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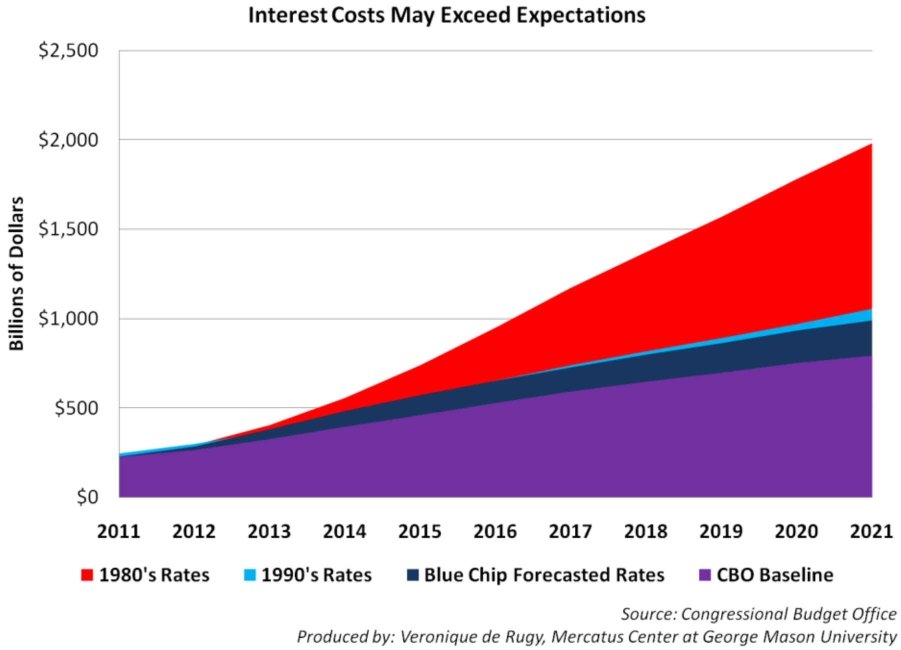

This week, Mercatus Center Senior Research Fellow Veronique de Rugy examines the projected cost of our debt. When the Congressional Budget Office's interest rate assumptions are modified to reflect historical interest rates and private sector forecasts, the already substantial projected cost of servicing our debt swells further.

Using data from the Congressional Budget Office's *January 2011 Budget and Economic Outlook* and *Analysis of the Effects of Three Interest Rate Scenarios on the Federal Budget Deficit*, the above chart compares CBO baseline interest costs between 2011 and 2021 with interest costs under each of three scenarios: 1) an interest rate scenario similar to that experienced in the 1980s, 2) an interest rate scenario similar to that experienced in the 1990s, 3) an interest rate scenario consistent with the 10 highest projections found in *Blue Chip Economic Indicators*. Under each of these scenarios, the cost of servicing our debt exceeds the costs projected in the CBO baseline.

This suggests that CBO baseline projections, which already show an explosion in the cost of servicing our debt, may in fact be an *underestimate*.

For instance, if interest rates were modified to reflect the average rates in the 1980s, a time in United States history when interest rates were driven up by inflation and economic uncertainty, in 2021 our interest payments would nearly triple from CBO's projection of $749 billion to $2.0 trillion. Accumulated interest payments over this period would double from their current projected level of $5.7 trillion dollars to $11.0 trillion dollars. Needless to say, the impact of these increased interest costs on the deficit would be huge.

The only way to address the increasing costs of our debt is to address the driving forces behind it – legislated explosions in Social Security, Medicare and Medicaid spending.

Veronique de Rugy blogs interest rate scenarios at The Corner.

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