America's Deficit-Attention Disorder

Christopher DeMuth

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The federal debt was regularly in the news from the summer of 2011, when the arriviste tea-party Republicans refused to vote for a higher debt ceiling unless the Obama administration agreed to spending reductions, until the end of 2013, when another debt-ceiling impasse closed the government for two weeks before the House capitulated.

The subject has since vanished from public debate. One reason, no doubt, is that the results of the debt brinkmanship of 2011-2013 were so pathetic. The ceiling was increased by more than $3 trillion, all of it promptly borrowed and spent, in exchange for $1 trillion in avowed spending "sequesters" spread out through 2021, which are already being relaxed. Also a tax increase on high-income taxpayers is said to be worth $600 billion through 2021. But the debt will grow by $6 trillion during this period. The CBO's ten- and 25-year debt projections have continued to deteriorate.

But the most important reason for the disappearing debt issue is that Congress, in re-opening the government last October, did not raise the debt ceiling but rather suspended it—permitting the Treasury to borrow at will through March 2014, now extended through March 2015. If Congress had raised the ceiling, it would have had to bust the $18 trillion barrier just to get passed the 2014 elections. The debt will cross that barrier later this summer, and incumbents would have been held accountable for it in November.

The debt ceiling is the statutory means by which Congress exercises its second enumerated power, in Article I, Section 8 of the Constitution, to "borrow on the credit of the United States." Handing this power over to the Executive Branch—at a time when Congress was complaining vociferously over the administration's seizure of legislative powers under ObamaCare and other programs—was a momentous step. And it came following several surrenders of Congress's first enumerated power, the power to tax and spend, in such cases as Dodd-Frank's Financial Consumer Protection Bureau and Sarbanes-Oxley's Public Company Accounting Oversight Board (both agencies are financially independent of Congress). Congress did not relinquish its borrowing power entirely, but it set a precedent—establishing a means for evading its constitutional responsibility to provide for the shortfall between spending and taxing. When the current suspension expires next March, another national election will be coming into view.

Congress is washing its hands of the debt, and the armistice in separation-of-powers contention is moving the issue away from public attention. I have an explanation for the truce: it is that our political leaders, government institutions, and the general public have acquired a stake in continuous deficit spending. Today's debt problem is not the result of failed investments, or wars, or other external events, which would be bad enough. Instead it is being generated from within, by modern democratic politics. We are enjoying the fruits of deficit spending and lack the political will to correct the problem. We have acquired deficit-attention disorder.

Our condition has three components. The first is that the debt has grown vastly beyond anything in our national experience. Measured as a share of GDP, the official debt since the 2008 financial crisis has averaged about what it was during World War II—years of desperate mobilization following a depression that had already left the government with unprecedented debt. But today's official debt of 103 percent of GDP (nearly $18 trillion) misses profound postwar changes that have left our actual debt many times larger. These include hundreds of billions of exposure to concessionary private loans for home mortgages and college tuition, trillions of unfunded state and local pensions, and scores of trillions of unfunded obligations to future Social Security and Medicare beneficiaries. The size of the unacknowledged debt is subject to large ranges of uncertainty. But we know enough about the size of the baby boom and younger generations, and about trends in longevity and medical costs, to say that continuing Social Security and Medicare in their current form would require resources far beyond plausible levels of taxes or borrowing.

Second, our astronomical debt reflects the normalization of annual deficits. Until a half-century ago, spending beyond current tax revenues was limited to investments such as railroads and canals and emergencies such as wars and natural disasters. This began to change in the 1960s: JFK's ventures in tax-cutting stimulus, followed by LBJ's Great Society and Vietnam guns-and-butter spending, yielded a stream of annual deficits that averaged 4 percent for the decade. That was tiny by current standards, but established a precedent for borrowing for routine annual spending. The federal government has run a deficit in 40 of the 44 years since 1970, through good times and bad—averaging 10 percent of spending in the 1970s, 18 percent in the 1980s, 10 percent in the 1990s, and 11 percent in the 2000s. The deficit is 18 percent of spending this year and is projected at 16 percent over the coming decade, before rising sharply to pay mounting Social Security and Medicare bills and mounting interest on the accumulating debt.

Third, as debt and deficits have grown, their function has changed from funding public goods to funding private consumption. The traditional purpose of pubic debt was to finance goods with long lifespans such as highways and aircraft carriers. Needless to say, the investments did not always turn out well: President Jefferson's Louisiana Purchase was a triumph; President Obama's Solyndra was a bust. But borrowing was at least intended to expand and improve the future—through a larger and better capital stock, greater security against foreign threats, recovery from disasters and emergencies, and higher levels of innovation and productivity.

These are not the primary purposes of today's government borrowing, which is being used to sustain immediate, mainly private consumption. In 1970—when the deficit was 1.5 percent of federal spending and the debt 36 percent of GDP—nearly two-thirds of federal program spending (64 percent) was for pubic goods such as defense and diplomacy, courts and law enforcement, parks and preserves, and basic research. Today public goods have fallen to just a quarter of spending—75 percent of federal program spending is now for Social Security, unemployment compensation, Medicare and Medicaid, food stamps and housing subsidies, and other uncompensated payments to and for individuals.

One cannot allocate borrowing to one or another category of spending, but there is no doubt that payments to individuals have become not only the dominant but also the most politically potent form of spending. Government shutdowns do not shut down Social Security, Medicare, unemployment benefits, or food stamps, and the current spending sequesters apply almost exclusively to public goods. The new normal of borrow-and-consume is even more pronounced if we incorporate the tremendous unacknowledged debts mentioned above, which are heavily skewed towards payments to individuals and consumption.

Consumption is a good thing not a bad thing, and modern government is going to concern itself with the level and distribution of consumption among its citizens, especially during a period of slowing economic growth. What it striking about our consumption state, and menacing, is that it is a debt-financed consumption state—our massive borrowing is not intended (for better or worse) to protect and enlarge the future, but rather to ease the present. Only a few, smaller and more homogeneous nations such as Sweden have moved determinedly towards a tax-financed consumption state; America's transition is going to be more contentious.

In the absence of big positive surprises in innovation and economic growth, we now have only a decade or so to put our transfer and entitlement programs on a glide-path to solvency that gives everyone a chance to adjust and averts shocking, painful disruptions. But even if we do this well, the period ahead will be one of considerable national risk. The purpose of maintaining low public debt is not to adhere to abstract notions of fiscal rectitude. Rather it is to maintain the government's capacity to respond to severe emergencies that citizens cannot manage on their own—foreign aggression, epidemics, natural disasters, financial collapses, and economic depressions, which have recurred frequently throughout our history. Social insurance is supposed to moderate citizens' lifetime risks by spreading them among large populations, but debt-financed social insurance has done something else: it has centralized great risk in the government itself, thereby hobbling its ability to provide the most important form of social insurance of all.

Christopher DeMuth is a distinguished fellow at the Hudson Institute. This article draws on his essay, "Our Democratic Debt," appearing in the July 21 issue of National Review *magazine.*