



Congress Will Need a New Idea in 2024. Will It Choose a Good One?

With U.S. government revenues rising, 2023 might have been a good year to get America's post-COVID-19 finances on track, but the budget deficit is still growing. You can thank overspending for this. It's also the reason we've had to live with inflation, higher interest rates and the threat of massive future tax hikes for another year.

That sets up 2024 as the time when Congress might abandon a dangerous idea that helped get us here. I hope they find a better idea to replace it.

The Congressional Budget Office's latest Monthly Budget Review for November reveals the alarming trend: despite a 19% increase in revenues, amounting to \$107 billion, the federal budget deficit has swelled to \$383 billion — \$47 billion more than the same period in the previous fiscal year. This surge is attributed to expenditures outpacing revenues by \$155 billion.

Blame for this mess of fiscal irresponsibility falls overwhelmingly on Congress and the executive branch. Of course, there were the excesses of the COVID-19 era, but the problem started long before 2020. Constant increases in spending on everything and anything without fully paying have made America's debt the size of its entire economy. According to CBO, that's just the beginning. Assuming interest rates don't go up much more and inflation is mostly in our rearview mirror, the debt will almost double in the next 30 years.

There are reasons to assume that even these daunting projections are rosy. In recent months, the escalating cost of government interest payments has been primary fuel for the growing deficits. In the first two months of fiscal year 2024, these payments have soared by 65% compared to the same period the previous year.

This latest development is particularly concerning when viewed in the context of our debt-to-GDP ratio. The interest payments amount to 3% of America's GDP, a level not seen since the early 1990s. The difference is that 30 years ago, the U.S. was at the end of a large battle against the inflation of the 1970s and '80s. That episode left interest rates higher for many years after the crisis was averted.

Unfortunately, we are only at the beginning of our struggle, and it could be several years before interest rates significantly fall. If history is our guide, interest payments are going to continue consuming a large share of our budget and GDP for quite a while. The strain will mean more debt than currently projected.



Veronique de Rugy



Written by [Veronique de Rugy](#) on December 14, 2023

Economists share some of the blame because, in the years leading to the COVID-19 emergency, they provided Congress with arguments as to why a growing national debt is sustainable. Some spoke of unrestrained Modern Monetary Theory or trillion-dollar coins. Congress mainly chose to believe that if interest rates remained low, the cost of spending money you didn't have was zero.

Not surprisingly, proponents of this theory were also fast to forecast that rates would stay remarkably low. As you can imagine, this is catnip for politicians who want nothing more than to spend without restraint.

The main problem should be obvious. It's true that when interest rates are low, the cost of servicing the debt is relatively low and manageable. But the situation changes quickly when interest rates start to rise, especially when applied to enormous debt. Risk is amplified by the relatively short-term nature of much of our debt. We're learning this painful lesson now.

With the low interest rate theory now losing appeal, many economists are likely to pivot toward new and superficially comforting metrics, and politicians will believe them. Congress and the president's refusal to take our fiscal troubles seriously suggests that more inflation might become the tool that eventually chips the debt away. Economists at the International Monetary Fund have found that sudden bursts of inflation are a common debt-reduction method historically employed by governments worldwide. If so, your contribution might someday be paying \$10 for a gallon of milk.

It doesn't have to be this way. After World War II, the U.S. government successfully lowered its debt-to-GDP level from 86% in 1950 to 23.2% in 1974. Inflation was part of the equation, but the most important factor was plain old austerity — living within our means.

The absence of serious conversation speaks volumes. It's very likely that a large number of Republicans and Democrats want to let inflation take care of the debt.

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