

Excerpt of *Forgive Us Our Debts* for Public Agenda Web Site

Everyone borrows money at one time or another. As Cole Porter might have put it, individuals do it, families do it, businesses do it, and even giant governments do it. We borrow to buy houses or go to college, for capital investment in new factories or highways, or to wage wars. If going into debt is for useful or necessary purposes that have a long-term pay-off, and one expects to be able to pay back one's debts, borrowing can be beneficial. Responsible people and entities gauge their need, their ability to pay, and pay back what they have borrowed over time.

If they do not, there are powerful moral, legal, economic, and psychological consequences. For much of the history of Western civilization, those who fail to repay their debts have been looked upon as sinners, cheats, profligates, or even thieves. Legally, failure to pay back borrowed money under the terms of a loan can lead to foreclosure, garnishing of assets, criminal prosecution, and/or bankruptcy. And economically, sinking into unpayable debt leads to an inability to spend money on needed or desired goods or services, thus diminishing well-being, often to the point of bankruptcy or poverty. Psychologically, it goes without saying that spending more than one earns and accumulating more and more debt generally leads to stress, lowered self-image, and often desperation.

The strictures against going into debt too much, or for too long, are deeply engrained in Judeo-Christian culture. In the Book of Proverbs, the Bible warns that "the borrower is servant to the lender," and Psalms 37:21 offers the more pointed injunction that "the wicked borrow and don't pay back."ⁱ

Such ideas, as we will see in chapter 2, were fervently embraced from the beginnings of American history, when the famously frugal Benjamin Franklin warned that "he who goes a borrowing goes a sorrowing." George Washington set the moral and political tone for 200-plus years of public-finance discussions, saying that dangers lurked when governments did not quickly repay their debts. Indeed, throughout U.S. history, Americans and their leaders have cherished

balanced budgets and been appalled by deficits (although some would say that deficits became more accepted by political elites as a result of post-World War II Keynesian economics).ⁱⁱ Until the 1970s, during peacetime, and over the long haul, Americans basically succeeded at keeping deficits low.

Which brings us to today, when – despite centuries of distaste for debt – the United States is nearly \$10 trillion in debt at the beginning of 2008. It has promised another \$50 trillion or so in explicit and implicit benefits to be paid in the future -- a number that has almost doubled during the presidency of George W. Bush; in fiscal parlance, these are “unfunded liabilities,” which businesses and state and local governments are forced to report on their books – but the federal government is not.ⁱⁱⁱ To put these numbers in varying perspectives, \$50 trillion is nearly equal to nearly 100 percent of Americans’ total net worth. It also adds up to a half a million dollars in debt for every American household. These numbers exclude an additional \$2 trillion in state and local government debt and unfunded liabilities for employee pension and health-care benefits, or Americans’ \$2 trillion in consumer debt and \$10 trillion in total personal debt, which rose to about 130 percent of disposable income in 2007.^{iv} And deficits are poised to explode over the next 10 to 20 years

To say that something is wrong with this picture, as virtually every politician and budget analyst at least says, is a bit of an understatement.^v Yet, Congress has repeatedly and, oh so easily, raised the official limit on government borrowing known as the national debt ceiling five times between 2001 and 2007, by about \$4 trillion. . .^{vi}

Anyone who has visited Disney World’s Haunted Mansion remembers the ride’s signature beginning: Visitors enter a room, the doors close and the ceiling appears to keep rising and rising as a spooky voice intones that there is “no way out.” There are frightening similarities to America’s national debt. Like the Haunted Mansion, the debt ceiling keeps rising and rising, and whether there is “no way out” is a matter of economic and policy debate and political will. Either way, the prospect of runaway deficits and debt are a good bit scarier for the American people and their nation’s future than Disney’s animatronic wizardry.

But the ceiling isn’t just rising because there is nothing we can do about it. The Congress and the President are consciously making decisions to increase

spending while decreasing revenues by cutting taxes. The 109th Congress, which slipped into the night of history in January 2007, passed legislation that increased projected deficits through 2011 by \$452 billion – more than the global sales of America’s big three automakers in 2004.^{vii} And President Bush and the Congress pushed through six tax cuts during the Bush Administration’s first five years, resulting in about \$1 trillion in lost revenues during those years. . .^{viii} Peter Peterson has said that “long-term tax cuts without long-term spending cuts are not tax cuts.”^{ix} Essentially, it is as if you bought more and more and ran up your credit-card debt ever higher, while your income and ability to pay it off was going down, and you passed the tab to your grandchildren. But, the mantra of many Americans and their elected leaders appears to be that of the caricatured housewives of “The Flintstones,” who emphatically said, in earlier days of consumer credit: “Charge it!”

So, whether we piously read the Bible, or are spooked out in Disney’s Haunted Mansion, year upon year of borrowing to pay for some of the costs of the federal government are inexorably raising America’s national debt to the point that some sort of economic meltdown seems increasingly likely. Ever since Ronald Reagan, growing deficits and debt have been the subject of much political hand-wringing – and occasional constructive action, although Bill Clinton, the Congress, and a strong economy conspired to give us four years of unexpected budget surpluses between 1998 and 2001. However, the turnaround from these surpluses to the early 2000s represents a staggeringly rapid deterioration of America’s fiscal position.

While there are many causes of deficits – and their relative importance is fiercely debated – first things first: What are deficits and debt, and do they matter?

In this book, I look at the nature, scope, causes, and history of America’s national debt. I will explore the consequences of our 14-digit debt on the nation’s economy and for individuals, if we continue on our current path of fiscal recklessness. I will examine the political torpor that has allowed our debt to grow like some alien life form out of a 1950s science-fiction movie. And, finally, I will

consider what politicians have done in the past and what *could* be done to rid our nation of its potentially ruinous debt.

ⁱ http://thinkexist.com/quotes/publius_syrus/.

ⁱⁱ Joseph White and Aaron Wildavsky, *The Deficit and the Public Interest*, pp. xv-xvi, 69; John Steele Gordon, *Hamilton's Blessing: The Extraordinary Life and Times of Our National Debt* (New York: Walker, 1997), p. 131ff; and Interview with Robert Samuelson, September 27, 2006.

ⁱⁱⁱ Interview with David Walker, December 13, 2004; Interview with Rep. Jim Cooper, January 5, 2007; and Alison Acosta Fraser, "Federal Budget Should Include Long-Term Obligations from Entitlement Programs" (Washington, D.C.: Heritage Foundation, Executive Memorandum #1004, June 22, 2006) The \$50 trillion number is based on the accrual accounting methodology employed by U.S. businesses, but not government, which use cash accounting. If one used accrual accounting, which would count liabilities at the time that benefits are earned – as the Federal Accounting Standards Advisory Board (FASAB) has urged and the Government Accountability Office has suggested might be useful for federal insurance programs such as Social Security – the official 2005 cash deficit of \$319 billion would have been \$760 billion. Although there are problems with both accrual and cash accounting, businesses, as well as state and local governments, are required to report their long-term unfounded liabilities. The \$319 billion also excludes the \$174 billion in borrowed Social Security Trust Fund surpluses. See FASAB, "Accounting for Social Insurance," October 23, 2006; Government Accountability Office, "Understanding Similarities and Differences Between Accrual and Cash Deficits" (Washington, DC: GAO, December 2006); and Susan Irving, "Budgeting for Federal Insurance Programs" (Washington, DC: Government Accountability Office, April 23, 1998).

^{iv} U.S. Census Bureau, "State and Local Government Finances by Level of Government and by State: 2003-04," http://www.census.gov/govs/estimate/0400ussl_1.html; David Walker, "Fiscally U.S. Wrenching: D.C. Overdue to Join Clamor Over Soaring Federal Debt," *Atlanta Journal-Constitution*, February 15, 2006; "Rules 'Hiding' Trillions in Debt," *USA Today*, May 29, 2007; Christian Weller, "Consumer Fatigue Weakens Job Growth," Center for American Progress, October 6, 2006; "Retiree Benefits Grow Into Monster" *USA Today*, May 24, 2006; FASAB, "Accounting for Social Insurance," October 23, 2006; "Public-Sector Pensions," *The Economist*, November 18, 2006. According to the Cato Institute and the *Economist*, state and local unfunded pension and health-care liabilities totaled about \$1.7 trillion in 2006. Average household credit-card debt rose from about \$2,700 in 1989 to \$8,650 in 2004; Federal Reserve, *Consumer Credit Outstanding* (Washington, DC, September 8, 2005).

^v See Appendix A.

^{vi} Council of Economic Advisers, *Economic Report of the President 2005* (Washington, DC: Government Printing Office, 2005). By comparison, national debt as a percentage of GDP in Britain is about half of what it is in the United States, about the same in France and Germany, and considerably higher in Italy and Japan, where it is about 100 percent and 170 percent, respectively; "Fit at 50," *The Economist* < March 17, 2007.

^{vii} David Broder, "Congress' Sorry Session," *The Washington Post*, October 8, 2006.

^{viii} Urban Institute, *2005 Annual Report* (Washington, DC: Urban Institute, 2005); Sebastian Mallaby, "A Bad, Bipartisan Tax Plan," *The Washington Post*, January 8, 2007; Center on Budget and Policy Priorities, "Extending the President's Tax Cuts and AMT Relief Would Cost \$3.5 Trillion Through 2017" (Washington, DC: CBPP, January 31, 2007; and Center on Budget and Policy Priorities, "Background on the Federal Budget and the Return of Budget Deficits" (Washington, DC: CBPP, 2006).

^{ix} Diane Lim Rogers, "Good Reasons for Taxes," *The Boston Globe*, April 16, 2006; "IMF Says Rise in U.S. Debts is Threat to World's Economy," *The New York Times*, January 8, 2004; and Peterson is quoted in Gerald J. Swanson, *America The Broke: How The Reckless Spending of the White House and Congress Are Bankrupting Our Country And Destroying Our Children's Future* (New York: Currency Doubleday, 2004), pp. 54-55.