

\$4.8 trillion - Interest on U.S. debt

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Unless lawmakers make big changes, the interest Americans will have to pay to keep the country running over the next decade will reach unheard of levels.

NEW YORK (CNNMoney.com) — Here's a new way to think about the U.S. government's epic borrowing: More than half of the \$9 trillion in debt that Uncle Sam is expected to build up over the next decade will be interest.

More than half. In fact, \$4.8 trillion.

If that's hard to grasp, here's another way to look at why that's a problem.

In 2015 alone, the estimated interest due - \$533 billion - is equal to a third of the federal income taxes expected to be paid that year, said Charles Konigsberg, chief budget counsel of the Concord Coalition, a deficit watchdog group.

On the bright side - such as it is - the record levels of debt issued lately have paid for stimulus and other rescue programs that prevented the economy from falling off a cliff. And the money was borrowed at very low rates.

But accumulating any more interest on what the United States owes at this point is like extreme sport: dangerous.

All the more so because interest rates will rise when private sector borrowers return to the debt market and compete with the government for capital. At that point, the country's interest payments could jack up very fast.

"When interest rates rise even a small amount, the interest payments go up a lot because of the size of the debt," Konigsberg said.

The Congressional Budget Office, which made the \$4.8 trillion forecast, already baked some increase in rates into the cake. But there is always a chance those estimates may prove too conservative.

And then it's Vicious Circle 101 - well known to anyone who has gotten too into hock with Visa and MasterCard.

The country depends heavily on borrowing to fund what it wants to do. But the more debt it racks up, the more likely it becomes that creditors could demand a higher interest rate for making new loans to the government.

Higher rates in turn make it harder to pay off the underlying debt because more and more

money is going to pay off interest – money, by the way, which is also borrowed.

And as more money goes to interest, creditors may become concerned that the country can't pay down its principal and lawmakers will have less to fund all the things government is supposed to do.

"[P]olicymakers would be less able to pay for other national spending priorities and would have less flexibility to deal with unexpected developments (such as a war or recession). Moreover, rising interest costs would make the economy more vulnerable to a meltdown in financial markets," the CBO wrote in its most recent long-term budget outlook.

So far, that crisis of confidence hasn't happened. And no one can predict with any certainty whether or when it could occur.

But should it occur, the change could be abrupt.

That's because the government frequently rolls over – or refinances – the debt it has issued as it comes due.

In other words, when a Treasury bond or note matures, the government must pay the investor the face value on that debt. In order to do that, the Treasury borrows money to pay back the investor, which means the debt would be refinanced at whatever the going interest rates are at the time.

Just how much churn is there? Of late, a fair bit it seems. A Treasury borrowing advisory committee reported in early November that "approximately 40 percent of the debt will need to be refinanced in less than one year."

Since rates may well stay low over the next year, it's possible that debt could be refinanced at the same or even lower rates. But that situation won't last forever.

So what will Washington do?

To help mitigate the potential risk of rising rates, the Treasury has said it would start increasing the average maturity of the new debt it issues. That way the debt it refinances in the next couple of years will be locked in at lower rates for longer periods of time.

And the Obama administration has promised to produce a deficit-reduction plan that would aim to bring down annual deficits to roughly 3% of GDP over the next several years, below the 4% to 5% currently projected.

If that happens, the \$4.8 trillion in interest payments that CBO estimates for the next decade could go down if interest rates don't increase as much as CBO expects.

"There will be less debt outstanding than if we don't get the deficit down. It may also reduce [the average interest rate on the debt] since less debt means less pressure on interest rates," said William Gale, co-director of the Tax Policy Center.

But whether they can do that within a few years of an economic recovery is another matter. "Even under the president's [2010] budget as evaluated by the CBO we do not get anywhere close to that," Gale said.

That could mean the president's 2011 budget proposals would have to make a lot of changes to get closer to the 3% goal. Unpopular changes like tax hikes and spending cuts.

Budget hawks hope the president will push for a deficit-reduction commission to come up with ways to cut the deficit and then propose legislation that lawmakers would only be able to vote for or against. The reason: There is no political will to make the tough calls. Especially in a mid-term election year.

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