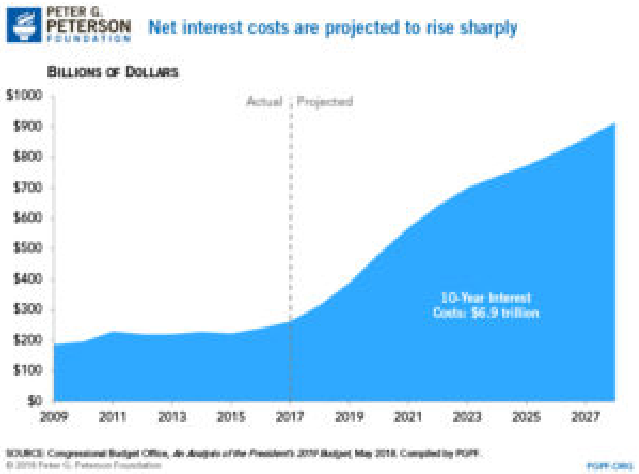
Why 'FED' Must Keep Interest Rates Low



Our Federal Government has no choice but to keep interest rates low. Not because of choice but because of the growing National Debt. It's simple math really.

The Nations debt now exceeds 22 Trillion Dollars and it continues to grow, but for sake of this exercise lets just assume it is stagnant at 22 Trillion Dollars.

Your Federal Government, in conjunction with the Federal Reserve System and the Federal Reserve Board determine the rate of interest paid on the National Debt. This rate fluctuates from time to time and there are different rates charged depending on the borrower and the related "risk" involved. The U.S. Government, because it can print money, is considered the "safest" borrower.

Using our 22 Trillion Dollar debt figure lets do some simple math:

- **At 2 1/2% Interest the interest for one year on the debt is 550 Billion Dollars**
- **At 5% Interest the interest for one year on the debt is 1.1 Trillion Dollars**
- **At 10% Interest the interest for one year on the debt is 2.2 Trillion Dollars**

At one point in time during the Carter Presidency interest rates briefly hit 20%. If that rate were current today, interest on the debt would be 4.4 Trillion Dollars.

The Government is considering a year 2020 budget of 4.75 Trillion Dollars.

If the debt continues to grow, and I see no "stomach" for fiscal restraint in Congress or among voters, at some point it would take all, or nearly all of the Federal Governments Budget just to pay the interest on the debt but of course our Government does not do that. They just continue to borrow more money and increase the debt limit so they can pay the interest. And the debt grows and grows. The only solution, short of greatly increasing taxation and cutting spending, is to devalue the Dollar through higher inflation. Inflation devalues the debt but it also decreases the value of savings and hurts those on fixed income, the elderly and the poor.

Worst of all, inflation discourages investors who purchase debt bonds. Who wants to buy debt bonds paying very low interest rates while the purchasing value of the Bonds become worth less and less through inflation?

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"Interest costs are expected to continue climbing beyond the next 10 years and are projected to be the third largest category in the federal budget by 2026 (after just Social Security and Medicare), the second largest category in 2046, and the single largest category by 2048." - Source: Peter G. Peterson Foundation

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Our Federal Government may have painted themselves into a corner. With a debt that continues to grow they face greater and greater pressure to keep interest rates artificially low while at the same time creating a situation where "investors" - buyers of debt bonds - become less and less inclined to invest in securities of a possible "sinking ship".

What is the old saying about choosing your poison?

Bob Bandy

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