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The Truth About Government Debt

Deficit spending is back in the news lately, largely because the Democrats want to blame any projected 2003 deficits on the very modest Bush tax cut. Of course tax cuts, which stimulate the economy and generally produce increased revenues, are not the problem at all- but nobody wants to focus on the real problem, which is runaway spending.

The bottom line is that our federal government almost always manages to spend more than it brings in each year in revenues. This is particularly troubling when we consider that taxes take more out of the legitimate private economy (as a percentage of GDP) than at any time since World War II. Still, Treasury Secretary O'Neill recently asked Congress to raise the "debt ceiling," which is based on a federal law that sets a limit on the total amount of debt the US government can have. The current debt ceiling is about \$5.9 trillion (roughly the current national debt); O'Neill wants it raised to \$6.7 trillion. The reason is that Congress is expected to increase spending even faster than usual over the next few years due to the war on terror.

Raising the debt ceiling is nothing new. We last raised it during the Clinton era, despite that administration's claims that the budget was balanced each year. This can be refuted quite simply, because the national debt continued to rise throughout the 1990s. Obviously, if federal spending truly was being outpaced by revenues, the debt would not have increased. So how did the Clinton administration make it appear that annual spending did not exceed annual revenues? Mostly by using Social Security revenues to cover the difference, even though Social Security taxes are supposed to be held in a trust fund and not spent on other federal programs. Yet few Americans know that their Social Security taxes are never segregated or saved by the federal government, but rather spent immediately as general funds. Your Social Security benefits are nothing more than IOUs that are completely dependent on future revenues.

Federal Reserve chairman Greenspan recently endorsed a political trick to make the debt seem smaller simply by redefining those IOUs. The current law treats certain government obligations such as Social Security payments and veteran pensions as debts, meaning they must be included within the permitted debt ceiling. Of course they are debts, just like any other bill that will have to be paid in the future. Greenspan would have us redefine these obligations as "intergovernment accounts," which magically changes them from debts to "accrued liabilities." This semantic shift would free up lots of room under the debt ceiling for more borrowing. Congress could even use this approach to lower the ceiling and claim a

victory for fiscal responsibility while still borrowing more! The reality, of course, is that those old debts will still exist, but we won't have to think about them for a few more years.

Debt and credit, wisely used, can be proper tools for individuals and businesses. After all, individuals often want to expand by starting families and buying houses, while businesses want to expand by hiring more employees and increasing their capacity. In a free society, however, we can never view expansion as a proper goal for *government*. Unlike a private sector business, our federal government should not be seeking out new ways to increase the scope of its dubious "services." Any government that consumes 40% of the most productive economy in the world and still can't balance its books is a government that vastly overspends. A cursory examination of the annual appropriations bills reveals incredible amounts of unconstitutional, wasteful, and truly unnecessary spending. This uncontrolled spending allows government to grow far beyond its proper constitutional parameters, while also threatening the very solvency of future generations. So I disagree with the supply-side argument that government debt doesn't matter. The issue is not whether the Treasury has sufficient current income to service the debt, but rather whether a government that spends so much is leading us to ruin. Debt does matter, especially to future generations that will be asked to pay for our extravagance.

When government borrows money, the actual borrowers- big spending administrations and politicians- never have to pay it back. Remember, administrations come and go, members of congress become highly-paid lobbyists, and bureaucrats retire with fat pensions. The benefits of deficit spending are enjoyed immediately by the politicians, who trade pork for votes and enjoy adulation for promising to cure every social ill. The bills always come due later, however- and nobody ever looks back and says, "Congressman so-and-so got us into this mess when he voted for all that spending 20 years ago." For government, the federal budget is essentially a credit card with no spending limit, billed to somebody else. We should hardly be surprised that such a government racks up huge amounts of debt! By contrast, responsible people restrain their borrowing because they will someday have to pay the money back. It's time for American taxpayers to understand that every dollar will have to be repaid. We should have the courage to face our grandchildren knowing that we have done all we can to end the government spending spree.