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BORROWING TROUBLE

By David Malpass

Though President Obama mentioned the deficit in his State of the Union speech, there's still no plan in Washington to slow the growth in spending. The private sector is on the hook for the rapidly growing national debt, so the president's softness on spending is discouraging. That costs jobs.

The Congressional Budget Office (CBO) just released its new economic and budget outlook. It's the first look at the deficit since the December lame-duck spending blowout and was markedly worse than CBO's August 2010 report.

Marketable national debt will rise to \$24 trillion, 100 percent of gross domestic product (GDP), in CBO's 10-year scenario, assuming a continuation of current tax rates (including the George W. Bush cuts, Alternative Minimum Tax patch, extenders, ethanol credit, etc). The debt covered in the statutory debt limit, which counts the Treasury debt held in government trust funds, is \$14.3 trillion and would rise to \$31 trillion, or 130 percent of GDP, in 10 years.

As bad as these debt numbers are, they may get worse. The CBO based them on optimistic economic assumptions — fast GDP growth, no real recessions, spending growth slower than inflation and relatively low interest rates on the national debt. In short, if all goes really well, current policies lead us to a 100 percent debt-to-GDP ratio, even though economic history shows that countries almost always collapse when government debt gets that high.

Here's how the numbers work. The cur-

Truth or dare

Rather than admit overspending, Obama bets on the world overlending

rent marketable debt is \$9 trillion. Assuming a giant tax increase in 2013 when current rates expire, and an acceleration in GDP growth, debt would rise to \$18.3 trillion in 2021, the CBO says. If current tax rates are extended again in December 2012 as they

were in December 2010 — a more likely assumption given the economic and political reality — there would be an additional \$5.5 trillion increase in the national debt. That results in \$24 trillion in mar-

ketable debt, more than 100 percent of the CBO's forecast of \$23.8 trillion in GDP.

In its new outlook, CBO also increased its near-term deficit projections. It now looks for a \$1.5 trillion deficit in 2011, up from \$1.1 trillion, and, if all goes very well, a decline in the deficit to \$1.1 trillion in 2012.

These are staggering debt and deficit numbers, showing the rapid deterioration in the U.S. fiscal situation. There's no sign in Washington of a legislative strategy to improve the fiscal course, although some cuts will be made in the March spending

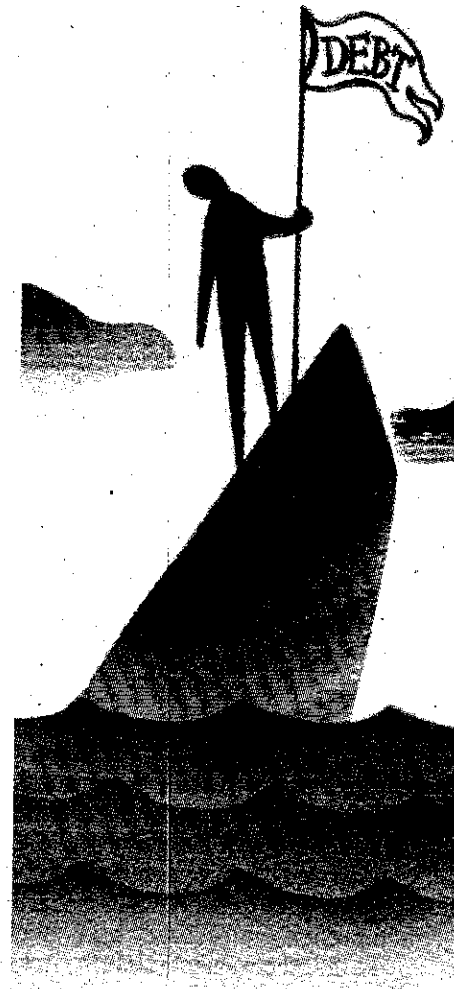


ILLUSTRATION BY MARK WEBER

was amazingly farsighted but certainly didn't envision a world where the government it established could ever borrow \$9 trillion. Article I, Section 8 now reads: "The Congress shall have power to lay and collect taxes . . . and to borrow money on the credit of the United States." But there are no boundaries on this power in the Section 9 limits on Congress. If the Founding Fathers had realized that a future Congress would envision a \$31 trillion national debt, they might have installed a debt limitation — that "borrowings shall not exceed half the annual output" as an example.

Absent a clear constitutional protection from excessive debt, Congress should craft one. The existing statutory debt limit is flawed because it is a set nominal dollar amount, currently \$14.3 trillion, and is overtaken repeatedly by the country's growth, inflation and the buildup in Social Security trust funds. A better limit would be based on the marketable debt-to-GDP ratio, say at 50 percent of GDP, enforced by escalating penalties on Washington's leaders and institutions if the limit is exceeded. Like the Constitution, this type of limit might last decades or centuries.

The CBO's latest data is a "truth or dare" moment for the country. The truth is that spending and debt are out of control, but the president won't admit it. The dare is to global investors. Having lent us \$9 trillion over the past 222 years, will they lend another \$15 trillion over the next decade so Washington can keep spending more? A better course would be to use the upcoming debt-limit increase to attach effective, enforceable limits on the debt-to-GDP ratio.

bill and the April debt limit increase.

Fixing the spending problem is going to take a concerted national effort for years. It was unfortunate that Mr. Obama didn't rise to this challenge. The Constitution

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