Candidates Silent as Government Spending Jumps, Deficit Increases

On Friday, the Treasury Department published the final revenue and spending numbers for the federal government for Fiscal Year 2016, which ended on September 30. According to Treasury's report, spending increased significantly (by nearly five percent) over the previous year, to more than $3.8 trillion, while revenues remained essentially flat from the year before, at $3.25 trillion. That left a shortfall of approximately $600 billion, forcing the government to borrow 15 cents of every dollar it spent last year. And the two presidential candidates have remained disturbingly silent about the issue.

Said Robert Bixby, the executive director of the Concord Coalition, a non-partisan group that favors reducing the deficit, "This is the worst I have ever seen it. I've been involved in this since the 1992 election, and in all of those prior campaigns, candidates talked about reducing the deficit and Social Security reform. That is not happening now. It's odd because the problem is arguably worse."

Douglas Holtz-Eakin, president of the conservative American Action Forum think tank, echoed Bixby's concerns: "There's no leadership on the campaign trail. What both Clinton and Trump have said, essentially, is 'Here are the new things that I want to do.' What [they're] really saying is: 'I have no plan to fix the existing problem. None.'"

But they do have plans to increase spending even more. Clinton wants to raise taxes on the rich by an estimated $1 trillion to fund various new and enhanced welfare schemes, while Trump's plans would increase the national debt by an estimated $6 trillion by cutting taxes in order to stimulate the economy.

None of this seems to worry Dean Baker, a liberal economist with the Center for Economic and Policy Research. The debt, he said, "is totally manageable," adding, "There's literally nothing there to worry about. What's the interest rate on 10-year [government] bonds or the 30-year government bond? If actors in the financial markets thought there was any plausible probability of [some] sort of fiscal crisis, we'd be looking at 10-year [bond interest] rates of maybe 5, 6, 7 [percent]."

Baker is right, at least for the moment. When credit rating agencies downgraded their ratings on U.S. government debt by one notch back in 2011, many expected interest rates to rise, reflecting the increased risk of perceived default. Instead, since then, interest rates have dropped close to historic low levels, reflecting increased demand for the weaker paper.

But when will the spending spree end? Will Congress finally come to its collective senses and start cutting government spending? Answer: They had many chances to do precisely that during President Obama's two terms and every time they folded like a cheap suit, allowing the government to increase the national debt by $10 trillion in the process. Some want to blame the president for the increase, or the Great Recession. But under the Constitution, all spending bills begin in the House. And the House has been in Republican hands during all of Obama's administration.

What about the Federal Reserve which, at last count, holds approximately $4 trillion of government bonds? Are they likely to offload some of those massive holdings onto the market? Not if the last two years is any indication. The Fed has held on to those bonds while keeping the money supply constant. This has not only kept inflation in check, it has actually caused the dollar to gain against foreign currencies. Foreign central banks have been inflating their currencies in order to, following classical Keynesian philosophy, "stimulate" their own slowing economies.

What about the courts? Wouldn't they likely veto some of the more pernicious and obviously unconstitutional spending plans proposed by the candidates? This is a weak reed upon which to rely. It was the Supreme Court that, time after time, ruled that unconstitutional programs were in fact constitutional. Consider Social Security. Consider the War on Poverty. Consider ObamaCare.

On the other hand, consider Greece. The Greek crisis had its genesis in an already weak economy battered by taxes and regulations that suffered mightily during the Great Recession. Revelations that previous data about the government's debt levels had been deliberately understated added to the crisis. That crisis of confidence forced interest rates on new Greek bonds to rise, the market value of previously-issued bonds to fall, and the costs of "risk insurance" (i.e., credit default swaps, or CDS) to increase.

Even after the government enacted a dozen rounds of tax increases and spending cuts — some of which triggered riots and protests by those who suffered the most pain — the Greek government had to be bailed out with loans from the International Monetary Fund (IMF), the Eurogroup, and the European Central Bank (ECB), along with taking "haircuts" applied painfully to those bonds held by private investors and banks. Bailouts occurred in 2010, 2012, and 2015 along with austerity measures. When even those measures failed to rescue the economy, the Greek government was forced to default on a loan from the IMF.

The impact was felt nearly everywhere: Greek GDP dropped by 26 percent between 2008 and 2014, the ratio of public debt to GDP rose to 177 percent, and unemployment rose from less than 10 percent to over 25 percent. By 2016, five new taxes had been added to the sale of goods and services, while the VAT (value added tax) rose to 23 percent, among the highest of any of the EU nations.

Wonder of wonders, those new taxes actually caused government revenues to fall instead of increasing them, as was projected and promised. Tax evasion became rampant while firms that could, relocated out of the country to avoid them.

By 2015, nearly one out of every five Greeks lacked the funds to provide daily food for themselves and their families. Many of them became dependent upon other family members or friends until they became destitute as well, moving then to homeless shelters. As noted by Panayiotis Monemvasiotis, the general manager of Venetis Bakery, a company with more than 80 locations around the country, "In the third round of austerity measures, which is beginning now [July 2015], it is certain that in Greece there will be no consumers — there will be only beggars."

As economist Herb Stein famously said, "If something cannot continue, it will stop." Just when the spending spree will end in American is uncertain. For a real-world example of what it might look like here when it does, one need only consider Greece.

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