Written by **William P. Hoar** on August 6, 2021
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Correction, Please!

The Consequences of Deficits, Debt Are Not Pretty

Building back better? Like so many liberals before him, President Biden claims that he can revive the U.S. economy with massive government spending. This is not sustainable long-term. *(Photo credit: AP Images)*

Item: *President Joe Biden's budget, reported the* Washington Post *for May 28, "is a clear statement that many Democrats no longer worry about deficits." The Biden administration, continued the left-wing paper, "predicts a $1.8 trillion deficit in fiscal year 2022 and roughly $1.3 trillion each year after that for the next decade. It's a departure from the thinking of President Barack Obama's administration, which made an effort to bring down the deficit significantly in his second term as the economy improved. Under Biden's plan, much of the deficit reduction would come after he leaves office.*

"According to the White House, this additional spending will produce the economic equivalent of happily-ever-after. The nation will enjoy faster growth, full employment and modest inflation that never rises above 2.3 percent, a magic number that would not require the Federal Reserve to take any heavy-handed action. In short, there would be no negative side effects."

Is the Biden White House worried about the national debt? Apparently not. Nor do larger interest payments seem to bother the administration.

"According to White House projections," says the credulous Post, *"debt service costs rise by just $31 billion in 2031 from the Biden agenda, a negligible amount."*

Item: *When it comes to Biden's budget, according to* The Hill *(a D.C.-based paper), progressives have pushed back against critics. That plan would "see trillion-dollar deficits for a decade and increase the debt burden past its highest level on record."*

Progressives question, as TheHill *put it on May 28, "the long-held belief that high debts will shift the economy into a lower gear. The left-leaning Economic Policy Institute said the budget 'shows what true "fiscal responsibility" means' by making investments to tackle inequality and level the playing field in the labor market."*

Meanwhile, continued The Hill: *"A variety of progressive groups banded together to counter traditional arguments on fiscal policy, calling themselves 'Stop Deficit Squawks.'"*

Item: *On July 19, amid skyrocketing prices, Biden made a pitch in the White House East Room to have Congress spend additional trillions of dollars for his programs. He said, in part, that whatever "different views some might have on current price increases, we should be united on one thing: passage of the Bipartisan Infrastructure Framework." And, he continued (as quoted by the White House), "my Build Back Better plan will be a force for achieving lower prices for Americans looking ahead."*

Similarly, during a CNN town hall on July 21, Biden asserted that his multi-trillion-dollar spending packages will "reduce inflation," repeating that claim for emphasis. If, he said, "we pass the other two things I'm trying to get done we will in fact reduce inflation, reduce inflation, reduce inflation."

Correction: No, no, no. The president and his sometimes-progressive pals seem to think the country, and especially the federal government, should be debt-propelled. However, what they don't want us to think about is that public debt essentially is paid for by private people.

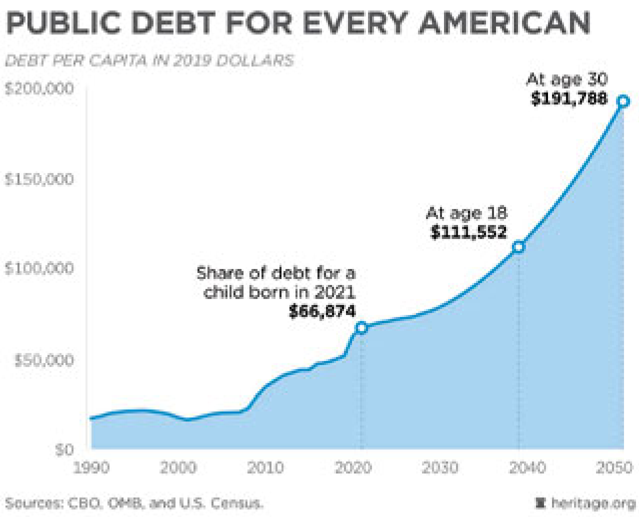
In large part because the Fed has monetized trillions of dollars out of thin air, interest rates are now (relatively) low, but huge spending packages and low rates are not sustainable forever. If there is even a small increase in interest rates (as measured in percentages of federal spending), the cost of debt service would jump to 17 percent of the federal budget by 2031 — a hefty increase indeed just to keep up with interest. And then, as pointed out this spring in the "Kiplinger Letter," if nothing is done to rein in the debt, its size becomes "truly mind-boggling … as high as 260 percent of GDP by midcentury [and] 600 percent by the end of the century."

Leftists and progressives, nonetheless, are keeping the pressure on the president — trying to squeeze every drop of possible political juice out of a narrowly divided government living with borrowed money on borrowed time. Most in the mass media are allied in this reckless effort.

Here are some representative pieces whose titles give away their theses: "Stop Worrying About Budget Deficits" (*The Atlantic*); "The Guardian view on Biden's 100 days: going big, but not big enough," wherein the U.K.'s *Guardian* opines that "The US president is right to spend, but shrinking the federal deficit is not the priority"; "Do deficits matter anymore? Biden's first budget signals they don't" (*Washington Post*, as quoted above); "Big Spending May Help Biden Avoid Usual Path to First-Term Drubbing," (*New York Times*); and "Abolish the Debt Ceiling — by Raising It to One Googolplex Dollars." The author of that latter piece in the *New Republic* explains that would jack up the ceiling to a mammoth number that translates into:10^{10} .

The president, meanwhile, mendaciously insisted in May, "I am not willing to deficit spend." Ignoring reality, the chief executive has even contended that his American Families Plan does not "add a single penny to our deficit."

His "Build Back Better Plan," which includes the American Rescue Plan, American Jobs Plan, and American Families Plan (AFP), would cost more than $7.5 trillion. As we write, the U.S. national debt has exceeded $28.5 trillion. Some nominal price tags of these plans change as they bounce around Washington, D.C., but, regardless of alterations, their passage would still push the national debt (as a percentage of GDP) to levels not seen since World War II.



heritage.org

The official debt, as noted by Christopher DeMuth (a distinguished fellow at the Hudson Institute), is often said “to be comparable to the peak debt of the mid-1940s, years of all-out national mobilization in World War II hard on the Great Depression. But today’s debt is much higher than it was then, because of contingencies embedded in the post-war welfare state — $1.6 trillion in student loans, guarantees behind $9 trillion in home mortgages, and a shortfall of future revenues to outlays in the big entitlement programs of well over $100 trillion.”

Contrary to the president’s contentions, his AFP would bleed considerable red ink and add a good many pennies (and greenbacks) to the deficits. You can “follow the science” in a report of the Penn Wharton Budget Model (PWBM) at the Wharton School of the University of Pennsylvania. The PWBM projects that the AFP would spend $2.5 trillion and raise $1.3 trillion in taxes by 2031. The report estimates that, by 2050, “the AFP would increase government debt by almost 5 percent and decrease GDP by 0.4 percent, as the effects from larger debt on the economy outweigh the productivity gains associated with the new spending programs.”

Indeed, it is Joe Biden — the supposed “moderate,” not one of his wild-eyed progressive allies — who appears to be practicing maniacal “modern monetary theory” (MMT). As economist Stephen Moore put it in early June, Biden’s

> latest budget calls for $6 trillion in spending, soon to rise to $8 trillion, paid for with a $2 trillion tax hike on the rich and $7.6 trillion in additional debt. This is more debt than accumulated by the previous four presidents — combined.
>
> The red ink is also on top of the some $5 trillion we spent to combat COVID-19. Now that the pandemic is over, a sane administration would be looking for ways to start to pay off some of that debt burden, which will grow to more than $150,000 per child born today.

Earlier this year, the Heritage Foundation marked the event of the national debt hitting $28 trillion, or about $225,000 per U.S. household. In 2018, as a Heritage report noted, the amount of public debt per person was just under $50,000. By this year, it reached almost $67,000 for every American, including children. It will get worse. Babies born tomorrow could expect to have over $111,000 in debt to their names when they turn 18, and nearly $192,000 by age 30. “Those numbers do not account for the new stimulus bill, a potential infrastructure package, or expanded benefit programs. Instead, the main reason why debt will skyrocket over the coming years is because federal spending is being allowed to grow without limits."

Joe Biden, however, says he's against adding to budget deficits and the national debt. Imagine if he were a wild spender! The *New York Times* — which doesn't mind this — has noted that the president's plan would result in the federal government spending "what amounts to nearly a quarter of the nation's total economic output every year over the course of the next decade."

The Biden administration itself has estimated that the national debt will grow to 117 percent of the total value of the nation's entire economy by 2031. On July 1, the Congressional Budget Office (which makes its projections based on current law) noted that over the next decade, "interest alone will cost $5.4 trillion — or $1.5 billion per day. By 2031, we'll be spending $2.5 billion per day on interest payments."

This disaster has been in the making for years of course, well before Biden wound up in the Oval Office. It includes deficits and debt incurred under GOP administrations such as Bush and Trump, for instance. The debt levels under Biden, however, are two and three times such earlier ones. Indeed, though Biden wants to impose the largest tax increase since WWII, his proposed excessive imposition of $3 trillion in new taxes (over a decade) does not even keep up with all his harebrained spending schemes.

Our current debt-to-GDP ratio is about 127 percent, and that is expected to rise to 277 percent by 2029. That's bound to hurt us.

An excellent summary of the growth of our debt appeared shortly after the election, but before Biden assumed office; it was written by Brian Riedl, former chief economist to Senator Rob Portman (R-Ohio) and now a senior fellow at the Manhattan Institute. Riedl's piece appeared, surprisingly, in the *Washington Post*. Let us, he wrote,

> examine the rising debt trajectory. The Congressional Budget Office projects that Washington will borrow $104 trillion over the next three decades if left on autopilot — that is, in a scenario that assumes no new bailouts or spending expansions, and that also assumes the tax cuts passed in 2017 expire on schedule over the next several years. This new debt is almost entirely driven by annual Social Security and Medicare shortfalls, caused by obligations to 74 million aging baby boomers, that will rise to nearly 7 percent of the

> gross domestic product by 2050.
>
> Altogether, the CBO projects that the national debt — which has already more than doubled, to 100 percent of GDP, since the Great Recession — will approach 200 percent of GDP within three decades and continue to rise steeply thereafter. By 2050, interest payments will consume nearly half of all tax revenue and push annual budget deficits to 12.6 percent of GDP — the equivalent of $2.5 trillion today. The CBO assumes this large debt will eventually slow the economy and reduce family incomes.

Such CBO projections, keep in mind, are based on existing law (not including pending proposals). As Riedl continued in December:

> And that is the rosy scenario of peace, prosperity, no new government initiatives and modest (if steadily increasing) interest rates. But what happens if interest rates exceed the projections by even one percentage point?
>
> Should that occur, over 30 years $30 trillion in interest costs would be added to the debt, pushing it to 264 percent of the economy's value, a ratio that is unprecedented in modern economies. And the rate of debt accumulation would be accelerating. By the time today's babies are in the workforce, two thirds of their federal taxes would simply pay the interest on the national debt.

This was before the dropping of the humungous Biden budget. Indeed, as Riedl later acknowledged, these huge budget numbers didn't "even include additional spending and debt proposals that are coming later.… During last fall's campaign, Biden also proposed trillions in new spending for health care, Social Security, Supplemental Security Income, climate change, college aid, and other priorities."

Under Biden's budget alone, before all of his other expensive delusional programs are included, the national debt would reach $39 trillion by 2031. Our children and grandchildren will get the mounting bill. As Thomas Jefferson wrote (in retirement): "The principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale."

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