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Brace Yourselves **by Jacob G. Hornberger**

Make no mistake about it: the central economic problem facing the United States is out-of-control federal spending and the massive federal debt that continues to pile up. As welfare-state spending and warfare-state spending have continued to soar for the past seven years, U.S. officials have gone on a massive borrowing spree to finance their massive spending spree. Since 2000, the national debt has almost doubled — from \$5.67 trillion to \$9 trillion.

It is out-of-control federal spending — and the massive borrowing that has accompanied it — that is at the core of the mortgage crisis. How could sucking all that money out of the capital markets to finance federal expenditures not have an effect on the availability of private capital in the home-loan market?

It is out-of-control federal spending — and the Federal Reserve policy that is accommodating it — that is at the core of the dollar crisis. How could the printing of money to pay off the debt not have an adverse effect on the value of the dollar?

Imagine the following scenario in your family. For the past 10 years, your family's annual income has been \$80,000 per year. Each year, you have spent \$100,000. To cover the excess, you have run up credit-card charges of \$20,000 per year. You now have a credit-card balance of \$200,000. It is becoming increasingly difficult to service the debt on the credit card, let alone pay down any of the principal. To make matters worse, you continue to spend \$100,000 per year while your income remains at \$80,000.

What is the solution to your family's problem? Obviously, the solution is not simply to "cut" spending. If you simply "cut" spending to a point where spending continues to exceed income, you haven't really solved your fundamental problem.

The solution instead is to *slash* spending to the point that it is less than your income. In that way, a portion of your income is then freed up to pay the interest on your debt and also to pay down the principal.

The problem facing the hypothetical family is the problem facing the United States. Ever since 9/11, federal spending has gone through the roof, far exceeding the tax revenues of the

government. Year after year, U.S. officials have borrowed the difference, without any heed to the long-term economic consequences.

Obviously, one way to address the problem is to raise taxes to the point that tax revenues exceed government spending. The problem with that approach is that it continues to suck billions of dollars of income and savings out of the private, productive sector and transfer it to the government, non-productive sector.

The better solution is to slash expenditures so that spending is less than tax revenues, which would enable U.S. officials to begin paying down the principal on the debt.

How likely is that? Not likely at all. Keep in mind, after all, that we are talking generally about two different types of expenditures — those of the welfare state and those of the warfare state.

What are the chances that Americans will tolerate a major slashing of welfare-state programs? Answer: None. After all, does anyone honestly believe that Americans would accept massive reductions or elimination of such major welfare-state programs as Social Security, Medicare, Medicaid, educational subsidies, foreign aid, farm subsidies, and corporate grants? Not on your life. Americans are not about to let go of any part of their welfare state.

What about the warfare state? The problem is no different. There is no possibility that either President Bush or Congress would agree to the type of major slashing that would be required to rein in military spending. After all, would they agree to immediately withdraw all troops from Iraq in order to save all that money? Would they agree to close the Pentagon's more than 700 overseas bases in more than 100 countries? Would they agree to reduce the Pentagon's budget for its "global war on terrorism," its indefinite occupation of Iraq, and its ceaseless preparation for the "next war"? Not on your life. In the minds of the president and most members of Congress, that would mean surrendering to the terrorists and jeopardizing national security.

So what's the way out of this welfare-warfare economic vise? As a practical matter, there is no way out because neither welfare-state spending nor warfare-state spending is going to be slashed. We all know that. The debt will continue to mount. The Federal Reserve will continue to print the money to pay off the debt. The dollar will continue to plummet.

My advice? Given that the American people and their federal officials are not yet ready to give up on either their welfare state or the warfare state — and the massive expenditures that are needed to fund them, my advice would be the same I'd give to people on a ship heading directly toward an iceberg: Brace yourselves.

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