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What 'Uncle Spender' wants, 'Uncle Spender' gets

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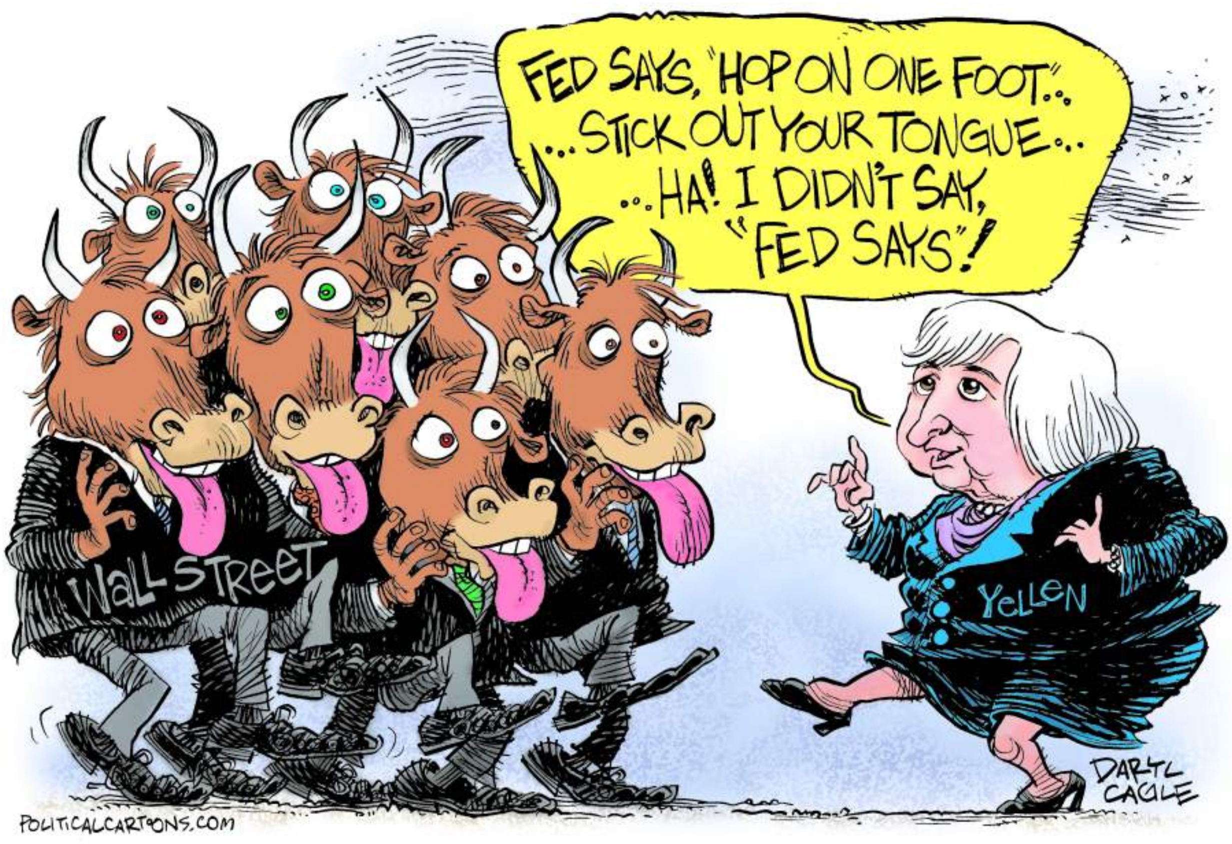

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BY ANTONY DAVIES & JAMES R. HARRIGAN | Saturday, June 27, 2015, 9:00 p.m.

This month marked the 3,000th day since the Federal Reserve last raised interest rates. For more than eight years, the U.S. economy has been bingeing on low-interest credit and there is no end in sight.

Low interest rates, we are consistently told, are good for the economy. They make it easier for home buyers and college students to borrow. More borrowing means more spending and more spending means more jobs. Low interest rates are the apparent magic bullet that keeps everything growing. And when everything is growing, we are told, everybody wins.

Of course that is only if retirees who rely on interest to keep their nest eggs intact, young families trying to save for their children's futures and prudent households trying to live within their means are not part of “everybody.” Those groups are all losing.

Artificially low interest rates have caused a lot of harm since they became a fixture on the political landscape in the wake of the 1992 recession. Alan Greenspan slashed interest rates to pull us out of that recession and, in the process, started inflating the dot-com bubble.

Easy money fueled a soaring stock market; when the bubble burst, the NASDAQ lost three-quarters of its peak value. That market fully recovered just last month — 14 years after the crash. Remarkably, only seven years would elapse from the dot-com crash before we did the exact same thing with the housing market — inflating housing prices with easy money and artificially low interest rates.

Today, seven years after the housing crash, we are repeating the error yet a third time with higher education.

If artificially low interest rates inflict such pain, why are our elected leaders and bureaucrats so insistent on keeping them low? One need only ask, “Who benefits?” And here there is really only one answer: the government itself. Sure, homeowners and college students benefit from low interest rates but the single largest beneficiary by far is the federal government.

Since the dot-com era, the federal government has grown its debt from merely massive to absolutely cosmic. Counting both official debt and unfunded liabilities (money the federal government has promised to pay but does not and will not have), the federal government officially owes or has made promises to pay about $100 trillion. To put that in perspective, $100 trillion is enough to buy every single thing that is for sale everywhere on the entire planet — with about $20 trillion left over. Yes, the federal government owes enough money to buy a planet.

The federal government's debt now is so large that it can't afford for the Federal Reserve to raise interest rates any more than a token amount. Ignoring the unfunded liabilities, the official debt alone is so large that each 1 percentage point increase in interest rates would cost the federal government as much as the annual costs of the Iraq and Afghanistan wars combined. Every. Single. Year.

As for the Federal Reserve, its autonomy will end the moment it tries to raise interest rates significantly, which means, of course, that it is not autonomous at all. Interest rates are low and will stay low because Uncle Spender needs them to. And he always gets what he wants. To Uncle Spender, what the American people need is of little consequence.

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