http://www.usnews.com/opinion/articles/2016-08-03/trump-and-clinton-have-no-plans-to-rein-in-federal-debt

US News
08/03/16

America's Debt Problem Isn't Going Away

Antony Davies and James R. Harrigan

On its current trajectory, the federal government is unsustainable. This has been apparent for decades. The problem is so big that neither Donald Trump nor Hillary Clinton even dare to discuss it on the campaign trail, seemingly hoping that it will go away if ignored. But it won't.

How big is the problem? When the next President settles into the Oval Office, the federal debt will be close to $20 trillion. Even today, the federal debt exceeds the value of all goods and services produced annually in *every European country combined*. The reason neither major candidate is talking about the debt is that neither has a reasonable plan for dealing with it. Quite the contrary, because as bad as government debt is for the country, politicians just can't get enough of it. Government borrowing enables today's politicians to buy votes by promising goodies to today's voters, while sticking tomorrow's voters with the bill. Politicians and current voters collude in kicking the ball down the road, creating a ballooning problem for future generations.

Why is so much government debt a problem? First, a massive debt allows politicians to appear to be fighting fiscal irresponsibility while doing what amounts to less than nothing. Take, for example, the $300 million cut in Community Block grants that President Obama proposed during his first term. As a nation, we spent the better part of a month debating the pros and cons. In the end, many politicians got lots of free air time in which they tried to out-posture each other in fiscal prudence. What no one ever said aloud, though, is that the federal government burns through $300 million every 45 minutes. Second, a massive debt means massive interest payments that the government must make on an ongoing basis. The federal government currently pays about 2.5% interest on its debt. At that rate, the interest on $20 trillion is $500 billion annually.

And this is where national debt issues get a little tricky.

Every dollar the government spends on interest is a dollar it cannot spend on anything else. When the government adds a dollar to the debt today, it has to turn around and pay interest on that dollar every year, forever (or until the debt is repaid). For example, the Congressional Budget Office estimates that the federal debt will increase by $544 billion in 2016. At 2.5% interest, adding $544 billion to the debt this year means that the government either has to reduce its spending on public services by $13.6 billion every year from now on, or tax us an additional $13.6 billion every year from now on.

Also, the greater the federal debt, the more pressure the Federal Reserve feels to hold interest rates low. Politicians tell us that low interest rates are good because they make mortgages, car loans, and student loans more affordable, all of which is true. What they fail to mention, though, is that the single greatest beneficiary of low interest rates is the federal government itself.

The debt is so large that even small changes in interest rates translate into huge changes in the government's interest expense. According to the Congressional Research Service, the Iraq and Afghanistan wars cost $1.6 trillion over 13 years, or roughly $120 billion a year. A one-percentage point increase in interest rates on a $20 trillion debt costs $200 billion a year. In other words, a one-percentage point increase in interest rates would cost the federal government more than the annual costs of the Iraq and Afghanistan wars combined - every single year. And that's just a one-percentage point increase. The Federal Reserve is presently holding interest rates so low that rates would have to rise almost four-percentage points just to get back to their historic *average*. In short, the federal debt has painted the Federal Reserve into a corner. The Fed cannot allow interest rates to rise significantly for fear of financially crippling the federal government. But, the Fed cannot fight inflation if it cannot raise interest rates. Eventually, the Fed will have to choose between crippling the American government and crippling American consumers.

Unfortunately, this isn't the end of the story. The government also owes what are called "unfunded obligations," or "implicit debt." This is largely retirement and medical benefits that the government has promised, but neither has nor anticipates having sufficient funds to cover. Measuring unfunded obligations is fraught with uncertainty because it requires estimating future population growth, inflation, interest rates, longevity, and other demographic and financial factors. Uncertainties associated with the Affordable Care Act make measuring unfunded obligations even more difficult. But independent estimates for unfunded obligations range from the incredibly large ($70 trillion) to the truly astronomical ($200 trillion). Even the government's own estimates are gargantuan ($50 trillion combined for Social Security and Medicare). In sum, the federal government owes or has promised to pay somewhere between $70 trillion and $200 trillion.

To get a sense for the government's ability to carry even the low independent estimate of $70 trillion in debt and obligations, compare what the government owes to what it takes in annually. The federal government will collect, from taxes, tariffs, fees, and all other revenue sources combined, a total of about $3.3 trillion in 2016. That means that the government owes or has promised an amount that is 2,000% of its annual income. And that's the low estimate.

The financial situation isn't getting better. The federal government has not had a balanced budget since Eisenhower was president. (No, Bill Clinton did not balance the budget, though he came closer than any modern president. Total federal debt rose in every year of Clinton's administration.) Things have gotten worse every year since 1957.

In 2016, the federal government will spend about $3.3 trillion. That's roughly the revenue the government collected in 2010 - six years ago. The Congressional Budget Office estimates that the

government will spend $3.6 trillion in 2017. That's how much revenue the government collected six years earlier in 2011. In other words, it will take six years for our economy to grow large enough to support our federal government. Of course, six years from now, our government will have grown even larger.

And that's the problem that everyone refuses to talk about.

Antony Davies is associate professor of economics at Duquesne University in Pittsburgh. James R. Harrigan is director of academic programs at Strata in Logan, Utah.