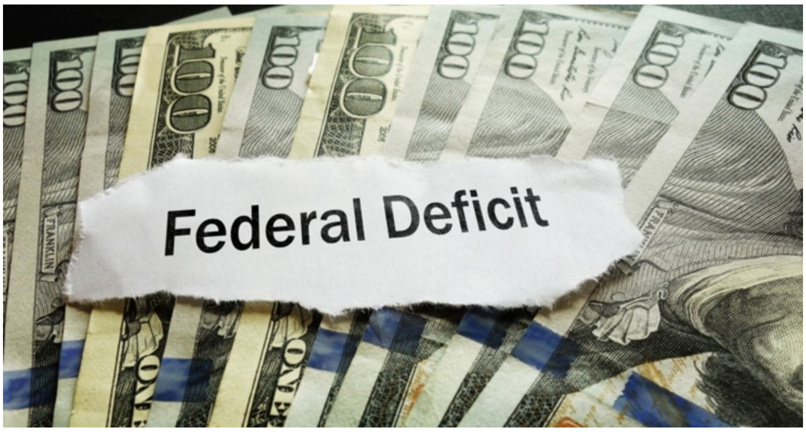
U.S. Government Ran $100 Billion Deficit in October



The U.S. Treasury's monthly statement of income and expenditures should have been a cause for celebration: Total receipts of $253 billion (a quarter of a trillion dollars) in October were 7.6 percent ahead of last October's receipts. This is the expected result of lowering tax rates and removing onerous regulations so that the economy could breathe again.

But the celebration never happened. The Treasury also reported that total government outlays for the month of October were $353 billion, 18 percent ahead of last October's, leaving the department, and the U.S. taxpayer, holding the bag for the difference of $100 billion.

When Reuters reported on the matter, it said "the deficit was in line with analysts' expectations," which made it seem as though this was the new normal, that everything is coming out about as expected — nothing to see here, move along. Complacency, it seems, will make the problem go away.

But it won't. When the Congressional Budget Office (CBO) issued its 2018 "Long-Term Budget Outlook" in June, it said, "Under current law, federal debt held by the public is projected to increase sharply over the next 30 years as spending grows more quickly than revenues do. Driving that spending growth are interest payments on the debt [along] with major health care programs and Social Security."

{modulepos inner_text_ad}

Tank cars of ink have been spilled on writing about the Boomer Generation retiring and demanding that the government make good on its underfunded promises. Precious little has been spent talking about the elephant in the living room: the enormous rise in interest payments the government must make to service the ballooning national debt. The CBO touched on it lightly: "The federal government's net interest costs are projected to climb sharply as interest rates rise from their currently low levels and as debt accumulates."

How sharply? In the last fiscal year, which ended September 30, the U.S. Treasury paid $263 billion in interest on the $20+ trillion national debt. In October, Treasury paid $32 billion, or (if nothing changes between now and next September) $384 billion, an increase, in one year, of more than 50 percent.

The CBO projects that, under current steady-state assumptions, interest on the national debt will approach a trillion dollars a year in less than 10 years. Said the CBO: "[interest on that] amount of debt … would reduce national saving and income … and increase the likelihood of a fiscal crisis [defined as a moment when] investors would become unwilling to finance the government's borrowing unless they were compensated with very high interest rates."

Let's take these one at a time. "National saving" would decline as capital is increasingly siphoned off to the Treasury in order to pay interest on the national debt. Capital would be removed from the economy just at the time when the economy would need that capital to be much more wisely and profitably invested to result in increased tax revenues. "Income" expected from those potential profits would vanish, again at precisely the moment when they are most desperately needed by the Treasury to pay the government's bills.

Economists Carmen Reinhart and Kenneth Rogoff looked at the experience of 22 advanced economies with high debt-to-GDP ratios and concluded that, "on average, debt levels above 90% are associated with growth that is 1.2% lower" than would otherwise be the case.

But the real risk — the elephant in the living room — is that moment in time when "investors would become unwilling to finance the government's borrowing unless they were compensated with very high interest rates." There's no magic here, just mathematical certainty: It's that moment when investors refuse to purchase more U.S. Treasury paper and simultaneously start to liquidate their present massive holdings.

On a very small scale, that is already happening. Social Security taxes have been a funding source for the government for decades, with deposits being spent immediately and exchanged for government promises to redeem those deposits at some distant time in the future. That future is now, and the Social Security trustees are beginning to sell back those promises to the Treasury because they are now being forced to pay out benefits that exceed current revenues.

What happens when interest charges on the ever-increasing national debt exceed the Treasury's ability to pay them? This would be analogous to a credit card holder who has been unable to make more than minimum payments and then finds himself unable even to make those. As Bruce Yandle, professor at George Mason University noted, "It's one thing to run in the red. It's something else entirely to lack the wherewithal [even] to make interest payments, and that's where we may be heading."

No "may be" about it. That is when bond investors fail to show up at Treasury auctions, with the only remaining "buyer" — that "lender of last resort" — the Federal Reserve. At the moment, the Fed is offloading some $30 billion of U.S. Treasuries every month, but that would be reversed when the Treasury runs out of other options.

Follow the logic: The Fed has no funds of its own, only what it is able digitally to create out of nothing. When those new funds are exchanged for increasingly worthless Treasury paper, the government pays its bills with them, adding to the money supply currently in existence. Each piece of currency becomes worth less and less, setting off a familiar chain of events that can be seen playing out in the current difficulties being faced by Marxist Maduro in Venezuela. With inflation running away, all debts denominated in bolivars have become worthless.

The United States is traveling down the same road. The final resolution will be the ultimate default of those promises made years ago by politicians now long dead, through inflation of the U.S. currency.

Image: zimmytws via iStock / Getty Images Plus

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*

Related article:

U.S. Treasury's Massive Problem: How to Fund Increasing Deficits