# The government doesn't need to pay interest on its deficit spending

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April 2025

Historically, governments have been discouraged from arbitrarily increasing the money supply—often referred to as "printing money"—due to the risk of hyperinflation, which is disruptive to the economy. A stark example of this occurred in Germany during the Weimar Republic era, where excessive money printing in the early 1920s led to extreme price increases. Other nations, including Austria, Poland, Russia, and Hungary, also faced hyperinflation during this period

In the distant past, money was either made of or directly convertible to precious commodities such as gold and silver. Since these commodities couldn't be rapidly increased, governments had to borrow money for large-scale projects, disaster recovery, wars, and other contingencies. This debt was gradually repaid, ensuring that the extra currency didn't remain in circulation for long. Consequently, price changes from such spending were temporary. Under normal circumstances, prices fluctuated primarily due to supply and demand—for instance, a drought would temporarily drive up food prices. The minor influence of per capita money supply on the economy was tied to the availability of gold and silver in circulation. Their effect on prices was gradual over time.

The adoption of fiat currencies from the 18th century onward allowed for much larger variations in money supply. Hyperinflation became a problem when governments devalued their currencies by indiscriminately injecting large sums of cash into the market.

Since the 1980s, however, many countries with independent central banks have managed to keep inflation low and stable, typically around 2-3% annually—ideal for economic stability. Central banks also work to prevent deflation, which can shrink economic output.

To avoid hyperinflation, some nations have implemented measures to prevent governments from arbitrarily increasing the money supply, which today often involves simply adjusting reserve balances on ledgers. While there are other ways to control money injection—such as lowering interest rates or altering bank reserve requirements—let's focus on government cash spending

In the U.S., the government borrows money from the public by issuing securities like bonds through the Treasury. These bonds pay annual interest to their holders, whether individuals or institutions. Initially, the government intended to repay this debt. Keynesian economics proposed borrowing during economic downturns and repaying during prosperous times, ensuring liquidity injections were temporary and didn't devalue the currency. However, this approach has been abandoned. Today, the government continuously increases the money supply, issuing new bonds to replace old ones. This "deficit spending" effectively amounts to printing money, which is necessary to align with GDP growth and inflation rates. But why does the government pay interest on money it knowingly injects into the economy? Calling this a "debt" is misleading—it's simply an expansion of the money supply. Yet, the current system imposes interest payments that strain the government's annual budget.

For fiscal year 2025, the U.S. government is projected to pay $952 billion in interest on its so-called national debt—a significant increase from $476 billion in 2022. To put this in perspective, the combined individual and corporate income tax contributions for FY 2025 are estimated at $957 billion [Tax Foundation; Peter G. Peterson Foundation]. Essentially, all income tax revenue is used to pay self-imposed interest on the necessary expansion of the money supply, diverting funds from infrastructure projects to domestic and international banks.

Let's do a thought experiment. What happens when the treasury issues "zero-coupon bonds with zero interest rate? The Federal Reserve could sell them at a discount or simply hold them and do nothing with them. But there is nothing wrong with that. The government could continue deficit spending this way without paying interest.

There are of course some benefits to having interest bearing US government bonds in circulation. Treasury bonds play a significant role in maintaining the U.S. dollar as a major global currency because they are widely considered a safe and liquid investment. This attracts foreign investors to hold dollar-denominated assets, thereby bolstering demand for the dollar and helping it maintain its current role as a global reserve currency.

Government bonds also help domestic banks and individuals by providing a safe investment option that pays moderate interest. What we argue is that the volume of these bonds doesn't need to grow exponentially every year. The government should maintain a fixed or slowly increasing number of bonds in the market for investors to purchase, and for financial markets to work. This means that interest payments by the government should remain relatively steady from year to year. It should not pay interest on its well managed deficit spending which is tantamount to injecting money into the economy.

Strict controls by the legislature and Federal Reserve on the amount of annual extra credit extended to the government are essential. The government needs a very strict spending discipline, otherwise routine government politics will ruin the economy by overspending. Perhaps money supply growth should be rigidly indexed to GDP growth and inflation rate. In the future, AI governance could enforce such formulas automatically, shielding economic policies from political interference.

In conclusion, we should stop referring to government bonds as "national debt," as this term perpetuates the false narrative of an impending catastrophe. All money in circulation is in a sense, government debt. The real issue lies in the growing volume of interest-bearing bonds and the escalating interest burden on the government's budget.  The government should maintain a carefully managed and restrained deficit spending strategy without incurring additional interest costs.

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