



Obama's Plan For A Debt-Ridden Future

Investor's Business Daily

June 6, 2009

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President Obama has officially begun the era of bigger big government by proposing to go on a multitrillion dollar borrowing spree that risks doing to the "full faith and credit of the United States" what excessive borrowing during the housing bubble did to private credit.

Under his budget plan for America's future, spending will average 23.7% of GDP for at least a decade (a whopping 20% higher than in 2000-08).

Near-record deficits increasing at record rates will push the public debt of the U.S. beyond the economy's plausible capacity to pay - 70% of GDP by 2012, heading quickly to 82% of GDP in 2019 and on pace to be astronomically higher soon thereafter.

The Avalanche

American families over the last year have already lost 8% of their net worth - in part as a result of inept government meddling, past and present. For many of the same reasons, they are also buried under a mountain of mortgages and private-sector debts gone bad. On top of that, if the president has his way, they will soon be hit with more than a 100% increase in public debt (from \$8 trillion this year to \$17.3 trillion in 2019).

Furthermore, the Treasury (and taxpayers) will soon have to begin repaying to Social Security more than \$5 trillion in payroll tax revenues that the government had taken from the trust fund and spent for earmarks and other purposes.

Even without the Obama surge in debt - and taxes to pay it off - taxpayers face the prospect of 60% to 70% income-tax rates in the future to pay for \$48 trillion in unfunded liabilities under existing entitlement programs. Now the president plans to burden the economy's limited taxpaying capacity with a universal health care entitlement.

Foreigners purchased two-thirds of the Treasury debt sold during 2004-08 - and now own 50% of U.S. public debt.

Scholars at the Peterson Institute for International Economics warn that the "net foreign debt" position of the U.S. is becoming unsustainable.

Even if the bond rating of Treasury obligations is not formally downgraded for risk, foreign investors may start to resist buying more U.S. debt and, if the situation gets worse, may start withdrawing from the U.S. economy the trillions of dollars of capital they have already lent us. Then what?

The current level of private saving in the U.S. is grossly insufficient to make up the shortfall. In fact, Washington is doing nearly everything possible to prevent Americans from adding to their savings.

In theory, the U.S. government can always pay its debts by increasing taxes, but the problem with taxes - and ultimately with big-spending government - is that tax increases harm the economy disproportionately and quickly reduce the economy's taxpaying capacity.

Before she became the chairman of the president's Council of Economic Advisors, Christina Romer demonstrated in a research paper prepared for the National Science Foundation in 2007 that it costs the private-sector economy \$4 (\$1 of tax and nearly \$3 of economic damage) to provide the government with \$1 to spend.

In a research paper published by the National Bureau of Economic Research in 2006, former CEA Chairman Martin Feldstein concluded that the private-sector cost of an additional dollar of income-tax revenues for the government is \$2.50 (\$1 of tax and \$1.50 of economic damage).

Paying off Obama's 10-year string of deficits that add up to \$9.3 trillion with income tax increases of \$9.3 trillion over 10 years would cost the private sector \$23 trillion (Feldstein) to \$37 trillion (Romer).

In effect, American families would over time lose an amount greater than an entire year of GDP - a blow far more severe than the damage being done to them by the current recession.

Dubious Direction

It is irresponsible stewardship for Obama and Congress to go on a borrowing spree that puts America in the same unsustainable position as an overstretched boomer with too much debt and too little income and whose only option is to refinance at higher costs just to pay the interest.

The responsible alternative is for Washington to spend less - a lot less. Otherwise, the next Washington-created bubble to burst may be the full faith and credit of the United States.

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