



Harry's Take

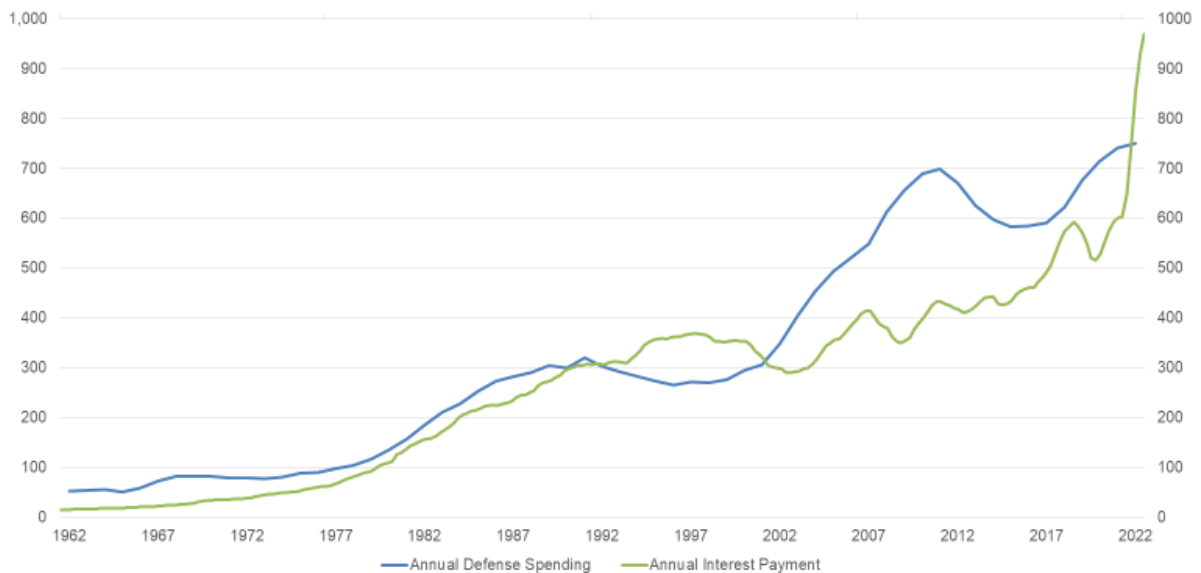
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Fed Rate Hikes Cause Interest Payments To Soar Past Defense Spending

I've been hearing warnings for a long time, especially from Republicans, that we will keep running deficits until our interest payments exceed our defense costs. Over the past century, Republicans have always leaned more toward defense spending and Democrats toward spending on welfare and social services.

What finally caused the interest expenses of the U.S. government to soar past defense spending actually was our endless deficit spending and stimulus in overreaction to COVID. The theory has always been that governments should run balanced budgets or surpluses in good times so that they can run deficits to support the economy in recessions and depressions. But from the 1990s forward, especially starting with the Clinton administration, the plan has just been to "Run deficits to stimulate the economy!" Now, both parties do it. There is no fiscally responsible party, something the Republicans once claimed to be.

With Fed Rate Hikes, Federal Interest Finally Passes Defense Costs



Source: <https://www.cbo.gov/data/budget-economic-data>; <https://fred.stlouisfed.org/series/A091RC1Q027SBEA>, August 20, 2023.

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Here is the real price for running deficits long term as a policy rather than limiting them or running surpluses in good times: the government uses more and more of its budget on interest payments rather than on boosting defense or providing the social services that the citizens actually value.

As the chart shows, starting back with LBJ in the early 1960s, defense spending and interest payments grew similarly. Defense (blue line) grew markedly faster during the two terms of George W. Bush (2001-2008), a Republican. No surprise there. Under Obama (2009-2016), interest payments (green line) grew faster, as would be expected under a Democrat. Just as defense broke out to dominate under George W. Bush, interest payments and social services surged strongly under Obama, and they continued to surge under Trump.

But nothing beats the recent mushrooming of fiscal stimulus and falling revenues under Biden, a Democrat, in an overreaction to COVID. We got \$5T in monetary expansion and around \$5T estimated in increased fiscal spending. That's nearly 50% of GDP, for crying out loud, for a two-year virus crisis!

The greatest theme of this weird period since early 2020 simply will be the overreaction to the short-term challenge of COVID... which already has retreated, largely on its own. But the debts and deficits haven't!

Harry

Got a question or comment? You can contact us at info@hsdent.com.