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Impending Budget Crisis Dooms American Imperium

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Those who dream of a permanent American imperium dismiss any difficulties or challenges. With popular sacrifice, they believe, Washington can maintain its military edge.

Yet federal deficits are back on the rise. There isn’t going to be much money for the national government to spend on “discretionary” items, including underwriting wealthy allies, rebuilding failed states, and enforcing international norms.

America’s fiscal position is deteriorating sharply. Earlier this year the Congressional Budget Office forecast that the federal deficit was back on the rise in 2016, with steady increases expected over the next decade.

The latest report finds a sharp jump just since March. Now CBO expects this year’s deficit to run $590 billion, or about a third more than last year.

The only good news in the agency’s estimate is that the cumulative deficit over the next decade will be a bit lower than previously predicted because interest rates are expected to stay low. If that changes, even this good news will disappear.

CBO currently figures the annual deficit will rise to $1.2 trillion in 2026, around the level during the “bad ole’ days” of the financial crisis. Cumulative red ink from 2017 to 2026 will be $8.5 trillion. Deficits as a percentage of GDP will go from 3.2 this year to 4.6 in 2026.

The national debt held by the public (which excludes Social Security deficits) will go from $14.1 trillion to $23.1 trillion, or 76.6 percent to 85.5 percent of GDP. This is higher than the average over the past half century.

Unfortunately, warned the agency: “high and rising debt would have serious consequences, both for the economy and for the federal budget. Federal spending on interest payments would increase substantially as a result of increases in interest rates, such as those projected to occur over the next few years. Moreover, because federal borrowing reduces national saving over time, the nation’s capital stock ultimately would be smaller, and productivity and income would be lower than would be the case if the debt was smaller. In addition, lawmakers would have less flexibility than otherwise to respond to unexpected challenges, such as significant economic downturn or financial crises.”

Bad, but hopefully still survivable. However, the agency added: “the likelihood of a fiscal crisis in the United States would increase. Specifically, the risk would rise of investors’ becoming unwilling to finance the government’s borrowing unless they were compensated with very high interest rates. If that occurred, interest rates on federal debt would rise suddenly and sharply relative to rates of return on other assets.”

In this world, the American public likely would tire of reassuring Europeans who can’t be bothered to pay for their own defense, South Koreans unwilling to devote more of their abundant resources to the military, and Japanese who still worry more about historical experience than present reality. The call of “America First!” would sound ever more persuasive.

However, the long-term outlook is even worse. Explained CBO, “by 2046, projected spending for those programs for people 65 or older accounts for about half of all federal noninterest spending.”

Interest costs also are likely to rise sharply. Both rates and total debt will be up. Overall, warned the agency, the publicly-held debt as a share of GDP is expected to hit “141 percent in 2046—exceeding the historical peak of 106 percent that occurred just after World War II.”

Indeed, last month’s report reads like Stephen King horror story. As debt rocketed upward, national saving and income would fall further, making it more difficult to service the rising debt load. Interest costs would jump ever more, “putting more pressure on the rest of the budget.” And “a fiscal crisis [would become] more likely.”

That is, Americans would be earning less while owing more, with less capacity to handle the likely if unforeseen consequences of those policies.

The numbers are daunting. Over the last half century federal outlays averaged about 20.2 percent of GDP. By 2046, figured CBO, spending would run 28.2 percent of GDP. Said the agency: “Only during World War II did federal spending constitute a larger share of the economy, topping 40 percent of GDP for three years.” This time the high level would occur without even one small war.

Taxes would be up, just not nearly so much. Red ink would be at floodtide. Only politically unpalatable tax hikes or spending cuts could close the gap.

In the midst of such a fiscal tsunami, the American imperium will die. Washington will be forced to choose between an orderly transfer of defense responsibilities to allied states and a haphazard retreat in the midst of fiscal crisis.

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