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Can America Afford to Lead the World?

How long can the bankrupt American republic attempt to run the world?

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President Joe Biden is the foreign policy equivalent of an alcoholic. He can't get enough of U.S. meddling around the world. Although he withdrew American forces from the endless Afghan imbroglio, he has taken the U.S. into a dangerous proxy war against Russia, announced that he is prepared to fight China over Taiwan, and threatened Iran with attack.

Where would he get the money necessary to fight so many conflicts? The U.S. is heading toward national bankruptcy. This course was firmly set by President George W. Bush, who went on a spending spree with a GOP Congress. President Barack Obama supported massive expenditures amid the financial crisis. President Donald Trump encouraged Republicans to spend wildly and did little to restrain Democrats after the latter took control, especially after the spread of Covid-19.

And so it continues. Never mind Treasury Secretary Janet Yellen's warning that "the US debt path is completely unsustainable under current tax and spending plans." Every day the Biden administration imagines new programs and expenditures. The latest is the "Build Back Better Lite" bill negotiated with West Virginia Senator Joe Manchin. If enacted, its impact will be to fuel already raging inflation.

The Congressional Budget Office warned of a growing debt burden that eventually will put the average wastrel developing state to shame. Strictly speaking, governments don't go bankrupt. They become insolvent, renegotiate (or even repudiate) debt, accelerate the printing press, devalue currency, quit paying employees, cut social programs, and take other steps that immiserate their populations. None of them continue to bestride the world like a colossus, subsidizing the defense of allies near and far, intervening in distant hotspots of little importance to their people, ordering the rest of the globe to conform to their dictates, and otherwise behaving like the U.S. government today.

How much longer can Washington afford to take on such an inflated international role?

CBO reports read like horror scripts. The total national debt is about $30.6 trillion. Publicly held debt (subtracting intra-government lending) is $23.9 trillion, a bit over 100 percent of GDP. The pandemic has relaxed budget pressure, but the projected rise in U.S. debt is inexorable and soon will bust the record of 106 percent set in 1946 at the Second World War's end. With strong economic growth the ratio came down dramatically, with an average of 46 percent over the last half century, and at 35 percent as recently as 2007, before the financial crash triggered massive bailouts, subsidies, and other outlays.

Of course, little more than a decade later a global pandemic triggered another spending tsunami. Although those expenditures will continue to ebb, after 2024, warned CBO: "Outlays then steadily increase, reaching 30.2 percent of GDP in 2052. Rising interest costs and growth in spending on the major health care programs and Social Security—driven by the aging of the population and growth in health care costs per person—boost federal outlays significantly over the 2025–2052 period."

Revenues also are high, just not nearly high enough. Indeed, reported the budget agency: "revenues rise to 19.6 percent of GDP in 2022, one of the highest levels ever recorded, because of sizable increases in collections of individual income taxes. After falling in relation to the size of the economy for the next few years, revenues increase in 2026, largely because of scheduled changes in tax rules. They continue to rise after 2030 as an increasing share of income is pushed into higher tax brackets. In 2052, revenues reach 19.1 percent of GDP."

The widening gap between outlays and revenues, exacerbated by rising interest rates, means bigger deficits. CBO explained: "In CBO's projections, federal deficits over the 2022–2052 period average 7.3 percent of GDP (more than double the average over the past half-century) and generally grow each year, reaching 11.1 percent of GDP in 2052. That projected growth in total deficits is largely driven by increases in interest costs: Net interest outlays more than quadruple over the period, rising to 7.2 percent of GDP in 2052. Primary deficits—that is, deficits excluding net outlays for interest—grow from 2.3 percent of GDP in 2022 to 3.9 percent in 2052."

Interest rates have begun their inevitable rise as the Federal Reserve seeks to slow inflation. Interest payments cannot be cut without repudiating the national debt, which, of course, would destroy Uncle Sam's credit rating. In effect, then, this expenditure comes off the top, leaving less money for everything else, including foreign and military policy. The federal government will be borrowing ever more to pay off past borrowing.

Indeed, the agency's estimates are shocking. Today interest is 1.6 percent of GDP. Between 2043 and 2052 that number is likely to average 6.2 percent, more than total domestic discretionary expenditures and *almost as much as Social Security spending*. That could mean $1.2 trillion annually in interest.

What does this all mean for federal debt? Detailed CBO:

By the end of 2022, federal debt held by the public is projected to equal 98 percent of GDP. The rapid growth of nominal GDP—which reflects both high inflation and the continued growth of real GDP (that is, GDP adjusted to remove the effects of inflation)—helps hold down the amount of debt relative to the nation's output in 2022 and 2023. In CBO's projections, debt as a percentage of GDP begins to rise in 2024, surpasses its historical high in 2031 (when it reaches 107 percent), and continues to climb thereafter, rising to 185 percent of GDP in 2052.

That number, 185 percent, is stunning. Countries like Greece hit the fiscal wall well before reaching that level. Washington long has benefited from the lack of effective monetary competition. That is slowly changing. Much of the world desperately wants alternatives to the dollar, which currently gives U.S. politicians another tool for exercising political domination. Most important, investors who wonder at the ability of America to shoulder an increasing debt burden are likely to demand ever higher interest rates.

The rising debt will weaken the U.S. fiscally in other ways. Explained the agency: “When the government borrows, it does so from people and businesses whose savings would otherwise finance private investment in productive capital.” Thus, Washington displaces the latter, reducing the rate of economic growth. The public is left with lower earnings with which to pay higher interest payments and other government expenditures.

Moreover, a fiscal crisis will become ever more likely. Warned CBO: “Concerns about the government’s fiscal position could lead to a sudden and potentially spiraling increase in people’s expectations for inflation, a large drop in the value of the dollar, or a loss of confidence in the government’s ability or commitment to repay its debt in full, all of which would make a fiscal crisis more likely.” And this could turn into a financial crisis if major banks and other institutions hold sufficient federal debt of declining value. Then, “because the United States plays a central role in the international financial system, such a crisis could spread globally.”

As outlays, interest rates, deficits, and debt head upward, what happens to military spending? Members of the foreign policy establishment, or the Blob, typically deploy the term “national security” as a trump against any objection to increased military outlays. The broader the foreign policy and higher the expenditures, the less convincing this argument. Today an increasing number of Americans realize that keeping troops in such nations as Afghanistan, Iraq, and Syria has little to do with America’s defense. As U.S. fiscal difficulties intensify, popular enthusiasm for treating Asian and European industrial states as helpless military dependents is likely to wane. Ever more Americans are likely to ask why they are doing so much so others can do so little.

Another favorite argument of those who favor open Treasury doors for the Pentagon is that domestic, not military, outlays are the main cause of the country’s impending debt crisis. Thus, a few easy reforms—for instance, just cut Social Security benefits and raise the retirement age—would set everything right.

Although social programs will take up an increasing share of the budget and GDP as Baby-Boomers retire, military spending will remain a significant burden. And if entitlement reform was easy, it would have been implemented years, indeed, decades ago. For good reason American are likely to prove skeptical when told that their benefits should be pared to make it easier for the prosperous Europeans to devote more of their money to their bountiful welfare states.

Of course, significant tax hikes are another option. The U.S. public has gotten used to a free ride, however, lots of benefits financed by loads of debt enabled by substantial foreign money. Hiking rates and adding levies would generate substantial political resistance, especially since much of the money would go to the defense of others who spend much less to defend themselves. “Pay up so the allies can pay less” isn’t likely to be a winning electoral slogan. Middle class benefits are understandably quite popular since they benefit Americans. In contrast, much of the U.S. “defense” budget goes for other nations.

Even when war came to Europe’s eastern border this year, the U.S. did much more than NATO’s European members to aid Ukraine while Washington’s supposed allies sought to entangle it in a direct conflict with Russia. The same people in 2020 told pollsters that in a crisis they opposed aiding their NATO allies but expected the U.S. to intervene on their behalf. Even more grotesque was the specter of a submissive President Joe Biden visiting the Kingdom of Saudi Arabia, promising U.S. military personnel as personal bodyguards for the corrupt and oppressive Saudi royals.

World War II left America with the world’s dominant economy, and able to bear the terrible burden of confronting the Soviet Union and its gaggle of allied and client states. The collapse of the USSR left the U.S. as the planet’s unrivaled military power. These advantages are ebbing away.

Americans will have to set priorities and decide whether they want to continue playing globocop as fiscal crisis engulfs Washington. War is sometimes necessary, but for America it has become a foolish, almost frivolous matter of choice. The endless Global War on Terrorism was awful, but conflict with Russia or China, or even North Korea or Iran, would be much worse. The looming debt crisis will have at least one silver lining: forcing Americans to finally rethink U.S. foreign policy.

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