

America is Bankrupt and Republicans Couldn't Care Less

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The United States is effectively bankrupt, but that doesn't matter to the GOP. Once evangelists of fiscal responsibility and scourges of deficit spending, Republicans today glory in spilling red ink. The national debt is now \$20.6 trillion, greater than the annual GDP of about \$19.5 trillion. Alas, with Republicans at the helm, deficits are set to continue racing upwards, apparently without end.

This flood of red ink will increase. Last year the Congressional Budget Office figured the U.S. was going to again run trillion dollar deficits around 2022. An extra \$10 trillion would be added to the deficit over the following decade.

But under Republican fiscal "stewardship," analysts now believe the deficit could hit a trillion dollars *next year*. Why? Congress relaxed the sequester, eliminating its modest pressure for fiscal responsibility, and approved disaster relief, without making any corresponding spending cuts. Legislators also inflated military outlays, even though much of the Pentagon budget constitutes defense welfare, subsidies for prosperous and populous allies.

Even after the most optimistic accounting for the impact of increased economic growth, the tax bill will still add \$500 billion to \$1 trillion to the deficit over the coming decade. (In fact, those estimates probably understate the final cost since Congress is likely to extend provisions set to sunset in order to meet Senate budget rules.) If the president and Congress come up with an infrastructure bill, even more red ink will flow. The Committee for a Responsible Federal Budget predicts deficits of \$1.05 trillion and \$1.1 trillion in 2019 and 2020, respectively.

Welcome to modern Republican budgeting. Complained Congressman Walter Jones, the North Carolina Republican who has become a GOP dissident of sorts: "At the time I joined, the Republican Party was very outspoken about the debt of the nation. ... I look at where we are as a nation now, and the Republican Party doesn't stand for less government and less spending. It spends like no tomorrow." Congressman Justin Amash, Republican of Michigan, was equally critical, telling *Reason's* Matt Welch: "It's looking as bad as any time I've seen I've been in Congress." Legislators, Amash says, continue "to move in the wrong direction."

The last time the deficit ran this high was 2012, part of a four-year, trillion-dollar-plus spending run in the aftermath of the financial crisis and ensuing bailout tsunami. This time Washington is breaching the trillion dollar barrier during seemingly good economic times.

Last year's CBO assessment was sobering enough. Deficits were to rise due to accelerating Social Security, Medicare, and Medicaid spending and rising interest costs on the growing debt, "accompanied by only moderate growth in revenue collections," which will be even more moderate due to the tax cuts that took effect on January 1. Added the CBO: "Those accumulating deficits would drive up debt held by the public from its already high level to its highest percentage of gross domestic product (GDP) since shortly after World War II." Which constituted genuinely unique circumstances, the worst conflict in modern human history, requiring an enormous financial commitment by the Greatest Generation, who borrowed money to, well, save the world.

Alas, the projected numbers continually worsen. Last June, the CBO offered its updated estimate, which figured greater deficits and debt since just six months before. Now those numbers will be higher, though the agency has yet to release its estimates. The years beyond look even bleaker.

The CBO focuses on debt held by the public, excluding that nominally "borrowed" by the Treasury Department from the Social Security Administration (which represents unfunded but not legally vested future liabilities). Using this calculus, the CBO warned: "As deficits accumulate in CBO's baseline, debt held by the public rises from 77 percent of GDP (\$15 trillion) at the end of 2017 to 91 percent of GDP (\$26 trillion) by 2027. At that level, debt held by the public would be the largest since 1947 and more than twice the average over the past five decades in relation to GDP."

That, however, is just the start. The agency continued: "Beyond the 10-year period, if current laws remained in place, the pressures that are projected to contribute to rising deficits during the baseline period would accelerate and push debt up even more sharply. Three decades from now, for instance, debt held by the public is projected to be nearly twice as high, relative to GDP, as it is this year—a higher percentage than any previously recorded in the nation's history."

Such a red ink tsunami likely would result in all sorts of fun. The agency pointed to much greater interest costs; not only will the amount of debt rise, but rates likely will climb as the Federal Reserve continues to step back from a decade of loose monetary policy. Former federal budget director David Stockman figures that the Fed will be dumping some \$2 trillion of bonds that it accumulated to stimulate the economy. Over the next decade the CBO predicts that total interest payments will rise from about \$300 billion to \$800 billion, making it one of the largest federal "programs." Indeed, that is more than the CBO expects the Pentagon to spend.

By reducing total saving, federal borrowing would result in a smaller capital stock. Thus, "productivity and total wages would be lower," which means less economic growth, smaller taxable incomes, and less tax revenues. Washington would have to tax or borrow more, while people would earn less and have to pay more to government.

Finally, warned the CBO, "the likelihood of a fiscal crisis in the United States would increase. There would be a greater risk that investors would become unwilling to finance the government's borrowing unless they were compensated with very high interest rates. If that happened, interest rates on federal debt would rise suddenly and sharply." Imagine a repeat of 2008, when the president and Congress borrowed wildly to bail out most every failed institution. Only this time it would come at a much higher cost, likely to create a fiscal crisis when the bills came due.

Yet neither Democrats nor Republicans demonstrate the slightest concern about the fiscal cliff over which they are taking the nation. Once it was possible to believe in the theory of “starving the beast”: deny Uncle Sam revenue and he would have to spend less. But legislators quickly worked around that, funding their priorities through borrowed funds.

Democrats want more money to spend so they naturally prefer increased revenues. However, tax cuts create no barrier for them, as they cheerfully embrace deficits as “stimulating the economy.” They’ll spend as much as possible at whatever level of debt.

Congressional Republicans prefer to spend while pretending to be fiscal hawks. They want to cut outlays in general but few programs in particular. The president likes and defends the expansive entitlement programs that threaten to bust the budget. Almost every other federal program has at least some GOP backing. Military hawks are the worst, pushing to bury the Pentagon in cash in order to subsidize wealthy allies, fix failed states, and join other nations’ foolish wars.

Ironically, fiscal responsibility appears most likely with divided government. Argued Amash of rising spending: “I think this tends to happen when one party has full control of government. That party starts to go on a spending spree, and stops worrying about the debt and deficits.” The best hope may be when congressional Republicans hold the purse strings and have a partisan reason to limit the executive branch. Even then, though, at best the inexorable rise of federal outlays slows. It has been a half century since Uncle Sam’s allowance was actually cut.

Of course, better economic growth, spurred by both deregulation and tax cuts, should help ameliorate the impact of increased debt. But slowing the deficit increase is not enough. The U.S. will still be heading into the same abyss, only at a slightly slower speed.

The federal budget is a bit like North Korea: there is no obvious answer. Since any response is immediately painful while the threat looms far in the future, politicians across the political spectrum prefer to leave the problem to their successors. Today’s profiles in courage simply hope to finish their terms before catastrophe arrives. The American people are and will always be the losers.

Washington is filled with partisan battles these days. But rarely are they fought over the most important issues, such as a promiscuously interventionist foreign policy and recklessly spendthrift fiscal policy. Republicans should stop play-acting as fiscal conservatives. They should start living up to their rhetoric—or admit that they are little more than Democrats Lite when it comes to fiscal responsibility.

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