NATIONAL REVIEW

How Trump Would Deal with the National Debt

The candidate's various plans range from useless to disastrous.

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The budget deficit is going up. The Congressional Budget Office recently warned that revenues this year are lower than had been expected. This means that the deficit will almost certainly be higher than the $544 billion previously projected. With our national debt now topping $19.15 trillion and likely to reach $29 trillion by 2026, this is not good news.

But don't worry — Donald Trump has a solution for this growing tide of debt. He just won't pay it.

Last week Trump initially said, "I would borrow, knowing that if the economy crashed, you could make a deal" to pay bondholders less than full value on the debt owed to them. This is, after all, the sort of thing Trump has done with creditors when, say, one of his casinos went bankrupt. It is also more or less what Greece has repeatedly negotiated with its bondholders over the last few years.

But the United States is neither Greece nor one of The Donald's businesses. There wouldn't be any outside entity to force bondholders to accept less than face value. And a President Trump would have little leverage in any negotiation without threatening a general default. But even the hint of a default would inject an almost unprecedented level of uncertainty into international markets, causing interest rates to spike for all other kinds of debt, from corporate debt to state- and local-government debt.

In this maelstrom of uncertainty, liquidity would probably collapse, since financial institutions, in an attempt to reduce their exposure, would be unwilling to make loans. This, in turn, would lead to a huge drop in business investment and consumer spending. It would be like the last economic crisis on steroids.

The last country to try this route was Argentina, which defaulted on some of its debt in July 2014. The result wasn't pretty. The economy was thrown into recession, contracting by 3.5 percent. Inflation spiked to as much as 41 percent. Consumption fell by 4.5 percent. The country was shut out of international markets. It may be years before Argentinians dig their way out of the mess.

Oh, and those bondholders who would get screwed under Trump's proposal? That would be you and me. Roughly 55 percent of government debt is owned by Americans, mostly through their

401(k) or company pension funds. If Trump reduces the value of those bonds, we can say goodbye to our retirement plans.

Moreover, in the aftermath of Trump's "renegotiation," investors would obviously be reluctant to take a risk on future U.S. bonds; interest rates would need to be higher to offset the increased risk. But every percentage-point increase in interest rates costs the federal government $120 billion in additional interest payments. Thus, in attempting to lower the debt, Trump's plan could actually end up increasing it.

And not that the Constitution matters that much to Trump, but there is a little provision that says: "The validity of the public debt of the United States, authorized by law, . . . shall not be questioned."

Faced with the utter implausibility of his idea, Trump quickly traded Greece for Venezuela, saying, "You never have to default because you print the money." Not since Paul Krugman's trillion-dollar coin has anyone seriously proposed inflating our way out of debt.

Massive inflation would mean that the savings and investments of millions of Americans would be wiped out. The cost of living would skyrocket, and low- and middle-income Americans would find it more difficult to afford even the basic necessities of life. Those on fixed incomes, like senior citizens, would be among the biggest losers. Businesses would be forced to offset rising costs by slashing payrolls, throwing millions of Americans out of work. The cost of imports would rise dramatically, which would be a disaster for consumers, but, on the bright side, it would save Trump the trouble of imposing all those tariff hikes.

Eventually, Trump backed into his third position on the issue: He would have the Treasury Department reconfigure U.S. debt by issuing new Treasury bonds to buy back older bonds that trade at slightly lower rates. (Because of quirks in the bond market, investors have a preference for newly issued Treasuries.) Such an approach probably wouldn't disrupt financial markets. But it also would result in only a minuscule reduction in our total debt, and it would do so by increasing the interest rate the U.S. is paying on that debt, so it would basically just be shuffling things around without actually changing anything.

Trump's rapidly multiplying positions didn't just display how little he knows about how the U.S. government and the U.S. economy really work. It also underscored the fact that Trump has no plan to reduce the size and cost of government. Yes, he has said he would cut taxes, though he has now repudiated his own tax plan, but he has no plans to cut spending beyond vague promises to eliminate "waste, fraud, and abuse." In fact, in areas ranging from defense to the VA to border enforcement, he wants to hike spending. The Committee for a Responsible Federal Budget estimates that Trump's plans would add as much as $15.45 trillion to the national debt over ten years, including interest costs.

At the same time, Trump has specifically taken reform of Social Security, Medicare, and Medicaid off the table. Since those entitlement programs account for half of all federal spending, there is no serious debt-reduction plan that exempts them. In fact, given that those programs face more than $70 trillion in unfunded liabilities, Trump's plans would virtually guarantee that we would continue down the same disastrous road to fiscal collapse that we have been taking for the past 15 years.

Trump declares himself the “king of debt” and says, “I love debt.” He must, since he wants to create so much of it.

Hillary Clinton, on the other hand, is an old-fashioned tax-and-spend Democrat. The CRFB suggests that her proposed $1.8 trillion in new spending over the next ten years would be mostly paid for by new taxes, with other policy proposals like enacting immigration reform making up most of the remaining difference. Others, such as the Tax Foundation, point out that when you consider the reduced economic growth that would result from Hillary’s tax hikes, her spending increases would add roughly $1.2 trillion to the debt over the next decade.

Hillary is no fiscal conservative. A Clinton presidency would mean bigger and more costly government, financed by more taxes and, most likely, more debt. That’s bad news. But on this issue, it’s hard to see that she’s worse than Trump.

Either way, the American economy and the American people will be the losers.

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