The Nation's Imminent Debt Crisis Is A Matter Of Choice - Obama's

Investor's Business Daily
March 27, 2010
By Ernest S. Christian and Gary A. Robbins

President Obama doesn't need the recently announced National Commission on Fiscal Responsibility and Reform to figure out how to prevent the debt from rising to apocalyptic proportions and ruining America for generations to come. It's not rocket science; it's a matter of presidential priorities and choices.

If the president opts to continue with the biggest ideologically based spending spree in history - risk to the economy be damned - federal spending for 2009-2020 will as a percent of GDP increase by an enormous 23% (or more) compared to the Bush/Clinton years, the government's gross debt (public plus internal) will as a percent of GDP equal or exceed Greece's, and catastrophe will follow.

Some analysts say that America's AAA bond rating is already in jeopardy and may be lost by 2014 at the latest.

In the alternative, if the president decides not to cavalierly sacrifice America's prosperity (and standing in the world) on the altar of his own ideological ambitions, he should at the very least stop stoking the crisis. He should not deliberately pile on top of the already bursting budget his extra $4.3 trillion of optional new spending in 2011-2020.

It's not for economic recovery (that's already provided for in extra 2009 and 2010 spending), and existing social safety nets are already automatically increased for inflation and population growth.

Instead, the extra $4.3 trillion is part of the long-term cost of targeted social programs and transfer payments in the president's expanding welfare-state policy agenda for America.

About $1.6 trillion of that extra spending can be saved by stopping at the end of fiscal 2010 the long-term spending increases enacted in 2009 under the umbrella of the American Recovery and Reinvestment Act and other similar legislation. Another $1.757 trillion of proposed new spending for refundable tax credits and other transfer payments for 2011-2020 is disguised by being buried in the "baseline" of the president's budget. And another $881 billion of spending increases in 2011-2020 is proposed by the president for an array of programs in the "mandatory" category.

If any of these spending increases is actually vital, surely it could be paid for by sacrificing a bit of the political pork that is stowed away in hundreds of underperforming federal programs already in the $40 trillion that the president plans for the federal government to spend in 2011-2020.

(When the Office of Management and Budget evaluated 900 federal programs in 2007, spending exceeded performance levels by $250 billion per year (or $2.5 trillion over a decade).

Post-recession spending restraint by the president does not mean "cutbacks." Government would still be spending at extraordinarily high and growing levels throughout the 2011-2020 decade.

Furthermore, insofar as the recession and its aftermath are concerned, the Obama administration would still be spending an astronomical, record-setting $6.7 trillion (or more) for 2009-10, including at least $850 billion on stimulus and other arguably anti-recession spending this year.

If the president goes ahead and adds his extra $4.3 trillion of spending, interest costs will increase by at least $952 billion and the public debt in 2020 will increase by at least $5.2 trillion. Public debt in 2020 will be at least 77.2% of GDP, even according to the president's own forecasts, and the gross debt of the United States will be at least 107% of GDP.

If one uses the Congressional Budget Office's more realistic forecasts of interest rates, revenues and GDP growth, adding the president's extra spending and debt is even more risky: The public debt in 2020 will be 91% of GDP. The gross debt will be 123% of GDP (compared with 115% to 125% in Greece today) and greatly in excess of the "tipping point" identified by Carmen Reinhart and Kenneth Rogoff in their recent landmark study of worldwide data.

On the other hand, the president could decide not to put America at such great risk and, therefore, to forgo adding the additional spending and debt. In that case, the public debt would be 56% of GDP and the gross debt would be 85% (or, according to CBO data, 68% and 100%).

A step-one decision by the president to forgo spending an extra $4 trillion or so is not alone going to solve the nation's spending and debt crisis, but it would hold it down to potentially manageable proportions.

It would also be a dramatic step - like a shot heard round the world - that would give some reassurance about America's long-term financial future.

Right now, the president's fiscal credibility is low and America's future is uncertain - the question being whether the president is going to ruin the economy by continuing to run up the debt or ruin it with massive tax increases.

Christian is director and Robbins chief economist of the Center For Strategic Tax Reform.