IN CASE YOU MISSED IT

Chickens Coming Home To Roost: Interest on the Debt Poses Unprecedented Global Threat

The U.S. federal government's massive spending binge is unsustainable, and American families will be left to pay the tab. Americans are now saddled with a $33.7 trillion-dollar debt in the face of rising interest costs and unabated government spending.

The Wall Street Journal sounded the alarm on how countries are struggling to keep up with steep debt servicing costs and why U.S. debt sets our fiscal challenges apart from the rest of the world.

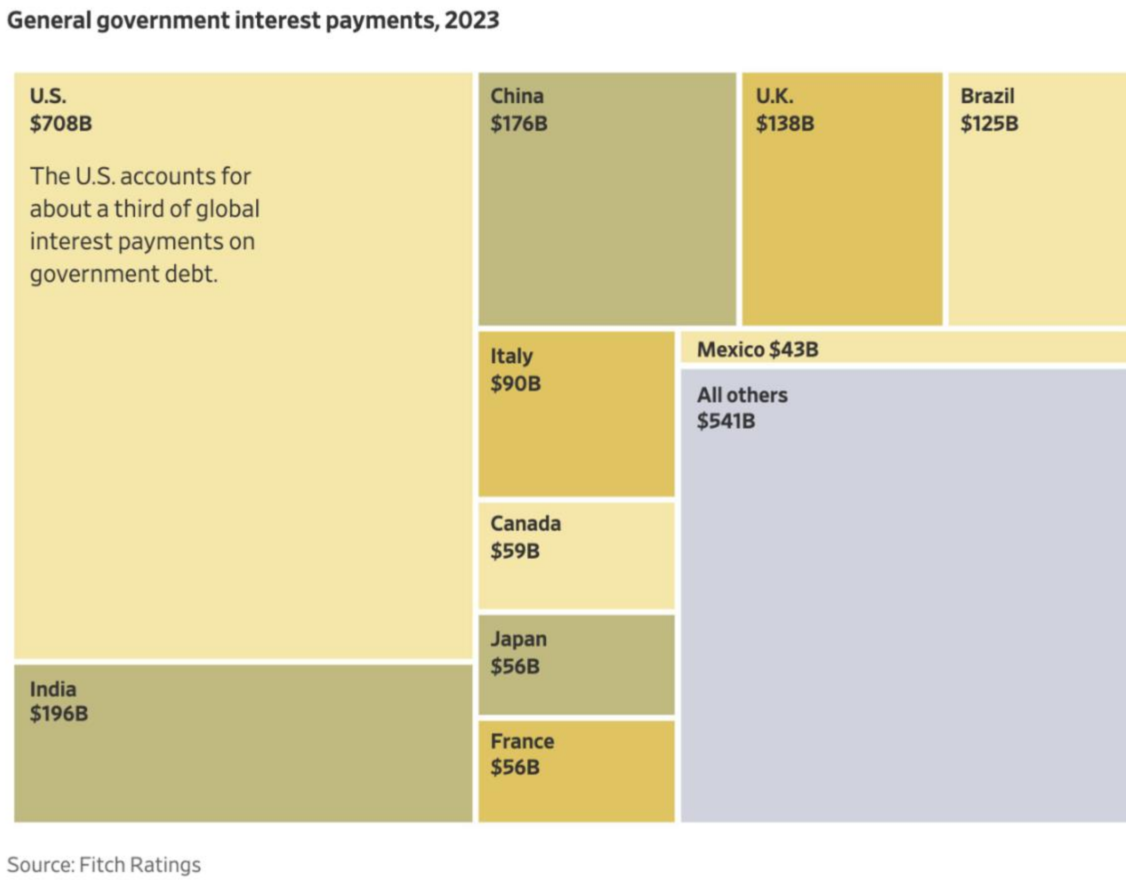
WORD ON THE STREET

Via Wall Street Journal:

- "The world spent the past decade-plus taking advantage of rock-bottom interest rates to binge on debt. An unprecedented bill is coming due."
- "Governments are expected to spend a net $2 trillion paying interest on their debt this year as higher interest rates make borrowing more expensive, up more than 10% from 2022, according to an analysis of International Monetary Fund data by research consulting firm Teal Insights and a separate analysis by Fitch Ratings. By 2027, it could top $3 trillion, according to Teal Insights."
- "The surge in interest costs leaves governments with difficult choices. As debt servicing takes up more revenue, politicians face unpopular decisions to raise taxes, cut spending or keep running deficits that will add to interest costs."
- "**The surge in debt costs is particularly pronounced in the U.S., the largest economy in the world and the one with the most debt.** The U.S. federal government spent a record $659 billion on net interest payments last fiscal year, according to the Treasury Department."

BIG PICTURE

While many of our enemies and adversaries struggle with debt servicing costs of their own, the United States is projected to account for **one third of all government debt interest paid in 2023**—far and away the largest sum shouldered by any country in the world today.



Interest rates are currently at **a sixteen-year high**, and costs associated with servicing the debt are at record-breaking levels. Rising rates and higher costs on the horizon jeopardize U.S. financial stability at home as well as our fiscal viability and competitiveness on the world stage.

For instance, last week, Moody's Investors Service, one of the three major credit rating agencies, lowered its fiscal outlook for the United States government from stable to negative, citing Washington's inability to address its fiscal shortfall as a reason for the downgrade:

> *"In the context of higher interest rates, without effective fiscal policy measures to reduce government spending or increase revenues, Moody's expects that the U.S.' fiscal deficits will remain very large, significantly weakening debt affordability."*

Earlier this year, Fitch Ratings, another major credit agency, downgraded its U.S. credit rating from AAA to AA+, also citing fiscal mismanagement and other debt-related catalysts contributing to the "expected fiscal deterioration" of the United States.

Agencies and experts alike are sounding the alarm that the United States is wholly unprepared for the recent rise in interest rates, let alone a return to historic interest rate levels.

Over the last 50 years, the average rate was 5.6 percent and **reached its peak of 10.8 percent** in 1982. That's **five times higher** than 2.1 percent, the average rate we've seen in the last ten years.

What would it look like for next year's budget deficit if the interest we paid on the debt were to increase to what we've seen in the past?

Check out the following scenarios below.

- ***4.4 percent* – Current 10-Year Treasury Yield.** Historically, interest rates follow 10-year treasury yields, so this number is a likely scenario in the immediate to near future. 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 24 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 Peak**. 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.

THE BOTTOM LINE

The U.S. spends more on interest costs than any country in the world—further contributing billions of dollars to our ever-increasing, $33 trillion dollar debt crisis.

Historic rate hikes, and their subsequent payments, have resulted in the federal government adding over $700 billion more to our nation's tab **in the last two months alone.**

President Biden and Congressional Democrats' reckless tax and spending spree created, and continues to exacerbate, America's fiscal demise. Devoting taxpayer funds to liberal, special interest tax benefits—coupled with Biden's unilateral, executive spending—only inflames our nation's precarious economic outlook by hindering America's ability to effectively compete on the global marketplace.

To best compete with our foreign adversaries, the federal government must devote its limited resources to:

1) improving our dire fiscal outlook by right-sizing our bloated bureaucracy,
2) reversing President Biden and the Democrats' partisan spending spree,
3) rooting out wasteful spending,
4) reining-in runaway mandatory spending,
5) reigniting growth and prosperity in America,
6) reforming Washington's broken budget process

Click HERE to read more about the House Budget Committee's FY24-FY33 Budget Resolution.