PITTSBURGH TRIBUNE-REVIEW

Economy could be crushed by borrowing

By Debra Erdley
PITTSBURGH TRIBUNE-REVIEW
Sunday, February 21, 2010

Bob Blough never listed the federal debt as a concern.

But the 57-year-old bread truck driver from North Huntingdon recently welcomed a granddaughter. He's worried about how her generation will pay the burgeoning debt piling up with each federal budget deficit.

"It's very significant that the national debt is increasing," Blough said. "We ought to be doing something about it. I don't like the idea of raising the debt ceiling and I don't agree with deficit spending. I don't do that at my house."

Economists across the political spectrum say such concerns are well-placed.

They point to Greece, where decades of out-of-control deficit spending imploded recently in an economic crisis that shook international markets and threatened fissures in the European Union.

Americans and their progeny may be poorer for our ignorance if we fail to take heed of the significance of continuing deficit spending and the growing national debt, said Duquesne University economist James Burnham, former U.S. director of the World Bank.

President Obama projects next year's deficit at $1.3 trillion, a budget shortfall that would require the government to borrow about one-third of the $3.8 trillion in projected expenses.

The national debt, cresting at more than $12.3 trillion, is the sum of many years of deficit spending. As deficit spending grows, so does debt and the portion of the budget reserved to pay interest.

Last year, interest payments alone on the federal debt totaled $383 billion. That's more than the entire $371 billion the federal government spent when the nation celebrated its bicentennial in 1976.

That didn't begin to chip away at the principle -- the original amount borrowed. Moreover, costs likely will increase as interest rates --calculated at 3.3 percent in January -- increase, sucking out of the private sector even more capital that might have fueled an economic recovery.

The Government Accountability Office, the investigative arm of Congress, sounded a warning last fall. It predicted 92 cents of every dollar the government spends will go toward interest on the debt, Social Security and Medicaid and Medicare by 2019.

"It's absolutely critical that people understand this," said economist Allan H. Meltzer of Carnegie Mellon University. He said it likely will take adjustments to entitlements programs such as Medicare and Social Security as well as tax increases to bring the debt under control. But that's a two-pronged approach Congress has been reluctant to embrace.

Obama last week created a bipartisan presidential commission on fiscal responsibility, which many see as the only hope to address an issue bogged down in a fiercely partisan Congress.

Obama said "everything is on the table" for consideration, as the commission wrestles to produce a plan to cover the cost of federal programs and improve the nation's long-term fiscal outlook.

Economist William Niskanan, chairman emeritus of the free-market Cato Institute, said plans for a gradual increase in eligibility ages for Medicare and Social Security, as well as income-adjusted deductibles for Medicare recipients, hold promise. Expenditures for Medicare and Social Security were pegged at $1.2 trillion, or about 30 percent of the coming year's budget.

"It will not be possible to reduce the debt without addressing Social Security and Medicare," he said.

Meltzer, an economic adviser to Presidents Kennedy and Reagan, fears a failure to act could result in a crisis, triggering a collapse of the dollar's value abroad.

The problem, Meltzer said, is that many citizens don't see the debt as a problem, but rather as an American institution that dates to the Revolution. The United States' punctuality in paying it made our public debt a solid investment on international markets -- which helped feed our addiction to borrowing.

"We haven't defaulted on our debt since Alexander Hamilton agreed to pay it," Meltzer said.

Hamilton, America's first secretary of the Treasury, once said the debt "if not excessive, will be to us a national blessing."

The national debt -- estimated at more than $40,000 per person, or about cost of a new 2010 Cadillac CTS sedan -- could become the national curse.

"We're becoming dangerously dependent on other countries lending us all this money," said economist Isabel V. Sawhill, a senior fellow at the Brookings Institution and associate director of the Office of Management and Budget in the Clinton administration.

"At some point, this will raise interest rates and could retard the recovery or lead to another economic crisis. We are passing an enormous debt burden to our children and grandchildren that many would say is almost immoral or unethical. And we have no room to deal with any contingency that might come along. If another Katrina, or a flu outbreak or another financial crisis were to occur we're getting to the point where we have no options left.

"We're losing control of our economic destiny," Sawhill said.

A collapse in value of the dollar abroad, for example, would trigger higher costs for imports such as oil, textiles and even computer software that originates in the United States but is produced abroad, economists warned.

"The average parent should be realizing if we let this thing drag on without any action their children will be much poorer than we are today," Burnham said.

Jim Dougherty, 67, of Allison Park echoed those concerns and more last week as he watched his grandchildren.

"The interest on that debt and who owns those notes -- China and other counties -- is a real concern. We're paying money back with interest to countries we don't necessarily see eye to eye with," said Dougherty, a retired career counselor.

Meltzer said the Chinese, whom the government owes billions, are concerned.

"In all likelihood, politicians are going to have to start taking into consideration Chinese attitudes about U.S. debt," Burnham said.

Until recently, that was not a concern. In the early 1990s, as the economy expanded, Congress and Presidents George H.W. Bush and Bill Clinton worked to reduce deficit spending. Clinton left office in 2000 with a budget surplus of $236 billion that could have begun to pay down the debt.

The surplus evaporated over the past decade.

"You had the cost of the Medicare drug program, the Iraq War, the tax cuts that probably went a little too far, and then the financial collapse," Burnham said.

Add in the cost of bailouts and stimulus programs designed to shore up the economy with the coming tab for Medicare and Social Security for baby boomers and economists fear the United States has promised more than it can deliver.

A National Academy of Science report that looked at tackling the problem persuaded many economists it will take a disciplined combination of spending cuts and tax increases to make a difference, Sawhill said.

"No one who has looked at the numbers thinks you can do it on one side alone," she said.

Even so, Curtis Dubay, senior tax policy analyst for the Heritage Foundation, said spending cuts alone could make a difference once the economy recovers.

"The deficits are a huge problem, but the problem is a spending issue, not a tax issue," Dubay said. He insisted increasing expenditures for Medicare and Social Security, coupled with stimulus spending, is responsible for the problem.

Chad Stone, senior economist with the Center on Budget and Policy Priorities, a policy group dedicated to issues facing low- and moderate-income Americans, echoed calls for tax increases and spending cuts.

Stone said it would be a mistake to cut too much before the economy recovers. "But once the economy is back to full force, we're on an unsustainable path and there must be action to fix it," he said.

Meltzer said public sentiment from varying sectors of America -- from truck drivers to academics -- might push politicians in Washington to face that reality.

"I'm encouraged by the 'tea party' movement. People from all walks of life are saying, We're mortgaging the future of our children.' It's a movement of ordinary people saying, 'We don't like what's happening,' " he said.

Debra Erdley can be reached at derdley@tribweb.com or 412-320-7996.