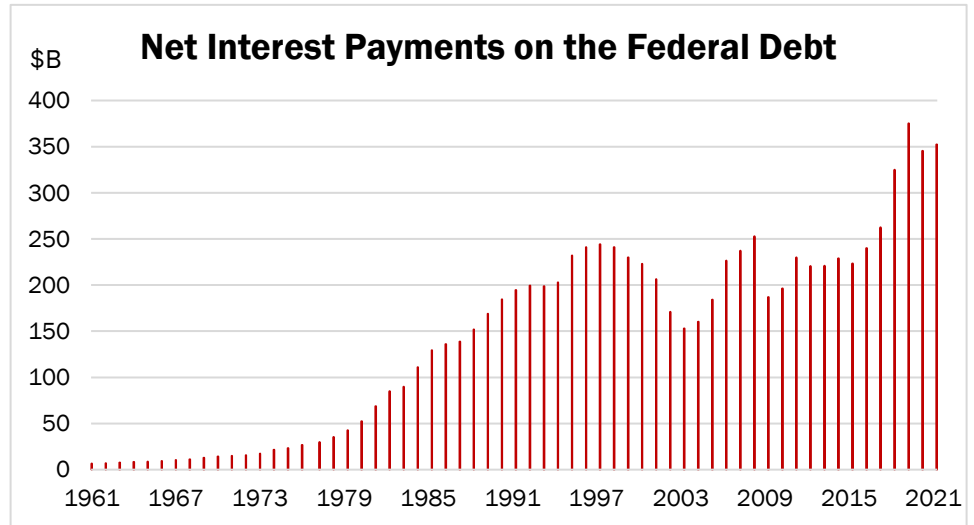


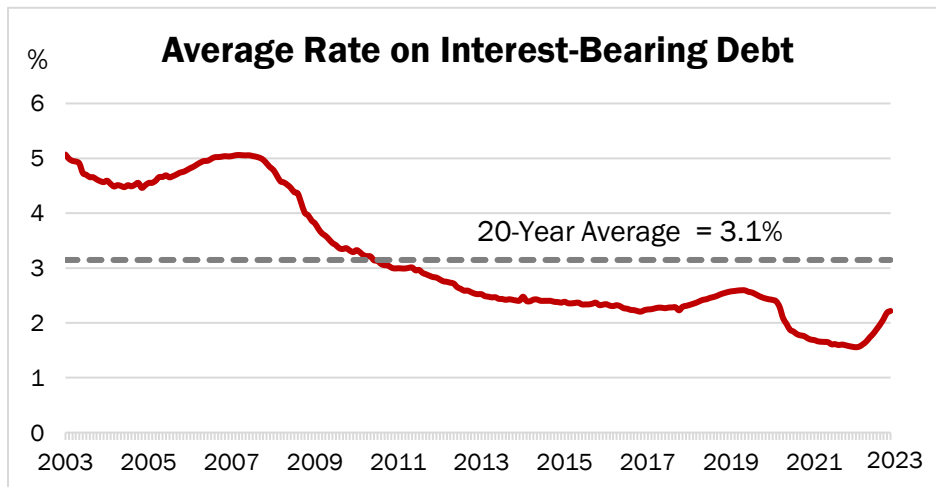


INTEREST ON THE DEBT

As of December 8, 2022, the U.S. gross national debt stood at nearly \$31.5 trillion, \$8.5 trillion higher than it was just three years before and the highest level in our nation's history.¹ Last year, the Congressional Budget Office (CBO) projected the federal government would spend \$282 billion servicing our debt in 2022, but that projection ballooned to nearly \$400 billion as the Federal Reserve tightens monetary policy and the debt continues to grow.² To put this in perspective, one day of interest payments could purchase more than 34,000 Ford F-150s or could cover the purchase cost of Major League Baseball's Tampa Bay Rays at \$1.1 billion.³ Even more troubling, if interest rates return to levels we have seen in recent history, the amount of money we waste on just interest payments could approach \$1 trillion annually.



Source: U.S. Office of Management and Budget

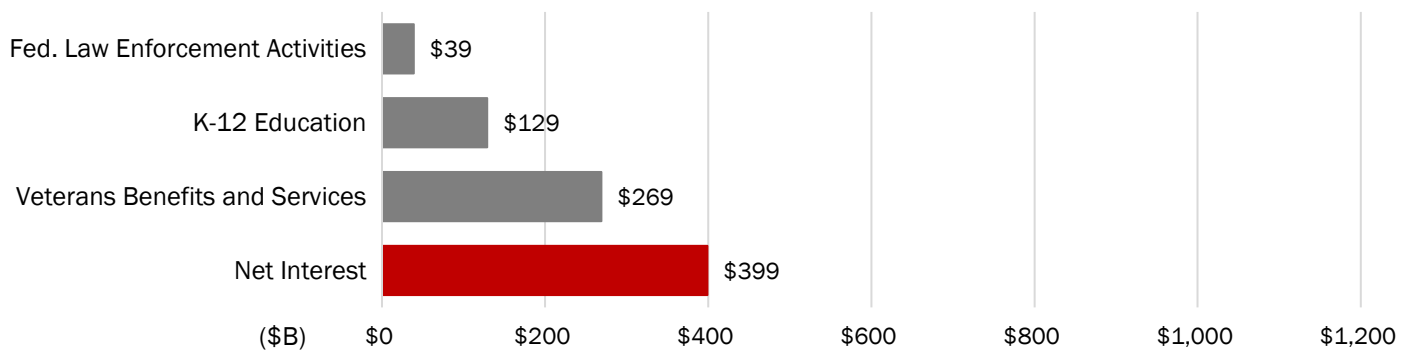


Source: U.S. Department of the Treasury

As the federal debt grows, we will be forced to spend more on interest payments than for Social Security benefit payments.⁴ While interest rates are currently low by historical standards, the sheer size of our debt has led to near record interest payments.⁵ As shown below, if the Federal Open Market Committee continues to raise its interest rate target to combat rising inflation, the U.S. government could start spending more to service our debt than we do on Medicare, Medicaid, and more.

Interest Payments on the Debt at Current Rates

- Currently, the federal government is paying slightly more than two percent to service the federal debt.⁶ Despite historically low rates, the federal government is projected to spend more in 2022 on net interest payments than on K-12 education, federal law enforcement activities, and veterans benefits and services, just to name a few.⁷



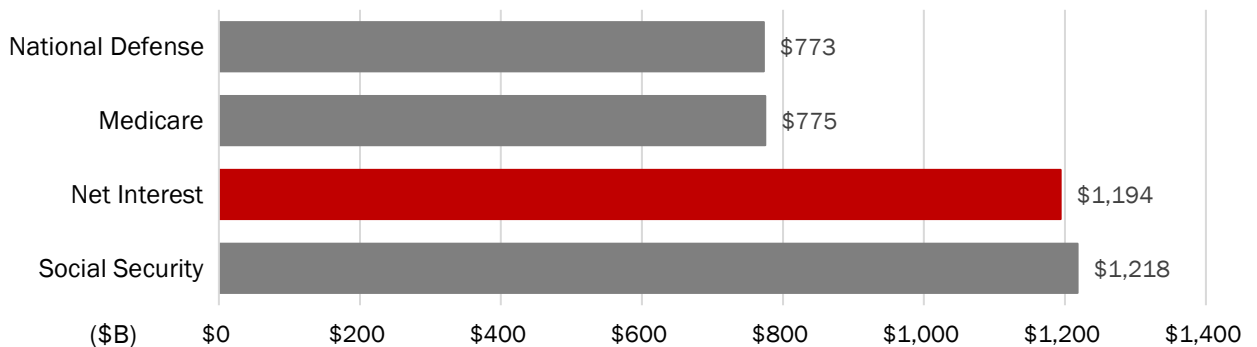
Interest Payments on the Debt at 3.1% Rate

- If interest rates rose to 3.1 percent, which is the current 20-year average, the federal government would spend over \$700 billion servicing the debt and nearly as much as we are expected to spend on Medicare or our National Defense in 2022.⁸



Interest Payments on the Debt at 5% Rate

- While interest rates have been low by historical standards, if interest rates rose to 5 percent, where they were as recently as 2007, net interest payments on the current debt level held by the public would be over \$1 trillion, more than the federal government spends annually on everything but Social Security.⁹



Clearly, a small increase in interest rates could quickly lead to debt service crowding out other important national priorities. Now that the Federal Reserve is hiking their interest rate target to rein in the highest inflation rate in over 40 years, Congress must take immediate action to address the federal debt. (*See also the RPC guide titled “Confront the Federal Debt.”*¹⁰).

¹ The Debt to the Penny and Who Holds It. TreasuryDirect. March 15, 2021.

https://www.treasurydirect.gov/govt/reports/pd/pd_debttothepenny.htm

² Additional Information About the Budget Outlook: 2021 to 2031. Congressional Budget Office. March 5, 2021.

<https://www.cbo.gov/system/files/2021-03/56996-budget-outlook.pdf> and The Fiscal & Economic Impact of the National Debt. Peter G. Peterson Foundation. March 23, 2021. <https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact> and https://www.treasurydirect.gov/govt/reports/ir/ir_expense.htm

³ MLB Team Evaluations. Forbes. March 2021. <https://www.forbes.com/teams/seattle-mariners/?sh=711577127715> and Fortune 500: The Top 10. Fortune. 2021. <https://fortune.com/fortune500/>

⁴ The Fiscal & Economic Impact of the National Debt. Peter G. Peterson Foundation. March 23, 2021. <https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact>

⁵ U.S. Office of Management and Budget, Federal Outlays: Interest [FYOINT]. Retrieved from FRED, Federal Reserve Bank of St. Louis. March 25, 2021. <https://fred.stlouisfed.org/series/FYOINT>

⁶ U.S. Department of the Treasury. Average Interest Rates on U.S. Treasury Securities. March 25, 2021.

<https://fiscaldata.treasury.gov/datasets/average-interest-rates-treasury-securities/average-interest-rates-on-u-s-treasury-securities>

⁷ The Budget and Economic Outlook: 2021 to 2031. Congressional Budget Office. February 11, 2021.

<https://www.cbo.gov/system/files/2021-02/56970-Outlook.pdf> and Spending Projections, By Budget Account. Congressional Budget Office. February 2021. <https://www.cbo.gov/data/budget-economic-data#3>

⁸ Spending Projections, By Budget Account. Congressional Budget Office. February 2021. <https://www.cbo.gov/data/budget-economic-data#3>

⁹ Spending Projections, By Budget Account. Congressional Budget Office. February 2021. <https://www.cbo.gov/data/budget-economic-data#3>

¹⁰ <https://republicanpolicy.house.gov/sites/republicanpolicy.house.gov/files/documents/39%20-%20Confront%20the%20Federal%20Debt.pdf>