The Federal Debt is Just a Number—Twenty-six with 12 zeros

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Twenty-six trillion is just a 26 with 12 zeros, from an economic point of view it is just a number, but from a political perspective, it is a cause. My first job in the US government was in the Pentagon at the end of the Carter Administration and through the first years of the Reagan period. I was for most of this time the only economist in the Office of the Secretary with the responsibility to examine the impact of defense spending on the US economy. I remember my first meeting with the guys from OMB working for David Stockman and their explanation of how supply side economics worked – miracle of miracles that cutting taxes and more than doubling defense spending could end up balancing the budget. Reagan grew the deficit from around $ 900 billion in September, 1980 to $ 2.6 trillion. GW Bush added a bit more to the red ink, and the beat goes on. When the Republicans are in office, money flows easily for friends and neighbors, but the deficit hawks come out for Democrats.

**Some interesting ideas and a few rules….**

If Republicans are interested in paying down the debt then they should read my lips – don’t cut taxes as you cut spending. You can’t get surpluses without collecting taxes and it would be nice too not to cut the budget of the IRS as part of your plan for paying off the debt as that’s, frankly, stupid and self-defeating and yet somehow part of the Republican playbook, beats me why?

Okay, then if you get that – no reduction in revenues or tax rates, then we can begin with going after the debt overhang. Let’s start with the largest single discretionary expenditure in the Federal budget – the DOD budget. It stands at over $ 750 billion so that if we just half it, then we can get a good $ 350 billion in savings to be put to the paying down of the debt. To do this we need to adopt the Trump’s idea of American First, moth ball the carrier groups, cut the Army to the size to support defending the Mexican-Canadian borders, mothball the Air Force fighter groups as unnecessary, beef up Space Command because its, let’s admit SG1 fans, sexy, keep Central Command to take care of terrorists, and modernize the nuclear deterrence welcome back the old Dr. Strangelove concept MAD—mutual assured destruction.

It might be hard to save much on discretionary social programs and other parts of the budget as they are small and we can only shave around the edges. We will have to increase direct support to allow all those defense workers laid off and military personal for a few years and investors in the Defense Industrial Complex will be harmed, but what the hell, we are paying down the debt. So I suspect that there will have to be some additional unemployment and food stamps for the laid off defense workers.

Let’s get $ 350 billion a year out of defense and another twenty or twenty-five billion by starving social programs, this would not slow the increase in the size of the debt outstanding by enough because we still have to pay interest. So we need to tackle the real problem – non-discretionary spending on Social Security, Medicare and Medicaid.

I don’t think waste fraud and abuse will cut it for savings. Most of the money for Medicare and Medicaid goes to the oldest and frailest and the most costly to keep alive. So here’s a good idea – lets phase out government payments for people over 85. As to paying for nursing homes beyond that time, forget it, we need to save money, we need to pay down the debt, Ron Johnson says we have to not burden our children and grandchildren with it. So social programs and entitlements need to be cut and cut by quite a lot. Most of the money goes to end of life care, so we just set end of life earlier, say around Senator Grassley’s age. This saves gobs of money for nursing home care under Medicaid (and you thought it was just for people of color and poor, it’s a great Middle Class entitlement), and of course the cost of keeping the old guys alive beyond their useful live will help pay down the debt too.

If this is all making you as sick as its making me, raise your hand. We can solve the entitlement mess by just eliminating the cap on Social Security and Medicare taxes, gradually raise the retirement age, and enforce age discrimination in the private sector. We need our defense spending because it supports a high technology sector of the economy and maintains American influence in the world and you have to admit Senator Graham that MAD is a stupid approach to keeping America safe.

**The Real Answer is that the Debt Overhang Doesn’t Effect Anything in the Economy – Wall Street Needs New T-bills and Debt Owed is also Assets owned**

It is interesting how when you start to study the question and pull the details over the past forty years of debt, GDP, interest rates, and match it against who is the President, everything becomes much clearer. Interest rates over this entire forty years have been falling from the artificially inflated highs of the Reagan years to today’s rock bottom interest rates today. Inflation was higher during the Reagan years, the Fed was far more restrictive. If I were running a regression I would plot the inverse relationship between the size of the deficit and the interest rate – Reagan average deficit $ 1.75 t /10.75%, GW Bush, $3.46 t/7.98%, Clinton $ 5.2t/6.16%, GWBush $12.65 t/4.14%, Obama $16.08/2.58%, Trump $22.86/2.02%. If the higher levels of debt doesn’t cause high rates (low rates are a function of the fact that government has to support a weaker economy in a two pronged fiscal and monetary policy attack to keep the economy growing, then another way to think about this is what is the “BANG FOR THE BUCK” that each President got from his fiscal indiscipline.

Reagan was able to get by averaging the yearly marginal gain in GDP to gain in debt, $ 1.70 increase in GDP for each $ 1 increase in debt. Bill Clinton had an average of around $ 6.00 primarily due to the last years when the Pay-Go plan for the government spending limited the increase in the deficit driving it to zero in the last year of his Presidency. Obama facing the deep recession of the 2008-09 period and the increased spending to get the economy moving again was able to get a 65 cent return on the increase in debt, while Trumps return on debt is just 56 cents with an average growth in GDP of less than 1% for the four years of his Presidency (Obama averaged 1.6% growth over the eight years.).

So Joe Biden and the Democrats need to go big. The half a loaf offered by the few Republicans who still have a care for their constituents in order to get bipartisanship isn’t worth the trouble. If the plan needs to be amended, amend it to reflect priorities, like getting the money to the people unemployed rather than to everyone making less than $ 75,000 dollars, a fictional number reflective of last year’s income not this year’s problems. But don’t assume that adding to the government debt isn’t necessary or proper or dangerous to the health of the economy. Failure to spend is more dangerous than spending too much.

 