

## The Hidden Cost of Higher For Longer

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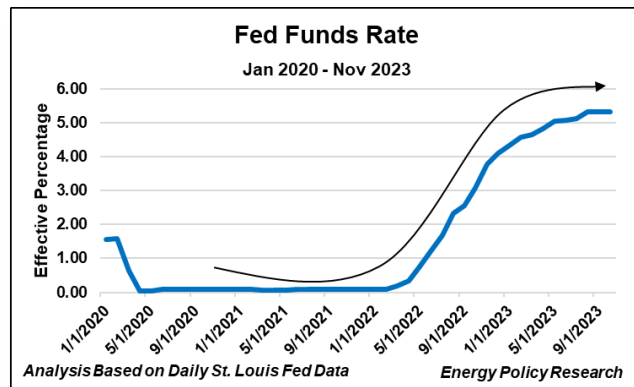


Figure 1

Chairman Powell spoke yesterday and announced that interest rates will remain where they are (for the time being – *Figure 1*). There is a bias it's that they may rise sometime early next year.

Many believe that he should freeze rates where they are. They argue that the economy looking forward is not nearly as strong as the third quarter would suggest. The fourth quarter is likely to come in well below the 4.9% of the third quarter. Growth might actually be 2% or lower. And the first half of next year is not promising. We could see growth below 1%.

There are other costs that are not getting the attention they should. Higher for longer will

have a material impact on deficits, debt, and the **net interest on the debt**. Our net interest on the debt last year was around \$650 billion. By 2033, CBO estimates it will rise to \$1.4 trillion. That will choke growth, productivity, and lead to lower private investment and higher unemployment.

Discretionary programs will be slashed, and major reforms will be forced in the entitlement area. Social Security and Medicare won't be able to escape. One of the first things Congress might look at is cutting our enormous subsidies and tax credits. Politicians being politicians will look to cut the programs that don't initially impact the voter.

Unfortunately, that's the good news. Higher for longer means that the interest we pay on our debt is likely to be higher than is currently being forecast. This will result in our cumulative debt being higher over the entire period thereby cutting further into growth.

**We've waited too long to avoid pain. The wolf is at our door only now he's on the inside of it.**

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*He has testified numerous times before congressional committees and regulatory bodies and has been appointed to the National Petroleum Council (NPC) by every recent U.S. Secretary of Energy. He has briefed the Chairman of the Federal Reserve Board, senior officials at the Government Accountability Office, and a wide range of government agencies on developments in domestic and world petroleum markets. He has also served as consultant to the Iraq Coalition Provisional Authority. During the 1970s and 1980s he frequently appeared on the CBS Evening News anchored by Walter Cronkite.*