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Washington

Staggering National Debt Worries Economists

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America's decadent ways and its desire to party like it's 1999 - literally - has generated a skyrocketing national debt that many economists fear will burden the nation's balance sheet in the near future.

After achieving a balanced budget in the latter years of the Clinton administration, the United States has seen the red ink steadily increase as President Bush has waged war in Iraq while simultaneously cutting taxes. Robert Bixby, executive director of the Concord Coalition, which promotes a balanced budget, called the deficit "a serious problem needing serious attention."

"It's not going to go away on its own," Bixby said. "Even assuming strong economic growth, today's numbers show deficits persisting for as far as the eye can see."

The numbers are staggering. The 2004 fiscal year ended on Sept. 30 with a \$413 billion deficit - the largest in the nation's history and almost \$40 billion higher than it ran in 2003. Over the next 10 years, the accumulated shortfall is projected to reach \$2.3 trillion - as long as the economy remains relatively healthy, appropriations growth slows and the tax cuts championed by Bush during his first term are allowed to expire.

It's unlikely all of those conditions will be met - Bush already has promised to use some of his newly attained political capital to make the tax cuts permanent. Some economists fear the nation could accumulate deficits reaching \$5 trillion over the next 10 years.

The still growing national debt already has hit \$7.5 trillion. Congress last month was forced to raise the debt limit, a move that enables the federal government to borrow \$8.18 trillion to meet its obligations.

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Sen. John Kerry, D-Mass., who lost in his effort to replace Bush in the White House, cited the accumulated red ink as evidence of the administration's inability to handle the nation's economy.

"The United States is operating a borrow-and-spend government continuously stretched by demands for more tax cuts and more spending," Kerry said. "And when they don't have money to pay for their choices, they just put the tab on the national credit card and send the bill to our kids. It is an economic policy of borrow and spend and it cannot be sustained."

Few are willing to defend the \$7.5 trillion national debt, other than to acknowledge it as a necessary evil that needs to be addressed. Edward Prescott, a Nobel laureate and professor of economics at Arizona State University, is one who argues that the debt is "no problem" and that anyone who argues others is "ignorant."

"I don't see any problems with the U.S. deficit," he said in Stockholm, Sweden, where he is receiving the prize. "It's for political reasons that people are yelling and screaming about that."

Regardless, the president has vowed to address the situation, promising to cut the \$413 billion deficit in half by 2009. But analysts assert that could prove difficult given his desire for further tax cuts, the need to finance the war in Iraq and his initiative to partially privatize Social Security, a move that would conservatively cost the treasury \$2 trillion.

The administration is offering no apology for the prickly fiscal situation. Appearing at the World Economic Forum earlier this year, Vice President Dick Cheney acknowledged that "deficits do matter," but that he is a great believer in the policies of the White House.

"That is to say that it was very important for us to reduce the tax burden on the American economy by way of stimulating growth," Cheney said. "The progress we see today with respect to our economy is directly related to that."

While large, Cheney said, the deficit remains "manageable."

"We're engaged in a military conflict - we've had to increase defense spending," Cheney said. "We inherited a recession which caused a falloff in government revenues. So for a lot of reasons, I don't find it surprising that we have a deficit."

"But in terms of trying to move back to a balanced budget, that clearly will be

our long-term goal and objective, but we would not now move immediately to a balanced budget at the cost of adequately funding our military operations or having the kind of pro-growth policies that we think are vital to generating long-term revenues for the economy."

The Concord Coalition, a Washington-based think tank that champions fiscal restraint, acknowledges that a single year's deficit won't likely serve as a detriment. But deficits that continue to accumulate will lead to slower economic growth and a lower standard of living.

In order to pay off its debt, the United States is forced to visit both domestic and foreign lenders to borrow the money necessary to meet obligations by issuing Treasury bonds. That places the federal government in competition with businesses, homebuyers and local governments in pursuit of scarce available funds.

That can drive up interest rates and make it more expensive to start new companies, purchase a house or invest in new equipment. That ultimately could result in fewer jobs, lower wages and a stagnant economy.

Thus far, interest rates have remained relatively low. Foreign governments, including Japan and China, have proved eager to purchase Treasury bonds, affording the federal government a nice rate of return. About 42 percent of America's debt is held by other nations _ including \$500 billion in the hands of China, \$720 billion with Japan and \$100 billion each in South Korea, Taiwan and Hong Kong.

The Federal Reserve also has helped keep a lid on. But if interest rates begin to creep up, it will cost the Treasury even more to borrow the money.

According to economists, the interest required to service the debt will swallow up a growing share of the nation's financial resources, leading to higher taxes just to fund the interest, leaving less money to address other needs.

It also means someone, somewhere along the line is going to be left holding the bill. Critics maintain the present generation is enjoying the fruits and shipping the bill to the next.

The deficit and debt also have an impact on the value of the dollar, which has dropped against other currencies like the Euro. The result? It's much cheaper for the Brits to purchase American goods than it is for Americans to purchase British goods.

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