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A Debt The Founders Wouldn't Believe

By SEN. JUDD GREGG | Posted Friday, June 26, 2009 4:20 PM PT

In a 1789 letter to James Madison, Thomas Jefferson wrote: "The earth belongs to each of these generations, during its course, fully, and in their own right. The 2d. generation receives it clear of the debts and encumbrances of the 1st. The 3d of the 2d. and so on. For if the 1st. could charge it with a debt, then the earth would belong to the dead and not the living generation. Then no generation can contract debts greater than may be paid during the course of its own existence."

What would Thomas Jefferson think today, as the Obama administration puts this generation on a path to drive the debt sky-high, effectively leaving our children and grandchildren to foot the bill?

Over the past 40 years, U.S. debt has averaged 36% of our gross domestic product. Because of the current economic downturn and the fact that the government has had to serve as a lender of last resort to stabilize the financial system, we are seeing what should be only a short-term spike in our debt levels.

By the end of this fiscal year, our publicly-held debt will be about 57% of GDP. This is not a good situation, but a temporary spike in debt can be managed, just as it was in the past when we were facing the crises of World Wars I and II, the Civil War and the War of Independence. In those instances, debt was rapidly paid off during the postwar periods.

Under President Obama's budget plan for the nation, this debt will not be rapidly paid off once the recession ends. Instead, it will continue to mushroom, driven by the president's new proposed spending that we cannot afford, which comes on top of looming entitlement spending we are already facing as the baby boom generation moves into retirement.

Because of this spending, we will have budget shortfalls, or deficits, averaging $1 trillion each year for the next 10 years.

Since the president's budget does not propose to ask Americans today to pay for that additional spending through taxes, the only way for the U.S. government to get that money is to borrow it, which means adding to, not reducing, the debt. By the end of the budget period as proposed by the president, the debt will have skyrocketed to 82% of GDP, which is simply not sustainable.

Interest payments on that debt will soon be the largest single item in the federal budget — more than $800 billion per year in 10 years' time. That will eclipse what we will spend on national security, and is four times as much as we will spend on education, energy and transportation combined.

These are not abstract numbers, either — the debt will have an effect on every American. In 2019, under the president's plan, each U.S. household's share of the federal debt held by the public will be $133,000 — more than many Americans owe on their mortgage.

Passing a huge, unaffordable, debt-ridden government on to our children — a terrible thing for one generation to do to another — is only one of the troublesome aspects of this situation. The other reason for serious concern is our standing in the global economy, and most importantly, with our creditors.

Currently, the U.S. government has the highest possible credit score — a AAA from credit rating agencies such as Moody's and Standard & Poor's — so the debt issued by the U.S. Treasury is considered a very safe investment and is purchased by individual investors, public and private entities, and governments around the world.

U.S. Treasury debt is a desirable commodity, and that has helped to keep U.S. interest rates low.

In recent news, Standard & Poor's issued an early warning about the AAA rating of the United Kingdom, indicating that it might reduce the U.K.'s rating within the next two years. S&P has downgraded Ireland's debt rating twice so far this year.

What does this mean?

When a country's bond rating is downgraded, lenders will have less confidence that the country can repay its debt, and that country will have to borrow at higher interest rates.

Could this happen to the United States?

I certainly hope not, but China, our biggest creditor, is becoming increasingly concerned about our lack of fiscal discipline and the impact that continued excessive borrowing will have on the value of Treasuries that China holds.

A former adviser to the Chinese Central Bank recently said publicly that "the U.S. government should not be complacent," and noted that China has alternatives to buying U.S. Treasuries — that it could invest its money in safer vehicles.

If the Chinese start to reduce their purchases of our government securities because of our need to borrow increasing amounts of money to finance all the spending that the president has proposed, we will have to start offering higher interest payments to potential lenders to make our securities more attractive.

As that interest on U.S. Treasuries goes up, so does the financial burden on taxpayers in the next generation. This would hit the next generation with a double whammy — unnecessary debt we're already incurring, plus higher interest rates on our borrowing.

Right now we are on a perilous and unsustainable fiscal course, which, if left unchecked, will lead to some disastrous results — devaluation of the dollar, massive inflation and a confiscatory tax rate on our children that will destroy any hope for the same economic opportunities and lifestyle that we have enjoyed.

But that is exactly the plan the president has laid out. The Obama budget does nothing about the health care and Social Security costs that the credit rating agencies have warned about.

The current budget plan puts us in over our heads, fiscally speaking, and we cannot continue to ignore the warning signals. Thomas Jefferson was right — no generation should take on more debt than it can pay off during its lifetime — and we should take his wise words to heart.

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