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Quick Hits

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The National Debt

Despite periodic political attention (such as from Ross Perot in 1992 and the Tea Party more recently), our national debt has continued to skyrocket, rising more over the past dozen years (2010–2022) than across the previous two centuries (1789–2010).[1] The primary culprit is so-called "mandatory," or autopilot, spending. Such spending dwarfs all other spending and makes it effectively impossible to balance the budget simply by cutting discretionary spending (the type of spending that involves Congress actually deciding how much funding a program will get).

The choice is clear: Reform "mandatory" spending or go ever-deeper into debt. Already, rampant deficit spending has contributed to inflation and has wasted trillions of dollars of Americans' hard-earned money on debt interest payments. Absent responsible statesmanship, the bill will eventually come due in a fuller sense. When describing government actions that lead to "misery" and "suffering," Thomas Jefferson said that "the fore horse of this frightful team is public debt. Taxation follows that, and in its train wretchedness and oppression."[2]

Key Arguments

In recent years, deficit spending and debt have increased to a staggering degree.

- The national debt—which reached $4 trillion as Ross Perot ran for president 30 years ago mainly on that issue—has now eclipsed $30 trillion (through fiscal year 2022).[3]
- If the national debt were to keep rising at the same rate over the next 60 years as it did over the past 30 years, it would increase more than 50-fold (from now) and surpass $1.5 quadrillion (a quadrillion, which sounds like a made-up number, is a thousand trillions).[4]
- With the all-time deficit record sitting at $1.4 trillion, the federal government obliterated that record in 2020 by spending $3.1 trillion that it didn't have—as for every $10 in tax revenue that came in, $19 in spending went out.[5]
- In 2020 *alone*, the federal government racked up more deficit spending than it had during the first 36 years of the postwar era *combined* (1947 through 1982), and that's even after adjusting for inflation.[6]
- The federal government spent more than $6.5 trillion in 2020, breaking the all-time spending mark by more than $2 trillion—and then promptly set a new spending record in 2021, spending $6.8 trillion.[7]

Our government spends too much; it doesn't tax too little.

In 2021, the federal government collected more than three-and-a-half times as much money, in real dollars per capita—that is, above and beyond inflation and population growth—as it did at the start of the post-World War II period. But it spent nearly seven times as much.[8]

Within "mandatory" (auto-pilot) spending, there are programs that have a dedicated and generally sufficient revenue stream (such as Social Security), and there are those that do not have a dedicated revenue stream that comes anywhere near covering their costs—such as Medicare and Medicaid (and Obamacare, part of which expanded Medicaid). Payroll taxes cover only about a third of Medicare's costs and none of Medicaid's.[9] In other words, those who launched these Great Society programs had no idea how to pay for them.

As a result, it's not national defense or even the New Deal but rather the Great Society that is bankrupting us—and the father of our debt is Lyndon Johnson, not Ronald Reagan:

Our deficit problem is primarily a Medicare and Medicaid problem.

- Real per-capita *defense* spending *fell* from $2,283 in 1962 to $1,953 in 2020. Meanwhile, real per-capita spending on *everything but defense rose* more than eight-fold (from $1,930 in 1962 to $15,646 in 2020).[10]
- In real per-capita spending, we spent more than five times as much on defense in 1975 as on Medicare and Medicaid combined. By 2019, we spent 56% more on Medicare and Medicaid than on defense.[11] In 1975, the costs of Medicare and Medicaid consumed 7% of all federal tax revenues. In 2019, they cleared 30%.[12]
- The first year that Medicare spending visibly hit the books was 1967. From that point through 2020, Medicare and Medicaid cost a combined $17.8 trillion, while our combined federal deficits over that same span were $17.9 trillion.[13] In essence, our deficit problem is a Medicare and Medicaid problem.

Debt held by the public is rising exponentially.

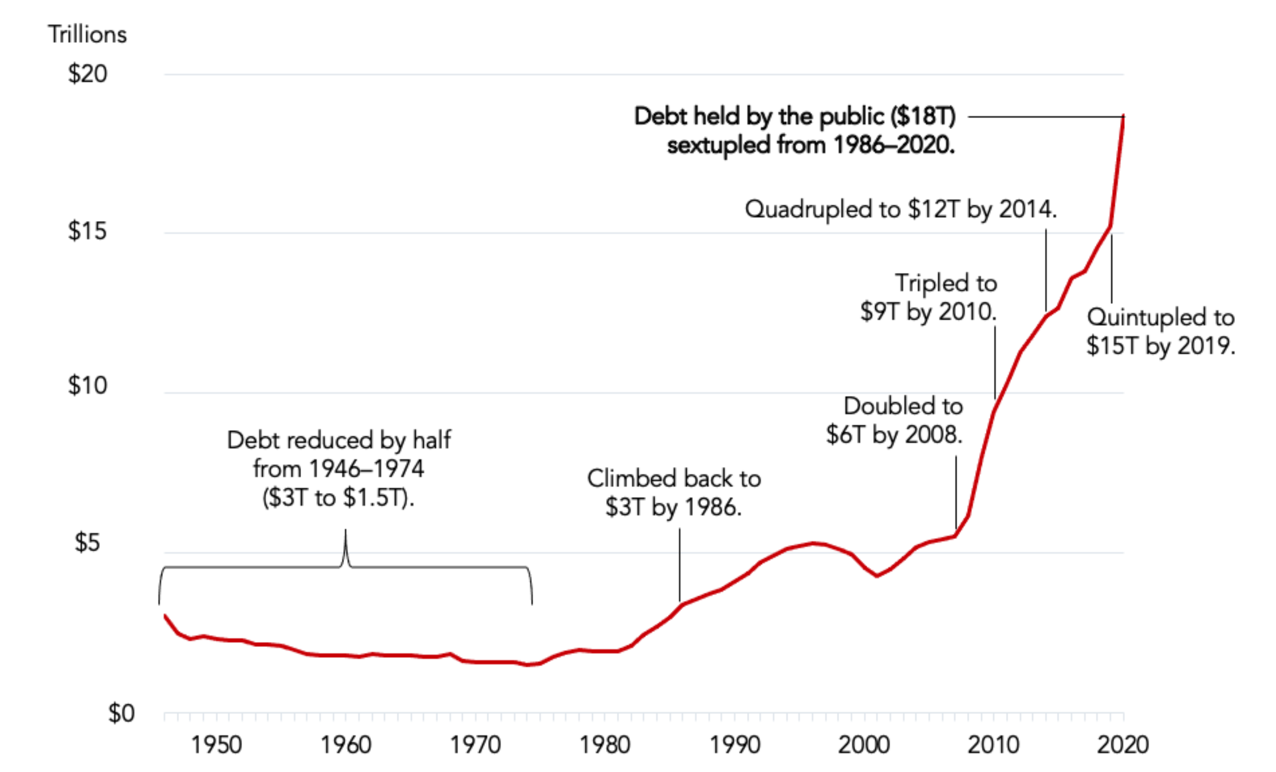
$1 out of every $9 paid in taxes essentially goes into the trash.

The portion of the national debt that really matters is the almost 80% that's held by entities—whether foreign or stateside—other than the federal government. Such "debt held by the public," which is fueled by deficit spending, has to be paid back to outside entities, whereas debt not held by the public merely involves intragovernmental transfers.[14]

The best way to measure debt is in real (inflation-adjusted) dollars, or in real dollars per capita. Debt apologists like to measure taxes, spending, and debt in relation to the gross domestic product (GDP), rather than in relation to inflation or population growth. That way, if Americans' tax bills double, but the economy doubles in size over that same span, it can be said that Americans aren't paying any more in taxes (as a percentage of GDP). The same thing is true with the debt, which only rises by this measure if it increases faster than economic output. This way of talking partially masks the magnitude of our debt problem.

In real dollars, debt held by the public fell by half in the decades following World War II. It then started to rise in the mid-1970s (as the Great Society programs ramped up) and has risen exponentially from there:

- At the end of World War II, the federal government owed $3 trillion of debt held by the public in constant 2012 dollars (up from about $700 billion when the war began). Subsequent statesmen succeeded in cutting that tally in half by 1974 (to $1.5 trillion), but it rose back to end-of-World-War-II levels by 1986 (to $3 trillion), doubled end-of-World-War-II levels by 2008 ($6 trillion), tripled them by 2010 ($9 trillion), quadrupled them by 2014 ($12 trillion), quintupled them by 2019 ($15 trillion), and sextupled them by 2020 ($18 trillion).[15]



Debt Held by the Public by Year (in trillions of constant 2012 dollars)

- The situation is getting worse, fast, as we have run up more debt held by the public under Barack Obama, Donald Trump, and Joe Biden than we did under the previous 42 presidents combined—even after adjusting for inflation.[16]
- We racked up more debt held by the public in the twelve months of 2020 than we did during the four years of the Second World War, even after adjusting for inflation.[17]
- Foreign holdings compose about a third of all debt held by the public, with Japan and China holding by far the largest shares (over $1 trillion each).[18]

Debt lowers our standard of living and dims our country's future prospects.

In 2022, about $1 out of every $9 that American paid in federal taxes essentially just went into the trash. It was used to pay interest on the debt, not to buy anything.[19] That substantial burden on taxpayers will increase if interest rates rise, especially as debt levels rise.

Any realistic effort to balance the budget must focus on "mandatory" spending.

About 70% of our spending—consuming about 90% of tax revenues—is on autopilot.[20] To balance the budget solely by cutting the portions of the budget that Congress actively controls through the appropriations process, we'd have to cut discretionary spending—which includes defense—by about 75%.[21] Thus, a balanced budget amendment, without major "mandatory" spending reforms, would lead to huge defense cuts or tax hikes.

Solutions

Medicare clearly must be reformed.

We came tantalizingly close to fixing things back in 1999, when the National Bipartisan Commission on the Future of Medicare, which grew out of the Newt Gingrich-championed and Bill Clinton-signed Balanced Budget Act of 1997, drafted an appealing blueprint for reform. The Commission, chaired by Democratic Senator John Breaux and Republican Congressman Bill Thomas, floated a variety of proposals, most notably "premium support," which would utilize private competition to keep public costs down.[22] Congressman Paul Ryan picked up many of these ideas during his Obamacare-fighting days, but this time Democrats resisted. Reforms along these lines, which presumably must be bipartisan to be politically viable, must be enacted into law. Without them, Medicare's malfunctioning autopilot will fly not only the plane but also the country into the ground.

Consider ending the Medicare payroll tax while broadening the income-tax base.

The Medicare payroll tax is a needless de facto second income tax. It could be eliminated in exchange for having almost everyone pay at least some income tax (rather than having "refundable" tax credits turn April 15 into a payday for people who don't pay income tax). Unlike the Social Security payroll tax, which is vital and funds Social Security as a (more or less) pay-in-for-yourself program, the Medicare payroll tax funds only about a third of Medicare and helps perpetuate the false notion that Medicare too is mostly a pay-in-for-yourself program.[23] Eliminating the Medicare payroll tax would soften the perception of Medicare as an entitlement—while simplifying the tax code, encouraging hiring, and easing the tax burden on many working-class taxpayers—and might make it easier to reform.

Medicaid also must be reformed.

Medicaid's funding structure, whereby every $1 of state funding is matched by between $1 and $9 of federal funding, invites waste and inefficiency.[24] The more a state spends on Medicaid, the more federal money it gets. If it manages to reform its Medicaid program, it gets at most half of the savings—usually far less. Also, states often hire consultants who concoct elaborate shell games to exaggerate state funding of Medicaid, thereby bringing in even more federal money, much of which funds non-Medicaid ventures.[25] If Medicaid were reformed so that each state simply received a given amount of federal funding, independent of the state's own expenditures, that should remove most of these perverse incentives and reduce Medicaid's costs.

Social Security needs to be sensibly adjusted.

Social Security has always been self-funded, but it too is projected to dip into the red about a dozen years from now. It poses nowhere near the threat to our fiscal solvency that Medicare and Medicaid do, but its costs have still risen faster than overall federal spending, and it does need to be sensibly tweaked. The percentage of the U.S. population that is over age 75 is roughly the same as the percentage that was over age 65 when Social Security first began,[26] yet the eligibility age for receiving full retirement benefits has been raised just two years (from 65 to 67) over the past eight decades. Gradually (but not too gradually) raising that age to reflect current biological and fiscal realities, is an obvious and necessary fix.

Further Resources

"In the Red," *Claremont Review of Books*, Spring 2022.

Endnotes: https://www.americanmainstreet.org/debt-endnotes