Mimosa Investment Management

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The US Debt Morass

Who hasn't seen the omnipresent TV ads featuring William Devane discussing the national debt of the US? The ad states that with the debt currently at $20,000,000,000,000 your only investment way out is to purchase gold. Maybe or maybe not, but the ad certainly makes a valid point. Who could believe that our national debt has grown to such heights in a very short time period since our nation's founding?

Current National Debt

In 2015 we spent $223,000,000,000 on interest on this borrowing which represents 6% of our federal budget (per US Treasury). Suppose interest rates, instead of being historically low, grow to a more "normal" three or four percent. Pretty soon our net interest will grow astronomically. The Federal Reserve shows a great reluctance to raise rates; thereby, stifling flexibility for future monetary stimulation when the economy falters.

Where National Debt Comes From

Basically the national debt derives from the government spending more than the revenues it takes in. When we take in less, the Treasury borrows to make up the shortfall by selling bonds, which accumulate as debt. According to www.fixthedebt.org the US faces an onslaught of factors including:

Population Aging: increases costs of Social Security greatly.

Rapid Cost Growth In Health Care: such that the 5.5% now being spent on this component of the economy grows to 8% over the next twenty five years as Medicare costs soar.

Growing Interest Costs: as interest rates return to a more normal environment as discussed above.

Insufficient Revenue: as our debt problems are so large, they can not be solved by either spending cuts or revenue increases alone.

The Great Recession

US employment contributes greatly to an increased economy. Many in the US work-force have weathered the storm better than others. Level of education correlates positively to this phenomenon. As Erik Hurst of Chicago's Booth School of Business noted recently that US men without high school degrees fare the worst, as shown below:

	Unemployment Rate
Bachelors Degree	2.7%
High School Degree	4.5%
No High School Degree	5.4%

Note that official unemployment takes into account people who are looking for work and excludes those out of the labor force. But where actual employment is concerned, only 55% over age 25 without high school degrees are working while this statistic rises to 76% with four year college degrees.

The combination of higher employment and greater productivity is perhaps the only effective way to pay down the national debt. Further fixes to the burgeoning welfare burden in the US can also make a dent in the problem. As noted previously monetary solutions have run their course as far as interest rate reductions are concerned. Perhaps the US needs to consider fiscal policy changes.

Who can guess where our current election season will take us as we contend with the debt morass?