenditures as a share of total spending in the economy. When the government's slice of total spending jumps, that has tended to line up with the big inflation shocks. A debt ratio crossing 130% isn't on that list.

Bottom line

A 130% debt ratio isn't a cliff for a country that issues its own currency and sits on nearly $200 trillion of household wealth. History doesn't point to default or hyperinflation. It points to a long, grinding period where bondholders quietly lose purchasing power, and the secular trends suggest we'll be living with higher debt for a long time. The answer isn't panic. It's short duration where you need certainty, a little insurance for the scenarios bonds can't handle, and real assets for the money that has time on its side.

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