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GROWTH IN NATIONAL DEBT CAN'T GO ON FOREVER
FEDERAL GOVERNMENT SPENDS TOO MUCH, AND THE BILLIONS ADD UP
TOM ASHCRAFT, SPECIAL TO THE OBSERVER

Even Santa Claus must be envious of the largess distributed by our federal government. Never before have so many gotten so much from a government originally set up to be so limited. Though virtually incomprehensible because of the sums involved, federal spending is not make-believe.

Oct. 1 marked the beginning of a new fiscal year, FY 2006. For the completed FY 2005, according to the Congressional Budget Office (www.cbo.gov), where a billion dollars is a mere rounding digit, the federal government took in \$2.154 trillion and spent \$2.473 trillion, generating a one-year deficit of \$319 billion.

That deficit was far less than the two prior fiscal years: \$413 billion for FY 2004; \$378 billion for FY 2003. In FY 2002 the deficit was relatively less, \$158 billion. Those billions do, however, add up. Over the last four fiscal years the federal government has gone into the red about \$1.268 trillion.

Debt tops \$8 trillion

The annual deficits, netted against rare annual surpluses, accumulate over time into the national debt. The national debt of the United States crossed the \$8 trillion threshold for the first time in October.

As of early this month, the total was \$8,107,952,560,719.68, according to the U.S. Bureau of the Public Debt (www.publicdebt.treas.gov).

Interestingly, of the \$8.108 trillion, about \$4.736 trillion is owed to the public, including about 50 percent of that to foreign lenders; about \$3.372 trillion is owed in-house to the government. This in-house government debt arises principally because current Social Security revenues exceed current payments. The Treasury immediately borrows the excess coming in to support other government activities, and creates debt owed by the central treasury back to the Social Security account. Unless Social Security is reformed, the so-called Social Security surplus is predicted to end in 2018.

Interest expense accrues on the whole national debt, and for FY 2005 U.S. taxpayers were responsible for \$352,350,252,507.90 in interest, the third largest item in the entire federal budget. There is longstanding debate about the wisdom of government borrowing, when it is justified and to what extent. Alexander Hamilton, the first Secretary of the Treasury, pushed a plan for the new federal government not only to stand behind the debts run up by the Continental Congress in the war for independence, but also to assume the state debts. His plan, with specific taxes linked to debt payments, worked brilliantly, establishing the creditworthiness of the U.S. government and creating capital markets in government securities vital to the building of the new country.

If 'perpetual,' it's dangerous

But Hamilton warned of the dangers of "perpetual" national debt. He wanted instead to see "incorporated as a fundamental maxim in the system of public credit of the United States that the creation of debt should always be accompanied with the means of extinguishment." In July 1795 he warned: "The debt of France brought about her revolution. Financial embarrassments led to those steps which led to the overthrow of the government and to all the terrible scenes which have followed."

In an interesting turn of history, it was President Andrew Jackson who led the country to "extinguishment" of the national debt, however temporary. During his second term, in late 1834, Jackson announced that the national debt, which had stood at over \$127 million in 1815, was on the verge of elimination. Because of various economic downturns and the Civil War, by 1866 the national debt had reached a record high of \$2,755,764,000.

The economic cycles and the wars of the 20th century added enormously to the national debt. After World War I it was \$22 billion, and after World War II it was \$260 billion. \$1 trillion was reached in the early 1980s, \$3 trillion in FY 1990 and over \$5.5 trillion in FY 1998.

The U.S. is a rich country, and there are good reasons for our government to incur debt. By many measures a national debt of \$8 trillion is manageable in an economy as large as ours. Moreover, genuine threats to national security will at times justify substantial deficit-spending. The problem today, however, is the Washington ethos. The miracle of the American economy produces so much revenue, the aggregate numbers have grown so large, and the habit of ever-higher spending as political payoff has become so ingrained that the federal treasury is assumed to be a bottomless pit. In the old cliché, the politicians have mortgaged the future for yesterday's votes.

This can't go on forever. Reckless growth in government spending and needless accumulation of debt will eventually crush even a people who have proved the most productive in history.

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