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LINCOLN TIMES-NEWS

Lincoln County's Home Newspaper

# President Obama plays while the federal budget burns

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February 22, 2016

The U.S. is bankrupt. Of course, Uncle Sam has the power to tax. But at some point even Washington might not be able to squeeze enough cash out of the American people to pay its bills.

President Barack Obama would have everyone believe that he has placed federal finances on sound footing. The deficit did drop from over a trillion dollars during his first years in office to "only" $439 billion last year. But the early peak was a result of emergency spending in the aftermath of the financial crisis and the new "normal" is just short of the pre-financial crisis record set by President George W. Bush. The reduction is not much of an achievement.

Worse, the fiscal "good times" are over. The Congressional Budget Office expects the deficit to jump this year, to $544 billion.

The deficit is not caused by too little money collected by Uncle Sam. Revenues are rising 4 percent this year, and will account for 18.3 percent of GDP, well above the last 50-year average of 17.4 percent. But outlays are projected to rise 6 percent, leaving expenditures at 21.2 percent of GDP, greater the 20.2 percent average of the last half century.

Alas, this year's big deficit jump is just the start. Revenues will rise from $3.4 trillion to $5 trillion between 2016 and 2026. As a share of GDP they will remain relatively constant, ending up at 18.2 percent. However, outlays will rise much faster, from about $4 trillion this year to $6.4 trillion in 2026. As a percent of GDP spending will jump from 21.2 percent to 23.1 percent over the same period,

Thus, the amount of red ink steadily rises and is expected to be back over $1 trillion in 2026. The cumulative deficit from 2017 through 2026 will run $9.4 trillion. Total debt will rise by around 70 percent, to roughly $24 trillion in 2026.

Reality is likely to be worse. So-called discretionary spending, subject to annual appropriations, is to be held to record, and probably unrealistically, low levels. In contrast, entitlements will be exploding.

Last June, CBO published a report looking at the federal budget through 2040. Warned the agency: “the extended baseline projections show revenues that fall well short of spending over the long term, producing a substantial imbalance in the federal budget.” By 2040 the agency imagines revenues rising sharply, to 19.4 percent of GDP, but spending going up even further, to 25.3 percent of GDP.

Using its revised figures, CBO warned: “Three decades from now debt held by the public is projected to equal 155 percent of GDP, a higher percentage than any previously recorded in the United States.” Even when exiting World War II—106 percent in 1946, the previous record.

CBO noted the potentially destructive consequences of such indebtedness. Washington’s interest burden would rise sharply. Moreover, “because federal borrowing reduces total saving in the economy over time, the nation’s capital stock would ultimately be smaller than it would be if debt was smaller, and productivity and total wages would be lower.” Americans would be poorer and have less money to fund the steadily rising budgets.

Worse, investors could come to see federal debt as unpayable. Warned CBO: “There would be a greater risk that investors would become unwilling to finance the government’s borrowing needs unless they were compensated with very high interest rates; if that happened, interest rates on federal debt would rise suddenly and sharply.” This in turn “would reduce the market value of outstanding government bonds, causing losses for investors and perhaps precipitating a broader financial crisis by creating losses for mutual funds, pension funds, insurance companies, banks, and other holders of government debt — losses that might be large enough to cause some financial institutions to fail.”

As I wrote for American Spectator: “There’s no time to waste. Uncle Sam is headed toward bankruptcy. Without serious budget reform, we all will be paying the high price of fiscal failure.”

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