SOUNDING THE ALARM

A Slippery Slope: *Interest Rates on the RISE*

The debt is already spiraling out of control—and our fiscal outlook is bleak.

The federal debt held by the public has skyrocketed by almost 800 percent since 2000, **ballooning from just over $3 trillion to $26 trillion.**[1] Over the same period, the debt has tripled as a share of U.S. gross domestic product (GDP), increasing from slightly more than one-third of the U.S. economy in 2000 to approximately equaling the size of the U.S. economy today.

However, that's not the full picture—the future of interest rates is a key variable in the federal budget outlook and our capacity as a nation to finance this growing debt.

WORD ON THE STREET

- Via Wall Street Journal: "The U.S. has long been the lender of last resort to the world…Now, the Treasury itself is a source of risk. No, the U.S. isn't about to default or fail to sell enough bonds at its next auction. But the scale and upward trajectory of U.S. borrowing and absence of any political corrective now threaten markets and the economy in ways they haven't for at least a generation."

- Via Wall Street Journal: "Now, the steep declines in prices of Treasurys—meant to be the world's safest and easiest-to-trade investment—are forcing markets to confront the possibility that the rates required to place all this debt will be higher than anyone expected."

BY THE NUMBERS

As shown below, the effective interest rate on the debt tends to follow the yield on 10-year treasury securities. While these two rates do not align perfectly, the 10-year treasury yield has historically been a leading indicator of the interest rate paid on the debt.[2]

[1] As of September 29, 2023, the last recorded data for fiscal year 2023, debt held by the public was $26.3 trillion. This differs from gross federal debt, which includes debt that one part of the government owes to another part, which was $33.2 trillion.

[2] The effective interest rate paid on the debt is calculated by dividing the net interest cost for a given year by the public debt at the end of the prior year.

The Interest Rate Paid on Public Debt Has Historically Followed 10-Year Treasury Yields

Interest Paid on Public Debt Likely to Surge

For 2024, the projected interest rate to be paid on the federal debt is 2.9 percent. Over the last 10 years it has averaged just 2.1 percent—the lowest sustained level since the 1940s. **In recent memory, rates have been far higher, averaging 6.0 percent in the 1970s, 9.1 percent in the 1980s, and 6.9 percent in the 1990s. Over the last 50 years, the average is 5.6 percent, with a peak of 10.8 percent in 1982.**

What would it look like for next year's budget deficit if the interest we paid on the debt were to increase? Check out the following scenarios below.

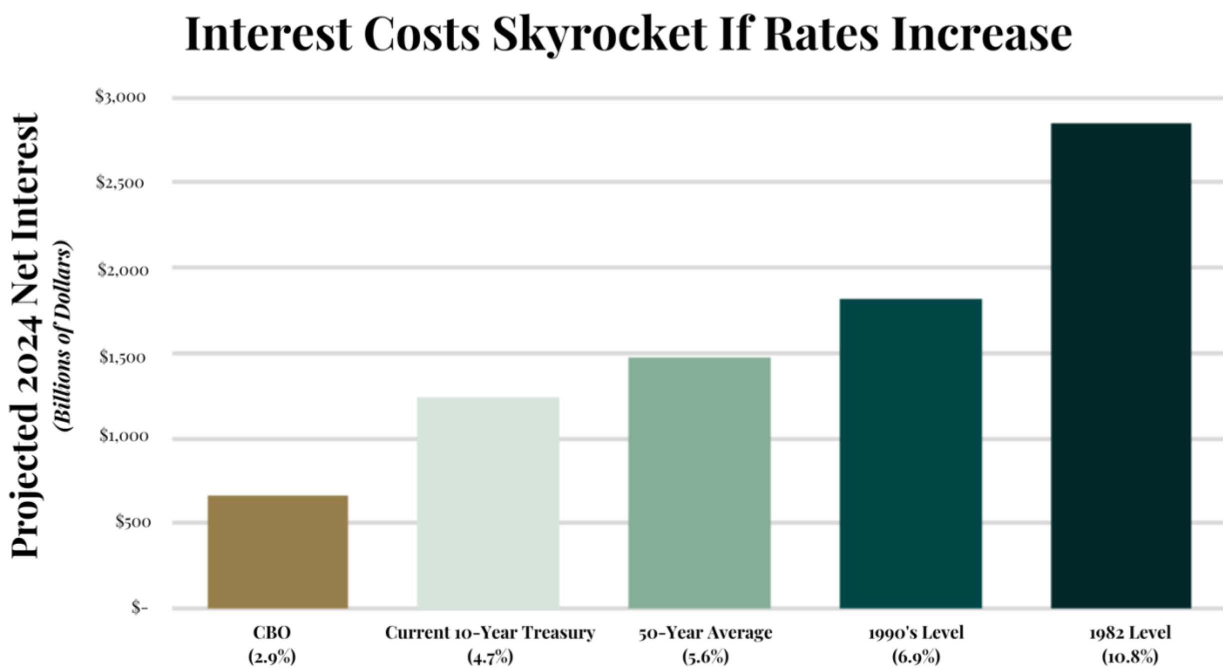
- **4.7 percent – Current 10-Year Treasury Yield.** If the interest rate on the debt were to reach the same level as the current yield on 10-year treasuries, at current debt levels, net interest payments in 2024 would be $1.2 trillion instead of the projected $745 billion. **This is 26 percent of projected federal revenue and would be the second largest item in the federal budget behind Social Security.**

- **5.6 percent – 50-Year Average Interest Rate.** If the interest rate on the debt were to reach the same level as the 50-year average, at current debt levels, net interest payments in 2024 would be $1.5 trillion. **This is 31 percent of projected federal revenue and would be the single largest item in the federal budget.**

- **6.9 percent – Interest Rate at Level of 1990s.** If the interest rate on the debt were to reach the same level as the 1990s, at current debt levels, net interest payments in 2024 would be $1.8 trillion. **This is 38 percent of projected federal revenue and more than all mandatory spending for all healthcare programs combined.**

- **10.8 percent – Interest Rate at 1982 Level.** If the interest rate on the debt were to reach the same level as the 1982 peak, at current debt levels, net interest payments in 2024 would be $2.8 trillion. **This is 59 percent of projected federal revenue and equivalent to all spending on Social Security, Medicare, and Medicaid combined.**

Comparing Net Interest Payments in 2024 Under Alternative Interest Rate Scenarios



WHY IT MATTERS

Interest rates could snowball quickly, and the consequences would be dire.

High interest rates on the out-of-control debt would mean throwing away trillions of taxpayer dollars, drawing federal resources away from other important programs like border security, national defense, disaster relief and federal retirement programs. This would result in tax hikes on American families and less money in the pockets of folks in every income bracket. The debt is already out-of-control. If interest rates continue to rise, we risk adding trillions to the debt and furthering the U.S. down a slippery slope of even more harmful spending.

This recent surge in interest rates is just one more sign that the status quo is not sustainable—Congress cannot continue its current course. House Budget Republicans are sounding the alarm on the debt and have a plan to reverse the curse of runaway spending, deficits, and debt.