

US Debt: \$30,000 Per American

WASHINGTON (AP) — Like a ticking time bomb, the national debt is an explosion waiting to happen. It's expanding by about \$1.4 billion a day — or nearly \$1 million a minute. What's that mean to you?

It means almost \$30,000 in debt for each man, woman, child and infant in the United States.

SO HOW MUCH IS THAT?: National debt to the penny

Even if you've escaped the recent housing and credit crunches and are coping with rising fuel prices, you may still be headed for economic misery, along with the rest of the country. That's because the government is fast straining resources needed to meet interest payments on the national debt, which stands at a mind-numbing \$9.13 trillion.

And like homeowners who took out adjustable-rate mortgages, the government faces the prospect of seeing this debt — now at relatively low interest rates — rolling over to higher rates, multiplying the financial pain.

So long as somebody is willing to keep loaning the U.S. government money, the debt is largely out of sight, out of mind.

But the interest payments keep compounding, and could in time squeeze out most other government spending — leading to sharply higher taxes or a cut in basic services like Social Security and other government benefit programs. Or all of the above.

A major economic slowdown, as some economists suggest may be looming, could hasten the day of reckoning.

The national debt — the total accumulation of annual budget deficits — is up from \$5.7 trillion when President Bush took office in January 2001 and it will top \$10 trillion sometime right before or right after he leaves in January 2009.

That's \$10,000,000,000,000.00, or one digit more than an odometer-style "national debt clock" near New York's Times Square can handle. When the privately owned automated clock was activated in 1989, the national debt was \$2.7 trillion.

It only gets worse.

Over the next 25 years, the number of Americans aged 65 and up is expected to almost double. The work population will shrink and more and more baby boomers will be drawing Social Security and Medicare benefits, putting new demands on the government's resources.

These guaranteed retirement and health benefit programs now make up the largest component of federal spending. Defense is next. And moving up fast in third place is interest on the national debt, which totaled \$430 billion last year.

Aggravating the debt picture: the wars in Iraq and Afghanistan, which the non-partisan Congressional Budget Office estimates could cost \$2.4 trillion over the next decade

Despite vows in both parties to restrain federal spending, the national debt as a percentage of the U.S. Gross Domestic Product has grown from about 35% in 1975 to around 65% today. By historical standards, it's not proportionately as high as during World War II — when it briefly rose to 120% of GDP, but it's a big chunk of liability.

"The problem is going forward," said David Wyss, chief economist at Standard and Poors, a major credit-rating agency.

"Our estimate is that the national debt will hit 350% of the GDP by 2050 under unchanged policy. Something has to change, because if you look at what's going to happen to expenditures for entitlement programs after us baby boomers start to retire, at the current tax rates, it doesn't work," Wyss said.

With national elections approaching, candidates of both parties are talking about fiscal discipline and reducing the deficit and accusing the other of irresponsible spending. But the national debt itself — a legacy of overspending dating back to the American Revolution — receives only occasional mention.

Who is loaning Washington all this money?

Ordinary investors who buy Treasury bills, notes and U.S. savings bonds, for one. Also it is banks, pension funds, mutual fund companies and state, local and increasingly foreign governments. This accounts for about \$5.1 trillion of the total and is called the "publicly held" debt. The remaining \$4 trillion is owed to Social Security and other government accounts, according to the Treasury Department, which keeps figures on the national debt down to the penny on its website.

Some economists liken the government's plight to consumers who spent like there was no tomorrow — only to find themselves maxed out on credit cards and having a hard time keeping up with rising interest payments.

"The government is in the same predicament as the average homeowner who took out an adjustable mortgage," said Stanley Collender, a former congressional budget analyst and now managing director at Qorvis Communications, a business consulting firm.

Much of the recent borrowing has been accomplished through the selling of shorter-term Treasury bills. If these loans roll over to higher rates, interest payments on the national debt could soar. Furthermore, the decline of the dollar against other major currencies is making Treasury securities less attractive to foreigners — even if they remain one of the world's safest investments.

For now, large U.S. trade deficits with much of the rest of the world work in favor of continued foreign investment in Treasuries and dollar-denominated securities. After all, the vast sums Americans pay — in dollars — for imported goods has to go somewhere. But that dynamic could change.

"The first day the Chinese or the Japanese or the Saudis say, 'we've bought enough of your paper,' then the debt — whatever level it is at that point — becomes unmanageable," said Collender.

A recent comment by a Chinese lawmaker suggesting the country should buy more euros instead of dollars helped send the Dow Jones plunging more than 300 points.

The dollar is down about 35% since the end of 2001 against a basket of major currencies.

Foreign governments and investors now hold some \$2.23 trillion — or about 44% — of all publicly held U.S. debt. That's up 9.5% from a year earlier.

Japan is first with \$586 billion, followed by China (\$400 billion) and Britain (\$244 billion). Saudi Arabia and other oil-exporting countries account for \$123 billion, according to the Treasury.

"Borrowing hundreds of billions of dollars from China and OPEC puts not only our future economy, but also our national security, at risk. It is critical that we ensure that countries that control our debt do not control our future," said Sen. George Voinovich of Ohio, a Republican budget hawk.

Of all federal budget categories, interest on the national debt is the one the president and Congress have the least control over. Cutting payments would amount to default, something Washington has never done.

Congress must from time to time raise the debt limit — sort of like a credit card maximum — or the government would be unable to borrow any further to keep it operating and to pay additional debt obligations.

The Democratic-led Congress recently did just that, raising the ceiling to \$9.82 trillion as the former \$8.97 trillion maximum was about to be exceeded. It was the fifth debt-ceiling increase since Bush became president in 2001.

Democrats are blaming the runup in deficit spending on Bush and his Republican allies who controlled Congress for the first six years of his presidency. They criticize him for resisting improvements in health care, education and other vital areas while seeking nearly \$200 billion in new Iraq and Afghanistan war spending.

"We pay in interest four times more than we spend on education and four times what it will cost to cover 10 million children with health insurance for five years," said House Speaker Nancy Pelosi, D-Calif. "That's fiscal irresponsibility."

Republicans insist congressional Democrats are the irresponsible ones. Bush has reinforced his call for deficit reduction with vetoes and veto threats and cites a looming "train wreck" if entitlement programs are not reined in.

Yet his efforts two years ago to overhaul Social Security had little support, even among fellow Republicans.

The deficit only reflects the gap between government spending and tax revenues for one year. Not exactly how a family or a business keeps its books.

Even during the four most recent years when there was a budget surplus, 1998-2001, the national debt ranged between \$5.5 trillion and \$5.8 trillion.

As in trying to pay off a large credit-card balance by only making minimum payments, the overall debt might be next to impossible to chisel down appreciably, regardless of who is in the White House or which party controls Congress, without major spending cuts, tax increases or both.

"The basic facts are a matter of arithmetic, not ideology," said Robert L. Bixby, executive director of the Concord Coalition, a bipartisan group that advocates eliminating federal deficits.

There's little dispute that current fiscal policies are unsustainable, he said. "Yet too few of our elected leaders in Washington are willing to acknowledge the seriousness of the long-term fiscal problem and even fewer are willing to put it on the political agenda."

Polls show people don't like the idea of saddling future generations with debt, but proposing to pay down the national debt itself doesn't move the needle much.

"People have a tendency to put some of these longer term problems out of their minds because they're so pressed with more imminent worries, such as wages and jobs and income inequality," said pollster Andrew Kohut of the non-partisan Pew Research Center.

Texas billionaire Ross Perot made paying down the national debt a central element of his quixotic third-party presidential bid in 1992. The national debt then stood at \$4 trillion and Perot displayed charts showing it would soar to \$8 trillion by 2007 if left unchecked. He was about a trillion low.

Not long ago, it actually looked like the national debt could be paid off — in full. In the late 1990s, the bipartisan Congressional Budget Office projected a surplus of a \$5.6 trillion over ten years — and calculated the debt would be paid off as early as 2006.

Former Fed chairman Alan Greenspan recently wrote that he was "stunned" and even troubled by such a prospect. Among other things, he worried about where the government would park its surplus if Treasury bonds went out of existence because they were no longer needed.

Not to worry. That surplus quickly evaporated.

Mark Zandi, chief economist at Moody's Economy.com, said he's more concerned that interest on the national debt will become unsustainable than he is that foreign countries will dump their dollar holdings — something that would undermine the value of their own vast holdings. "We're going to have to shell out a lot of resources to make those interest payments. There's a very strong argument as to why it's vital that we address our budget issues before they get measurably worse," Zandi said.

"Of course, that's not going to happen until after the next president is in the White House," he added.

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