



“Neither a borrower, nor a lender be”

— William Shakespeare, [Hamlet](#)



According to Wikipedia “The English term ‘debt’ was first used in the late 13th century and comes by way of [Old French](#) from the Latin verb *debere*, to owe; to have from someone else.”

The U.S. is a nation of debtors: persons, corporations and governments. Debt is a part necessary thing, part good thing and part bad thing, and the following *Rant* will explore the bad side of government debt. Future *Rants* will explore personal and corporate debt.

Government Debt



Government debt has been an integral part of U.S. history, and in its early history was utilized primarily to finance wars. Immediately after its founding, under the guidance of Alexander Hamilton, the U.S. created debt instruments to reimburse the patriots and the French government who lent money in support of the Revolutionary War. The Civil War resulted in a substantial increase in government debt followed by a massive increase in debt as a result of World War I. However, beginning with the thirties and FDR, budget deficits began to play a larger role in the increasing national debt. Of course, World War II also added a tremendous amount to the debt. Figure 1 shows annual federal deficits since 1900.

[Important note: All subsequent chart illustrations reflect figures taken from official U.S. government sources.]

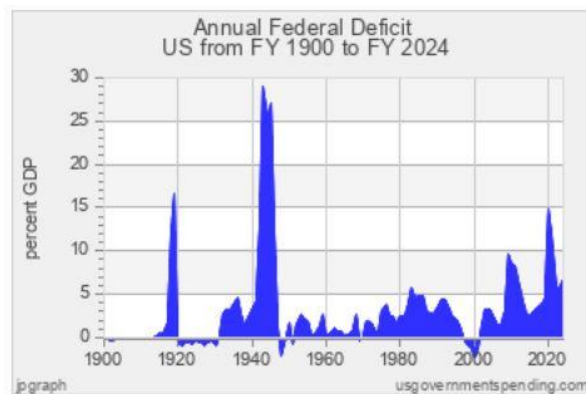


Chart 4.04: Federal Deficit Since 1900

Figure 1

Figure 2 shows federal debt since 1923.

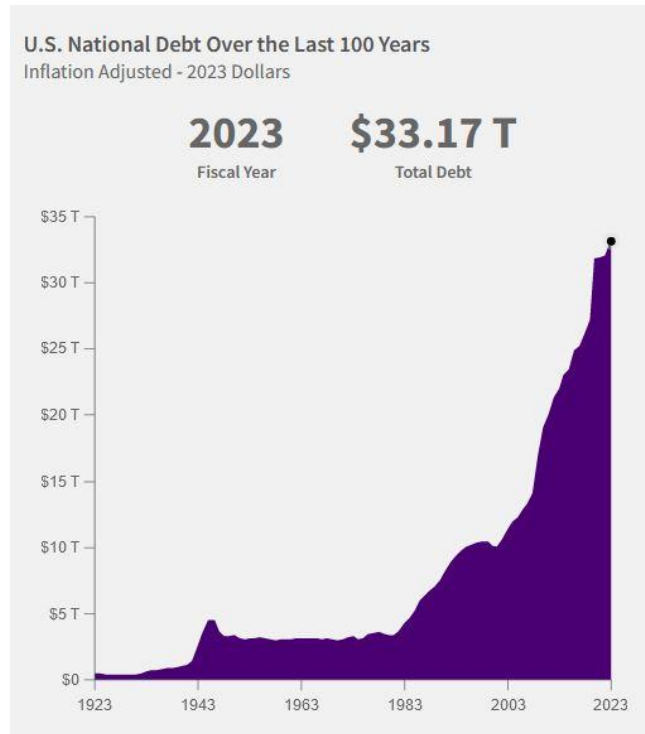


Figure 2

As is evident from Figure 2, federal debt has exploded in the period 1983-2023, in which there were no major conflicts.

Is Social Security is Now Adding to the Debt?

The Social Security Trust Fund is a paper accounting of the “pay as you go” Social Security funding scheme. (Contrary to the belief of many Americans, there is no real trust fund bank account that underwrites workers’ Social Security contributions with cash.) For many years in the past when the ratio of workers paying into the system vs. the number of retirees drawing from the system was high and the benefit levels were relatively low, surpluses were “invested” in U.S. treasury obligations, the proceeds of which were spent to reduce federal deficits. Now that the Social Security system itself is running significant deficits due to demographics and congressional largess with benefit increases, it is cashing in those same U.S. government obligations to continue paying benefits, and the U.S. is having to borrow funds as those treasury obligations are redeemed, increasing the federal debt.

Paying the Piper

With debt comes interest payments. Figure 3 illustrates the interest payments related to total government debt (blue representing state debt, red representing municipal debt) vs percent GDP over the last hundred years, and Figure 4 illustrates interest payments on federal debt vs percent GDP for the past ten years.

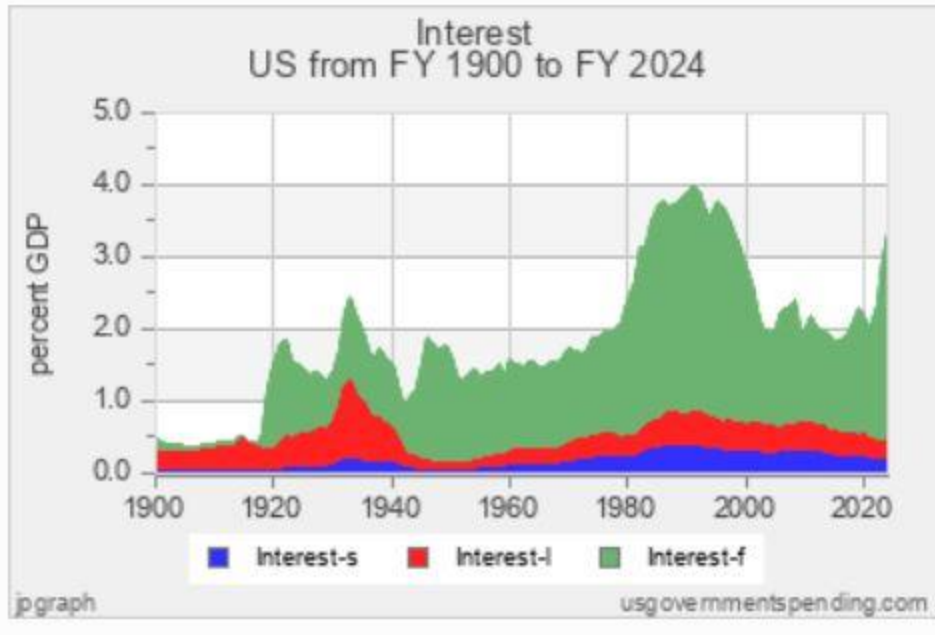


Figure 3

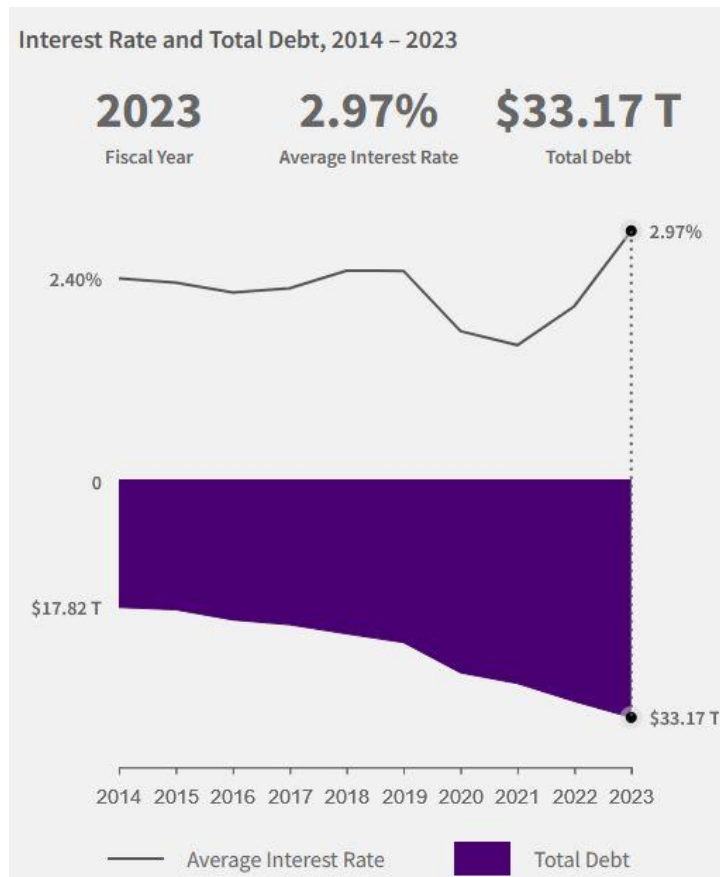


Figure 4

Net interest costs soared to \$659 billion in fiscal year 2023, which ended September 30, according to the Treasury Department. That's up \$184 billion, or 39%, from the previous year and is nearly double what it was in fiscal year 2020.

This means more federal tax revenue is going toward interest payments. The obligation ate up about 30 cents of every tax dollar in the first three quarters of fiscal 2023, compared with less than 22 cents over the same period in the two prior fiscal years, according to Jerry Dwyer, an economics professor emeritus at Clemson University.

Interest payments now rank fourth in federal spending, behind Social Security, Medicare and defense, according to Marc Goldwein, senior policy director for the Committee for a Responsible Federal Budget.

This problem will be further exacerbated as federal debt rolls over at increasingly higher interest rates.

Printing Money? (not really but close)

So, with ballooning deficits and debt, what's a government to do?

Here's the behind-the-scenes scheme that's been going on for some time:

The U.S. treasury sells Treasury Notes to the Federal Reserve system, which then increases the money supply at member banks. Kind of like the government lending money to itself and inflating the money supply to cover it. More money chasing goods is the foundation of inflation, which we have painfully witnessed over the past few years.

Nobel laureate Milton Friedman often said that "inflation is the cruelest tax."

It is important to note that insane deficits and the resulting astronomical increase in the national debt have occurred under both Democratic and Republican administrations.

I don't know about you, but I find all of this highly disturbing.

All the while as Rome burns, congress, like Roman Emperor Nero, fiddles around doing nothing, making no effort to reduce the federal deficit while kicking the can down the road. It's as if most of our leaders no longer care about making ends meet.

This will not end well, as eventually there will be pain, and the pain will be greater the longer we wait.

Stay tuned for the next **Rant**: Inflation is the cruelest tax of all.

Roger