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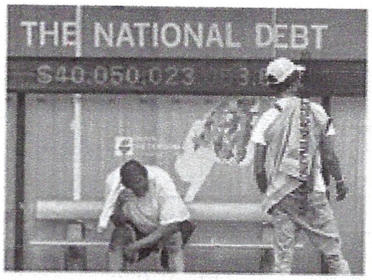
Short-term Treasury fixes and reliance on growth won't turn the tide. Real reform will.



At a bus stop in Washington.

POLITICS & IDEAS

America's Spiraling National Debt Crisis

Last week's announcement that U.S. government debt has reached $40 trillion triggered alarm in global financial markets, and the rise of long-term interest rates to their highest level since 2007 intensified this concern. Note To bring down interest rates, the U.S. Treasury Department announced that it would double its purchases of long-term government securities, a tactic investors dismiss as a "band-aid on a bullet hole," according to the Financial Times. Predictably, this policy worked for one day

before interest rates resumed their rise. Adding to the pressure, tech giants, which until recently financed their investments using internal cash flow, are now turning to the corporate bond market to borrow the massive sums they need to built data centers for artificial intelligence. Note

Secretary Scott Bessent argues that bond yields "don't reflect the underlying fundamentals." Unfortunately for him, the famous bond vigilantes don't agree, and they are right. We aren't going to "grow our way out" of mounting government debt, a talking point the secretary resuscitated last week. Nor is there a "very good chance," as he also argued, that the U.S. government deficit has peaked.

Unless we change fiscal course, the Congressional Budget Office projects that the annual deficit will rise from 5.8% of gross domestic product to 6.7% over the next decade, and we will add an additional $24 trillion to the debt held by the public. Note

Deficits beget more debt, which increases deficits, which raise the debt level even further. Over the next decade, annual interest payments on the national debt will rise from $1.0 trillion to $2.1 trillion, or from 3.3% to 4.6% of GDP. Note By 2036, about two-thirds of our annual borrowing will be used to make interest payments on Treasury securities, an ominous trend known as the "debt spiral." Note

These projections are based on current policy, but they could get worse. The Trump administration is calling for a major increase in annual defense spending without proposing a realistic way to pay for it. Whatever the merits of this proposal, it would add trillions of dollars to our swollen national debt over the next decade.

For decades, deficit hawks have argued that we can't go on this way indefinitely. Note It turns out that "indefinitely" has lasted longer than we expected— another confirmation of Adam Smith's quip that "there is a great deal of ruin in a nation." But the recent tremors in global markets suggest that we are dangerously close to the end of the extended grace period we have enjoyed. Republicans attribute budget deficits to excessive spending, while Democrats blame tax cuts. Both sides have a point.

In 2001, after four straight years of budget surpluses, the CBO released a 10-year forecast projecting that the national debt would be eliminated by 2009. This didn't happen. Combined with slower-than-expected economic growth, the Bush tax cuts reduced income tax receipts from a projected $1.8 trillion in 2011 to $1.2 trillion. During the same period, outlays to pay for long wars in the Middle East and programs to soften the blow of the Great Recession increased discretionary spending in 2011 from a projected $900 billion to $1.3 trillion. Meanwhile, revenue for Social Security and Medicare fell short of projections by $300 billion while outlays exceeded them by $200 billion. Developments since 2011 mirror this pattern of lower revenue from tax cuts and unexpected economic disruptions coupled with higher spending for wars and safety net programs.

If we are serious about repairing our unsustainable fiscal policy, the administration should propose, and Congress should enact, a surtax on individual and corporate taxes to pay for whatever increases in defense spending Congress and the administration agree upon. Everrising deficits and debt will undermine our global standing as much as military weakness will. We must also stabilize the safety net. By the end of the next president's first term, Social Security will run out of cash reserves to pay full retirement benefits for tens of millions of retirees, leading to across-the-board cuts of more than 20% for current and future beneficiaries. For decades, administrations and lawmakers have avoided the difficult discussions needed to reach a solution. Now we have run out of time, and the required changes will be larger and more abrupt. Well in advance of the looming 2032 deadline, Congress and the administration should convene a bipartisan commission to produce balanced proposals for stabilizing the system.

Note

Finally, soaring medical costs are gobbling up family and government budgets. To prevent the health sector from becoming the black hole into which everything else disappears, we need to discuss structural changes in healthcare delivery and finance. Medicare for All isn't the solution, but we need a responsible alternative that meets the scope of the problem.

It will be difficult to stanch the flow of red ink, but the alternative—an evergrowing debt that saps our economic vitality—would be far worse.

By William A. Galston