When Federal Interest Payments Come To Exceed the Military Budget: Time To Stop Defending the Rest of the World

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A new year dawns bright, with the US hurtling over the fiscal cliff. The lame duck Congress voted for a pork-packed $1.7 trillion budget bill. As the saying goes, it's only money!

At a time of enormous domestic need, *Republican* Senate leader Mitch McConnell pushed an extra $45 billion for Ukraine, declaring that Washington's "number one priority" was supporting that nation. Kentuckians might wonder if their Senator had moved to Odesa, Kharkiv, or Lviv over the holidays.

Alas, this appropriation was small change compared to the overall "defense" (in fact, mostly for offensive operations) budget. Congress hiked military outlays to record levels, topping off the already-bloated Biden spending program at $858 billion. American taxpayers remain stuck subsidizing prosperous, populous Europeans, superfluous Middle Eastern monarchs, and cheap-riding Asian defense dependents.

Unwilling to raise taxes as it also shovels ever-more cash into social programs old and new, Congress simply borrows additional money as if loans need not be repaid. The publicly held national debt hit 100 percent of GDP and is heading toward the record of 106 percent set in 1946, at the conclusion of the worst war in human history. Within a decade the US faces trillion-dollar deficits for as far as government analysts can budget. By mid-century the Congressional Budget Office expects the debt/GDP ratio to run around 185 percent. And that assumes policymakers don't do anything stupid, like approve massive new spending programs without paying for them. Which, unfortunately, is as certain as the rising of the sun.

Endless borrowing isn't cheap. Over the last decade interest payments as a share of GDP jumped about a quarter. And the era of (almost) free money is over as the Federal Reserve pushes up rates to wring inflation out of the economy. The budget agency's estimates are daunting: "Combined with rising interest rates, large and sustained primary deficits cause net interest outlays measured as a percentage of GDP to more than quadruple over the period: They rise from 1.6 percent of GDP in 2022 to 7.2 percent in 2052."

Last year the *Washington Post's* Allan Sloan considered the increased cost for just 2022: "Total interest payments on the government's debt could come in at nearly $580 billion this fiscal year, up from $399 billion in recently-completed fiscal 2022." It will get much worse in the future. The Townsend Group's Red Jahncke warned, accounting for the enormous amount of federal debt currently held by the Fed: "Total federal gross interest cost over the 12 months ending on May 31 [2022] was $666 billion. If we include the impending extra interest on Treasury bills and the maturing notes, that figure rises to $863 billion. This is a staggering cost. National military spending was $746 billion over the past 12 months; Medicare spending was $700 billion."

The Peter G. Peterson Foundation figures that interest payments will run $8.1 trillion over the coming decade. That's an average of $810 billion a year. By 2032 interest payments will be about $1.2 trillion a year, above expected military outlays. By mid-century, interest costs will be greater than Social Security and Medicare and will account for 40 percent of total revenue. Of course, interest payments come off the top, a legal obligation that cannot be changed by Congress (absent repudiating federal obligations).

A more rapid increase in interest costs also would inflate future debt levels. Last year CBO offered a higher interest scenario, boosting "the average interest rate on federal debt above the baseline rate by a differential that starts at 5 basis points in 2022 and increases by 5 basis points each year (before macroeconomic effects, which are described below, are accounted for). Under that path, federal debt held by the public equals 235 percent of GDP in 2052 rather than the 185 percent of GDP it equals in the extended baseline projections."

Unfortunately, interest rates are far more likely to be higher than lower. Irrespective of the Fed's monetary policies, congressional fiscal behavior almost certainly will remain wildly expansionary, given the lack of commitment to budget responsibility by either major party. Despite occasional rhetorical flourishes, even most GOP legislators have abandoned any pretense of opposing the ongoing fiscal tsunami.

Borrowing will continue to look like the easy way to afford increased outlays even though the cost of debt also will be increasing. Putting the expense onto future actors will remain attractive to current legislators, until the entire system collapses. Moreover, investors likely will expect inflation to remain high given projected deficit increases even before including higher interest payments. And who will purchase the unending supply of federal debt? Warned Jahncke, "It will be challenging and costly to find buyers to replace the Fed."

Finally, the more the national debt climbs, with increasing doubt as to Washington's ability to handle the growing burden, the greater the likelihood of a full-blown fiscal crisis. CBO warned:

The likelihood of a fiscal crisis increases as federal debt continues to rise, because mounting debt could erode investors' confidence in the US government's fiscal position. Such an erosion of confidence would undermine the value of Treasury securities and drive up interest rates on federal debt as investors demanded higher yields to purchase those securities. Concerns about the government's fiscal position could lead to a sudden and potentially spiraling increase in people's expectations for inflation, a large drop in the value of the dollar, or a loss of confidence in the government's ability or commitment to repay its debt in full, all of which would make a fiscal crisis more likely.

If the value of federal securities held by banks then cratered, the US might face a financial crisis as well. Think 2008, only this time without any fiscal room to bail out failed institutions. Back then, the national debt owned by the public ran “only” $5.8 trillion, compared to $24.6 trillion today, a more than fourfold increase.

Washington’s War Lobby nevertheless insists that nothing the US spends is ever enough. Last year, even before the Ukraine invasion, wrote Joni Ernst and James Carafano, US Senator and Heritage Foundation vice president, respectively: “A frozen defense budget will not satisfy the needs for the military to counter threats ranging from an emboldened China, a revanchist Russia, and perpetual bad actors such as North Korea and Iran.” Real increases of three to five percent a year, argued the authors, were necessary “to project power and uphold our alliance commitments.”

When confronted with the coming red ink tsunami, members of the War Lobby blame entitlements for bloating the budget. There is no problem, they suggest, that could not be solved by slashing Medicare, Social Security, Medicaid, and assorted other “mandatory” social programs. After all, the bulk of the budget is accounted for by those three plus interest and the military. (Domestic discretionary outlays, currently the most convenient budget target, make up only 16 percent of total federal spending.)

If, however, it were easy to slow (let alone decimate) social programs with an aging population and ever-rising health care costs, it would have been done already. Endless numbers of fiscal conservatives, from Ronald Reagan to Paul Ryan, tried to do so. Alas, in coming years even Ernst might find it hard to convince residents of assisted living centers that their benefits should be cut to allow the Europeans to continue expanding their welfare states. Then there are the kids: activists on the left already are arguing that rising interest payments are overshadowing popular causes such as caring for children.

Where else but the military will Congress look if it hopes to avoid fiscal and financial disaster in the future?

The world is a dangerous, messy place, but not particularly for America. The US is dominant at home, flanked by enormous bodies of water and bordered south and north by weak, peaceful neighbors. Washington’s overseas intervention is almost entirely discretionary, utterly disconnected from anything close to a vital interest. Instead, America has created a defense dole for the world, by which industrialized states uniformly shirk responsibility for protecting themselves and their regions.

The US economy no longer can sustain a policy of endless war. Rising interest rates highlight the dismal state of Uncle Sam’s finances. Fiscal reality, as well as good sense, tells the US to focus on its own security.

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