

Note from AFA President – National Debt 101

AFA Members, Congressional staff members, civic leaders, DOCA members, I received a very large response to my last note about cuts in the defense budget. [See: [http://www.afa.org/PresidentsCorner/Notes/Notes\\_9-27-11.pdf](http://www.afa.org/PresidentsCorner/Notes/Notes_9-27-11.pdf) ]

A sampling of your responses:

- The country is in big-time trouble
- We have to spend money on defense to protect ourselves
- It's not right to make major cuts in our military – when they are overseas fighting for us
- We need to blame the (fill in the blank \_\_\_\_\_) Bush Administration/Obama Administration/Congress/ourselves
- The military should share in the hardships ahead
- Among other things we should raise taxes

However, I still believe most of us have not thought through what the debt numbers mean. Here's an example to help clarify the situation:

Let us suppose that the government could reduce the budget deficit to zero. This would mean cutting not just \$1.5 Trillion over ten years ... but \$12 Trillion over the same time period.

And suppose we could pay \$100M per day ... every day ... to reduce our debt.

How long would it take to reduce it to zero? Answer: over **404 years**.

But wait ... that assumes a zero interest rate. Presently 10 year treasury bills yield about 2%. If you assume that rate is constant over the next 400+ years, you will have to pay \$295B per year in interest over the first years ... and since \$100M per day only produces \$36.5B annually, you can't get there. \$100M per day actually grows the debt over \$250B per year in the first years.

So, let's change the amount and say you could pay \$1B per day. That produces \$365B per year and pays the interest of \$295B and a small reduction in the debt. But ... average interest rate on 10 year treasuries over a long period of time is more like 5%. If you assume a 5% rate, you need \$738B per year in interest payments alone ... and \$1B per day allows the debt to continue to grow \$370B+ per year in the first years.

Bottom line – given the size of our national debt, if interest rates ever get back to “normal,” it would take \$2.21 B every day to reduce the debt to zero over 50 years. Remember, this assumes Congress and the Administration can first find \$12 Trillion in cuts to government spending to balance the budget over the next 10 years.

For your consideration.

Mike

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