

Forget the 'fiscal cliff'; fear the debt crisis

By: Doug Bandow – December 13th, 2012

Washington is currently struggling to deal with the "fiscal cliff," the impending expiration of tax cuts and imposition of automatic budget cuts. Unfortunately, the near-term budget problem pales compared to the longer-term challenge.

The national debt is \$16.3 trillion, more than the annual GDP. Include all current unfunded federal liabilities and the number is \$222 trillion, according to economist Laurence Kotlikoff.

Republicans talk a lot about fiscal responsibility, but have been no less irresponsible than Democrats. George W. Bush raised spending in virtually every area.

Still, many Republicans now seem to recognize that something must be done about entitlements. Not so most Democrats and their special-interest allies.

The Congressional Budget Office recently published "An Update to the Budget and Economic Outlook: Fiscal Years 2012 and 2022." For the fourth straight year the annual deficit exceeded \$1 trillion. Moreover, "Federal debt held by the public will reach 73 percent of GDP by the end of this fiscal year — the highest level since 1950 and about twice the 36 percent of GDP that it measured at the end of 2007."

Under CBO's most favorable estimate, over the next decade Uncle Sam would pile up another \$2.3 trillion worth of debt. The deficit would fall until 2018, and then start climbing again.

The near-term deficit slowdown does not reflect increased spending responsibility. Explained CBO: "Most of the projected decline in the deficit occurs because revenues are set to rise considerably in the coming years under current law."

Projected spending cuts actually are unlikely to occur. For instance, last year Congress targeted so-called discretionary spending. However, this is a relatively small category of federal outlays — governed by annual appropriations rather than statutory eligibility — and legislators capped future expenditures rather than cut specific outlays. A future Congress could undo the change by simply appropriating more money.

Under the agency's more likely "alternative fiscal scenario" the near-term budget looks frightening. The 2013 deficit would run another trillion dollars. The added 10-year total would be nearly \$10 trillion. Moreover, "Debt held by the public would climb to 90 percent of GDP by 2022 — higher than at any time since shortly after World War II."

Even this estimate is unduly positive. More bailouts are in the works for everything from the Postal Service to the Federal Housing Administration. There could be one or more recessions. Moreover, both higher tax rates and higher deficits would threaten the economy.

Explained CBO: "Larger budget deficits and growing federal debt would hamper national saving and investment and thus reduce output and income."

Uncle Sam must live within his means. That means cutting everything: foreign aid, pork, grants, loan guarantees, military outlays, and entitlements. Politicians don't need more money. They need to spend less and more wisely. That is the only answer to the America's short- and long-term budget crises.