House Budget Committee

SOUNDING THE ALARM:

High Interest Rates May be Here to Stay – And National Debt Is Partially to Blame

After two years of record pandemic spending and green energy giveaways, the economy continues to suffer from high inflation due to the Biden Administration's failed economic policies. All of this has forced the Federal Reserve to increase interest rates to fight inflation, slowing growth. A new piece in the Wall Street Journal highlights how this is complicated by the historic levels of debt and deficits.

The Details:

As the Journal points out, "a more ominous explanation for higher [interest] rates is the burden of enormous new government borrowing. The Treasury has said it plans to float $1 trillion in new debt from July through September, and more will follow as the deficit keeps growing. That puts upward pressure on rates, especially with the Fed no longer buying most of the new paper."

And, if President Biden had his way, he'd be spending even more! His FY24 budget proposed the highest levels of sustained spending, taxes, and deficits in American history.

But it's not just new spending that is causing the problem.

"Treasury is also having to refinance an enormous amount of old debt that was originally floated with short-term instruments. The government financed much of its pandemic-era debt with T-bills and other short-term notes when the cost was near-zero.

"But now those bills are coming due, and Treasury is floating longer-term bonds at more than 4%. The average maturity of federal debt reached 75 months in May 2023, the longest duration in 20 years. This also puts upward pressure on rates."

The Bottom Line: Unchecked spending has consequences, and at some point the bill will come due. If we don't get our fiscal house in order, the Journal warns, "don't be surprised if a new era of higher interest rates is dawning."