

## **America Is in a Red State**

*di William A. Galston*

“National Debt Now Tops 100% of GDP,” the Journal’s front page [announced](#) Friday. Unless we change course, the debt will only get worse—fast. The Congressional Budget Office estimates that we are on track to accumulate more than \$24 trillion in debt over the next decade, for a total of \$56 trillion—120% of estimated GDP in 2036. These numbers are so large that it is hard to grasp what they mean. One key measure is the cost of financing this swelling debt burden. Twenty-five years ago, interest payments on the national debt were 2% of GDP. This year they will claim 3.3%; a decade from now, 4.6%.

This year the U.S. will spend about \$1 trillion on interest. In 2036, we will spend \$2.1 trillion, almost 19% of the total federal budget. A decade from now, more than 2 out of every 3 dollars we borrow will go to finance interest on the debt. The longer this continues, the worse it gets.

Four years ago CBO published an in-depth analysis of the effects of failing to rein in ever-expanding deficits and debt. These effects include diminished capital available for private investment, rising interest rates and the increased risk of a financial crisis. Even in the absence of an abrupt fiscal crisis, CBO warned, heavy and growing debt could cause inflation expectations to rise, depress the value of Treasury securities and other domestic assets, erode confidence in the U.S. dollar as the world’s reserve currency, and leave the U.S. vulnerable to the shifting assessments of foreign investors and governments.

Yes, I know—deficit hawks have been issuing these warnings forever, and the predicted crisis never seems to arrive. But the jump from “It hasn’t happened yet” to “It will never happen” is unwarranted. We’re gambling with the future of our country

and the world's largest economy, the risks are mounting, and neither political party seems willing to do what's necessary to abate them.

It wasn't always this way. Three decades ago, a Democratic president and Republican Congress found enough common ground to eliminate the Reagan-era budget deficits and produce four straight annual surpluses. When Bill Clinton left office in 2001, the national debt had fallen to just 32% of GDP and was projected to disappear by 2009. Since then, presidents and lawmakers of both parties have pursued other priorities at the expense of long-term fiscal stability.

Faint signs of hope are emerging. This January, a bipartisan team of 14 representatives—seven Republicans and seven Democrats, including the Republican chairman of the House Budget Committee and two Democratic members of the committee—cosponsored a resolution that would commit the country to reduce the budget deficit to 3% of GDP and maintain it at or below this level. In April, a bipartisan group of senators introduced a parallel resolution.

This target makes sense. Reaching an annual deficit at or below 3% of GDP would stabilize and then gradually reduce the national debt as a share of GDP. The debt burden would grow lighter, and confidence in America's capacity for prudent fiscal management would grow, at home and abroad.

A permanently balanced budget is neither economically necessary nor politically achievable. Reaching balance over the next decade would require a combination of increased revenue and decreased spending of a daunting \$18.5 trillion. This can be achieved on paper, but not in reality.

Even getting to 3% wouldn't be easy. It would require phased deficit reductions totaling nearly \$10 trillion over the next decade. Congress and the executive branch could fake these reductions with unrealistic growth projections, but the markets at home and abroad wouldn't be fooled for long.

A serious effort to slow and then halt the growth of public debt would involve reductions in popular programs, increased revenue from taxes as well as economic growth, and devolution of some federal programs to the states. Given how hard-

pressed working- and middle-class households are these days, wealthy Americans would have to bear a substantial share of the burden.

A political version of the Hippocratic oath—first, do no harm—would be a good place to start. If the Trump administration wants to increase defense spending by more than \$400 billion in the next fiscal year, it should specify how this can be done without increasing the deficit. The same holds for Democrats who want to increase domestic spending above current levels. If Congress isn't willing to accept the needed offsets, it shouldn't increase spending.

None of this will happen without a president who is prepared to persuade the people that getting the debt under control is a top priority.