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Cutting the US' towering national debt

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The fast-expanding US national debt, which now stands around a record US$34.7 trillion,[1] has haunted investment markets for years, raising concerns that it could one day disrupt the financial system of the world's leading economy. But could immigration – long a divisive topic for many – provide much needed respite?

The Congressional Budget Office (CBO), a federal agency that provides budget and economic information to congress, recently gave cause for optimism when it reduced its latest forecast for the national debt to GDP ratio to 166% in 2054, having previously forecast it would be 181% in 2053.[2] It attributed the cut to stronger growth in the potential labour force over the next decade, due to immigration resulting in better economic expansion over the longer-term. It also said a 2023 deal between the White House and Republicans to cut spending would help, too.

More recently, Jerome Powell, chairman of the Federal Reserve, told the Foreign Bankers Association in Amsterdam in May that the millions of immigrants who have entered the US since 2021 have had a positive impact on the US economy.

The true degree of immigration to the US is hard to gauge because of illegal immigration. For various reasons, including geopolitical, immigration to the US does appear to have risen significantly in recent years. According to the Census Bureau, the foreign-born population in the US was 46.2 million, or 13.9%, in 2022, compared with 40 million in 2010.[3]

Economic impacts

The economic impacts of immigration are straightforward. An early consequence is the expansion of the workforce. The US' strong payroll and low unemployment data has surprised markets in recent years and are likely to be closely linked to the significant numbers joining the US economy.[4]

While it is true to some extent that an expansion in the supply of workers will depress wage levels, which has been a source of antipathy towards immigrants, research has highlighted the propensity for immigrants to *create* jobs because of their entrepreneurialism. A recent study[5] found that immigrants were 80% more likely than native workers to become entrepreneurs. A notable example is South Africa's Elon Musk, who created tens of thousands of jobs and injected billions into the US economy through Tesla.

More immigrants in an economy also means greater demand for goods and services, including housing. Consumer demand in the US has also been strong in recent years and while the data is not broken down between natives and immigrants, immigration is likely to be a factor in this. Given it takes time for immigrants to find work, this should create inflationary pressure in the short term, perhaps helping to explain the 'stickiness' of inflation recently, but it would also put downward pressure longer term by dampening wage-push inflation. While many new immigrants will likely stay with family or friends initially, longer term, once they are established, they will be looking for more permanent accommodation, boosting the housebuilding industry, too.

Opportunities for bond investors

Phil Milburn, Co-Head of the Global Fixed Income team at Liontrust, sees the current situation in the US as an opportunity for bond investors. One of the key conditions the Federal Reserve requires to start loosening monetary policy is an easing in the labour market. As such, one of the most important drivers of the easing in the US labour market in the US over the last couple of years has been high net immigration. Bonds prices are inversely related to interest rates, so Fed cuts should be supportive of the fixed income market.

He said: "if you look at some of the advance hiring intentions in the US, we expect non-farm payrolls to continue to slow over the summer, and because of the bigger population, we shall see an uptick in unemployment. So one of the pre-conditions for the Fed cutting rates will start to be delivered. Pinpointing exactly when the Fed will cut rates is hard to do, but the key point is that they will be cutting rates in the next few quarters."

Phil believes now is a great time to be invested in bonds: "The bond market offers attractive yields and you are getting paid to wait. One needs to be patient, but you are rewarded for being patient."

AI will also enhance growth

The economic benefits of significant migrations to a country such as the US, which has a long track record of successfully integrating immigrants, are impossible to ignore. The levels have been such recently though that immigration has become a key and controversial issue in the presidential elections this year. A public mood stirred against immigration brings a political dimension into the equation and could prompt a change of administration and policies that harden the US' borders.

Elections, however, tend to have short-term impacts on investment returns. Over the long run, investors can draw confidence in the US' ability to reinvent itself, including its economy and corporate landscape. Immigration will have a role to play in this, but productivity is also a factor in GDP growth and investors could also draw encouragement from the now exponential development in artificial intelligence (AI). Higher productivity resulting from AI, in which the US is a global leader, will further help to boost the economy.

While the US' national debt is likely to continue to be a challenge for some time, its relative weight on the economy may be ameliorated by a vigorous commercial sector supported by a growing population and higher productivity through AI.

[1]**Source: www.usdebtclock.org, 3 May 2024**

[2]**Source: CBO, April 2024**

[3]**Source: The Foreign-Born Population in the United States: 2022, US Census Bureau, 9 April 2024,**

[4]**Source: Bloomberg, 1 May 2024**

[5]**Source: *Immigration and Entrepreneurship in the United States, Pierre Azouley and J. Daniel Kim, September 2020***

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