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Lindsey Graham finally wants to begin a dialogue about the debt

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Republican Sen. Lindsey Graham, the malleable South Carolinian, says the time has come for "a dialogue about how we can finally begin to address the debt." *Finally* the time is at last ripe. Which means a Democratic administration approaches.

Graham wants finally to "begin," as though there has not been, long before and ever since the 2010 Simpson-Bowles commission (the National Commission on Fiscal Responsibility and Reform), abundant serious thinking and specific proposals for bringing government outlays and revenues closer together. What Graham wants finally to begin is a "dialogue," which is one of Washington's two favorite words (the other is "conversation") to signal protracted solemnity without politically risky actions.

The Manhattan Institute's Brian Riedl notes that defense spending is not driving deficits: It is a declining percentage of gross domestic product (5.7 percent in the 1970s and 1980s, 4.6 percent in 2010, 3.2 percent today). Deficits are rising not because tax revenues are declining as a percentage of GDP: They have been close to the average 17.3 percent since 1960.

In 1960, however, just 9 percent of the population was over 65. Today, 16 percent is. The great driver of debt is spending on pensions (Social Security) and health care (Medicare).

Spending in the name of the pandemic will continue. Trillion-dollar tranches are termed down payments. Then even bigger Biden-era "investments" are planned. Yet economist John Cochrane of Stanford's Hoover Institution notes that the spending binge will begin "with the same debt relative to GDP with which we ended World War II." And "then in about ten years, the unfunded Social Security, Medicare, and pension promises kick in to really blow up the deficit."

Twenty months ago, Laurence Kotlikoff, Boston University economist, wrote an article in the Hill accurately headlined "Social Security just ran a $9 trillion deficit, and nobody noticed." In one year, the system's long-term unfunded liability went from $34 trillion to $43 trillion. The unfunded liability is almost double the national debt. Riedl says that under government projections, by 2050 Social Security and Medicare "will be running an annual cash shortfall of 14.2 percent of GDP (including interest)." Between now and then, Social Security will have collected $52 trillion in payroll taxes and other dedicated revenues and disbursed $74 trillion in benefits. The $22 trillion gap must be filled from general revenues or by borrowing. What, you wonder, about the system's trust fund? It is a paltry $3 trillion.

Economist John Merrifield's chapter in the Cato Institute's "A Fiscal Cliff" notes that the *planned* fiscal 2019 deficit was nearly $1 trillion. This was pre-pandemic and at full employment. The deficit was, Merrifield says, "about five times the combined budgets of five of the cabinet departments created after World War II: Education, Energy, Housing and Urban Development, Transportation, and Homeland Security." Economist John Garen, also writing in Cato's book, says that the projected increase in Social Security and Medicare spending of 3.5 percent of GDP between 2017 and 2040 is equivalent to adding another Defense Department. Generations ago, Republicans abandoned their assigned role — which was rarely real — as the party of pain that raised taxes to pay for popular Democratic spending programs. Now, in an era of low interest rates — actually, or almost, negative — the assumption is that deficits do not matter as long as the interest rate for servicing the national debt remains lower than the rate of economic growth, so the ratio of debt to GDP declines. At long last, for humanity, or at least the American portion, the table has been set for a free lunch.

This arms the political class with a theory that justifies them in doing what they would do anyway — give grateful voters government goods and services partially paid for by nonvoters: future generations. Remember, there are just two ways to fund a government: current taxes and future taxes. (The latter can include the stealthy tax of inflation: Borrow dollars worth X, repay with dollars worth X minus Y.)

Complacency about today's soaring debt, and about rolling over $10 trillion or so of it annually, requires only the assumption that very low interest rates will (unlike, say, the Roman, Habsburg, Ottoman, British and Soviet empires) continue forever. So, an old jest is now a fundamental principle: The first law of economics is that scarcity is real, and the first law of politics is to ignore the first law of economics.

If Republicans control the Senate in January, Lindsey Graham will become chairman of the Budget Committee and *finally* there will be a dialogue about debt. Or a conversation.