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Runaway Debt Must Be Stopped Now

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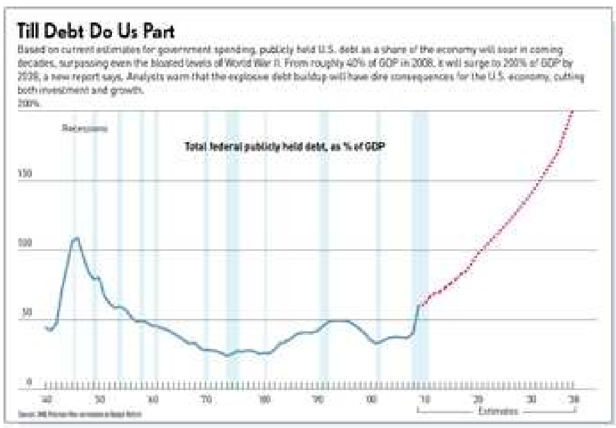

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Fiscal Errors: The U.S. government's unprecedented spending splurge, with no end in sight, is creating a mountain of debt that endangers both our economy and way of life. Can something be done about it?

Anyone who reads IBD knows we're not doomsayers. Sometimes, in fact, we've been chided for cockeyed optimism in the face of even the gloomiest prognostications. Our faith in America's resilient economy, the world's largest and most creative, and in the productive people who make it go, was reason enough.

That said, we face a rather stark fact today: The current path for U.S. debt is unsustainable.

Our $14 trillion economy is more than three times bigger than the next largest in the world. But our debt will soon surpass even the bloated level of WWII, when we were literally fighting for our lives and freedoms with a weak economy struggling to emerge from the Great Depression.

In just the last year alone, according to a report this week from the Committee for a Responsible Federal Budget (CRFB), total U.S. public debt has jumped to $7.6 trillion, or 53% of GDP, from $5.7 trillion, or 41% of GDP.

Also this week, to accommodate its out-of-control spending, Congress will vote to lift the U.S. debt limit by $1.8 trillion — to almost $14 trillion. Why now? They don't want to do it in 2010, an election year.

And, yes, the size of the debt does matter. By 2018, at current spending trends, debt as a share of GDP will reach 85%. In 2022, it will hit 100%. And it will keep rising at least until 2038, reaching 200%.

At that level, our fast-growing, high-innovation, high-wage economy begins grinding to a permanent slowdown. The accumulated debt will become a millstone around our necks. Fleeter, less-indebted competitors in the developing world will sprint right past us.

If you don't think so, just look at Japan. It was the world's fastest-growing developed economy for most of the postwar era. But it stumbled in the late '80s and began a debt-financed binge of "stimulus" packages in the 1990s and early 2000s. Today, it has the worst of all worlds: a 200% of GDP debt load, and low or no growth.

Recent debt debacles in Dubai and Greece, both of which are near bankruptcy, show what can happen to nations when they spend too much. Now, we're on the same path.

It's no mystery why this happens. "Government borrowing reduces resources available for private investment, leading to lower productivity, wages, and economic growth," noted the Heritage Foundation in a recent study. So, yes, all this debt does matter.

But debt doesn't create itself. During this decade, total nominal federal spending has soared 97%, or nearly 10% a year — well in excess of the estimated 60% the economy grew during the same time.

You might think this would be cause for alarm. But you'd be wrong. The Senate just passed another $1.1 trillion pork-filled spending bill — a 12% spending hike — with little, if any, thought toward what it will mean for the future of public finance.

Some might take comfort in the creation of a new Bipartisan Fiscal Task Force to address the nation's "long-term budget crisis." Unfortunately, nine Democrats who co-sponsored that bipartisan budget panel voted for the 12% spending hike.

As Dan Mitchell of the Cato Institute put it: "Fixating on the deficit allows politicians to pull a bait-and-switch, since they can raise taxes, claim they are solving the problem, when all they are doing is replacing debt-financed spending with tax-financed spending."

It's true that a lot of federal spending is on automatic pilot. Programs such as Medicare and Social Security grow as the population ages. At the same time, the economy grows less dynamic.

But at some point, we all have to ask ourselves how much we want an inefficient government to do, and how much we can do for ourselves. We can't have everything and still have a strong economy.

Those who propose raising taxes, rather than cutting spending, should understand: The level of taxes needed to pay for the massive expansion in expenditures expected over the next half-century would bankrupt our nation.

The Tax Foundation recently estimated that tax rates would have to nearly triple to close our fiscal gap. That's not possible without crashing our economy, possibly for good.

The prospect of turning the next generation of Americans, those now in childhood and those yet to be born, into virtual tax slaves to pay for our fiscal irresponsibility is immoral. The time to cut spending is now — not later.