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Reckoning With Incomprehensible Debt

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As the federal debt has gone from astounding to unbelievable to incomprehensible, a new problem has emerged: The U.S. government is actually running out of places to borrow.

The $20 trillion debt (http://www.usdebtclock.org/) is already twice the annual revenues collected by all the world's governments combined. Including unfunded liabilities, though, which include promised Social Security, Medicare and government pension payments that Washington will not have the money to pay, the federal government actually owes somewhere between $100 trillion and $200 trillion. The numbers are so ridiculously large that even the uncertainty in the figures exceeds the annual economic output of the entire planet.

Since 2000, the federal debt has grown at an average annual rate of 8.2 percent, doubling from $10 trillion to $20 trillion in the last eight years. Who lent the government this money? Four groups: foreigners, Americans, the Federal Reserve, and government trust funds. But over the last decade, three of these groups have cut back significantly on their lending.

Foreign investors have slowed the growth in their lending from more than 20 percent each year in the early 2000s to less than 3 percent each year today.

Excluding the Great Recession years, American investors have been cutting back on how much they lend the federal government by an average of 2 percent each year.

Social Security, though, presents an even bigger problem. The federal government borrowed all the Social Security surpluses of the last 80 years. But starting this year, and continuing either forever or until Congress overhauls the program (which may be the same thing), Social Security will only generate deficits. Not only is the government no longer able to borrow from Social Security, it will have to start paying back what it owes — assuming the government plans on making good on its obligations.

With federal borrowing growing at more than 6 percent each year, with foreign and American investors becoming more reluctant to lend, and with the Social Security trust fund drying up, the Fed is the only game left in town. Since 2001, the Fed has increased its lending to the federal government by more than 11 percent each year, on average. Expect that trend to continue.

For decades, often in word but always in deed, politicians have told voters that government debt didn't matter. We, and many economists, disagree. Yet even if the politicians were right, the absence of available creditors would be an insurmountable problem — were it not for the Federal Reserve. But when the Federal Reserve acts as the lender of last resort, unpleasant realities follow. Because, as everyone should be keenly aware, the Fed simply prints the money it lends.

A Fed loan devalues every dollar already in circulation, from those in people's savings accounts to those in their pockets. The result is inflation, which is, in essence, a tax on frugal savers to fund a spendthrift government.

Since the end of World War II, inflation in the United States has averaged less than 4 percent per year. When the Fed starts printing money in earnest because the government can't obtain loans elsewhere, inflation will rise dramatically.

How far is difficult to say, but we have some recent examples of countries that tried to finance runaway government spending by printing money. From 1975 to 1990, the Greek people suffered 15 percent annual inflation as their government printed money to finance stimulus spending. Following the breakup of the Soviet Union in the 1990s, Russia printed money to keep its government running. The result was five years over which inflation averaged 750 percent. Today, Venezuela's government prints money to pay its bills, causing 200 percent inflation, which the International Monetary Fund expects to skyrocket to 1,600 percent this year.

For nearly a century, politicians have treated deficit spending as a magic wand. In a recession? We need jobs, so government must spend more money! In an expansion? There's more tax revenue, so government can spend more money! Always and everywhere, politicians argued only about how much to increase spending, never whether to increase spending. A century of this has left us with a debt so large that it dwarfs the annual economic output of the planet. And now we are coming to the point at which there will be no one left from whom to borrow. When creditors finally disappear completely, all that will remain is a reckoning.

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