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Interest payments on national debt set to explode

By: **JULIE MASON**

Examiner White House Correspondent

November 24, 2009

Servicing the nation's staggering national debt down the road will cost more than the current annual Pentagon budget -- including funding wars in Iraq and Afghanistan.

By 2019, the federal government will pay more than \$700 billion a year on its debt load, currently ringing in at \$12 trillion. The figures, contained in the White House's midsession budget review, were the basis for an alarming New York Times story warning that actual interest expenses could go higher.

By way of comparison, the Defense Department this year is expected to spend about \$664 billion on operations including two costly wars overseas. But not all experts see a reason for panic.

"Japan's economy is much worse off than ours, and if they can issue debt with no consequences, it's a good indication that we have some breathing room," said Dan Mitchell, senior fellow at the Cato Institute.

One of the biggest concerns about both the federal deficit and the nation's debt load is the threat of higher interest rates.

But Mitchell, a former economist for Senate Republicans, said higher interest rates generally signal an improving economy, and shouldn't be shunned outright.

At the same time, a looming risk for the U.S. economy from carrying such a massive debt is the perils of market psychology, Mitchell said.

If investors suddenly decide they don't want their money in government bonds, or that President Obama is overspending and not looking credit-worthy, investors could dump their bonds and drive up interest rates.

To that end, investors may be looking with a wary eye on the federal budget deficit, currently at a record \$1.4 trillion,

Federal debt service may do a disservice

- » Interest paid on federal debt in 2009: \$202 billion
- » Projected interest in 2019: More than \$700 billion
- » Current federal spending
- » Military: \$664 billion
- » Social Security: \$644 billion
- » Medicare and Medicaid: \$632 billion



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But J.D. Foster, a senior fellow of economic policy at the Heritage Foundation, said the current fiscal pressures present the perfect setup for imposing a value-added tax.

"That is clearly the game plan," said Foster, a former budget and treasury official in the administration of President George W. Bush.

House Speaker Nancy Pelosi last month said that a value-added tax, "is on the table" to meet the nation's budget crisis.

But, given that 2010 is an election year that leads directly into re-election season for Obama, it's unlikely such a tax looms in the short term.

Foster said it's a better bet that Congress would find "a convenient political window" once "credit markets go into crisis mode" and theoretically force their hands.

"When you're in a crisis, you can do things you otherwise wouldn't do," Foster said.

jmason@washingtonexaminer.com

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