



## **Ballooning debt harms our youth, but Trump doesn't care**

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On the campaign trail in 2016, Donald Trump railed against the federal government's almost \$20 trillion of debt, and he boldly promised to eliminate it "over a period of eight years."

That would have been nearly impossible, and now that he is president, Trump has changed his mind anyway. Told by his advisors that the soaring debt may generate a crisis years down the road, Trump said bluntly, "Yeah, but I won't be here," according to The Daily Beast.

Sure enough, Trump is acting like the debt is someone else's problem. Last year's tax cut increased deficits, the discretionary spending deal earlier this year was a budget buster, and soaring entitlement costs have garnered little interest from the Oval Office.

Trump and his advisors are misguided to downplay the debt threat. Compared to the size of the economy, today's federal debt is the highest in our peacetime history. Debt peaked higher during World War II but then fell during the post-war boom.

Today, Congressional Budget Office projections show federal debt rising to WWII levels as a percent of the economy a decade from now, but then continuing to rise and never falling. Furthermore, Congressional Budget Office (CBO) projections are optimistic. They assume steady growth with no recessions, no new programs added to the budget and no new costly wars.

CBO projects that interest rates on federal debt will rise somewhat but that variable has a big upside risk because accumulated debt is so large. A one percentage point interest rate increase on \$20 trillion in debt is about \$200 billion a year in added federal interest costs.

### **What's so bad about all this debt?**

First, the availability of debt financing induces policymakers to increase spending, which at the margin goes to low-value programs that reduce growth. Borrowing makes extra spending seem free, so politicians have little incentive to prune waste.

Second, debt is just deferred taxes; it is a cost loaded onto young people down the road. As the government pays rising interest costs, taxes will be pushed up, and the economy will be damaged. Young people will keep less of their earnings as taxes rise, and job creation and wage growth will be stunted.

Third, government borrowing may “crowd out” private investment, thus reducing productivity and incomes. Inflows of foreign capital partly offset this effect, but those inflows create problems of their own. Also, rising government debt deters investment by scaring businesses about future tax hikes and financial instability.

Fourth, borrowing from abroad may prevent the crowding out of investment, but it does not prevent the shifting of costs to future generations. More than 40 percent of federal debt is held by foreigners, and a rising share of our future earnings will be taxed away to pay interest and principal to foreign creditors.

Nobel Laureate Paul Krugman used to say don’t worry about government debt because we “owe it to ourselves.” That is certainly not true anymore.

Fifth, the CBO warns, “A large and continuously growing federal debt would ... increase the likelihood of a fiscal crisis in the United States.”

In their study of hundreds of past financial crises, Harvard professors Carmen Reinhart and Ken Rogoff concluded, “again and again, countries, banks, individuals, and firms take on excessive debt in good times without enough awareness of the risks that will follow when the inevitable recession hits.” Government debt, they find, “is certainly the most problematic.”

No one can predict when rising federal debt will precipitate a major crisis, but it is going to happen if we keep electing spendthrift presidents like Trump, Obama and George W. Bush.

When running for the White House, candidates always claim they will tackle deficits, but virtually none of them actually do. The big turning point was under President Franklin Roosevelt.

From 1790 to 1932, the government balanced its budget 68 percent of the years, but since Roosevelt entered office in 1933, the budget has been balanced only 14 percent of the years.

Two fiscal revolutions of the 1930s continue to bedevil federal budgeting. First was the invention of “entitlement” spending, which is spending that grows on auto-pilot. Today, entitlements account for most of the budget and politicians such as Trump pretend they have no responsibility to control it.

The second invention was Keynesian economics, which informed politicians that deficit spending was good for the economy, replacing the older view that debt was immoral and damaging. Today, the economics of Keynesianism are hotly debated, but there is no doubt that it has given politicians a license to spend, spend, spend.

Like Trump, Roosevelt campaigned against debt. In a 1932 radio address, he said, “Let us have the courage to stop borrowing to meet continuing deficits. Stop the deficits.”

But in office, Roosevelt ran deficits every year and entrenched a culture of overspending that even firebrand Trump seems to have accepted with a shrug.

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