

The Harbour League



FACTORING IN THE FUTURE

By Herbert I. London

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On February 24th in President Obama's address to the joint houses of Congress, he said that we should not impose a debt on the next generation it cannot pay. As the father of three girls I found myself applauding that statement.

Yet there are undeniable facts that go beyond florid rhetoric. Although Mark Twain once noted, "There are lies, damn lies and statistics," there are statistics worth noting in the context of present conditions.

In order to meet the demands imposed by the so-called stimulus bill, we, the American people, must borrow and, as any debtor knows, there are two costs to borrowing: financing and opportunity costs.

Interest payments on the \$787 billion stimulus package will be about \$500 billion over a 30 year period, a total expense of about \$1.3 trillion. As the president pointed out this should generate or retain about 4 million jobs at a cost of \$325,000 a job. Think about that number. If the president gave \$100,000 debit card to every unemployed person he could save two-thirds of the expense.

When the government borrows money, it means capital is divested elsewhere. American investors buying debt do so at the expense of other investments, thus reducing money available for private economic activity. As government spending expands, private spending contracts. If banks buy U.S. securities, there is less money available for lending.

Even if foreigners, namely the Chinese, purchase U.S. bonds, it takes money from private investments, thus slowing down long-term recovery. If the Federal Reserve buys the debt, it will result in either higher interest rates – reducing economic activity – or inflation, a hidden tax on purchasing power.

With the stimulus bill enacted as law a family of four with a median income of \$61,223 will have per capita debt burden of \$140,989 – and that number is rising as I write it. Keep in mind this figure does not include state, local and personal debt.

The national debt last year was 75% of GDP, higher than what it was in 1943. After the stimulus plan the ratio will be 84% and, if one were to anticipate the passage of Secretary Tim Geithner's Financial Stability Plan designed to stabilize bank problems, the U.S. ratio will be over 100%. The only time in our history that occurred was at the end of World War II, 1944 and 1945. At the moment, there are only five nations with debt to GDP ratios in excess of 100%: Zimbabwe, Lebanon, Japan, Jamaica and Italy.

It seems to me that with the Obama fiscal package economic principles have been expunged from the political world. Apparently few people can recall the arguments in the 20th century about public ownership of the economic infrastructure, the means of production. I feel as if I am looking into a glass darkly without any memory of capitalism's basic structure and the need for private property ownership. Where is John Locke and Adam Smith when you need them? Or are we witnessing the efflorescence of a national dumbing down so profound that Americans no longer understand or appreciate how wealth was generated in our economic system in the first place?

Admittedly unfettered markets can generate an excess of greed and fraud. That explains why even the most ardent defenders of the free market called for a regulatory regimen. Now, however, a Democratic majority has lost sight of economic principles and is intent on the retention of present comforts even if it exhausts the capital accumulation of the past. How does a political leader balance desire and needs? How does he consider the reality of the present without bankrupting the future?

Today's policy is a rescue of capital markets and growing unemployment. As I see it, the policies now being enacted may have short term gains – throwing so much capital at our problems is bound to have a marginally positive effect – but the long term consequence, is an ossified economy that will not have the freedom or capital to innovate.

President Obama tells Americans he is concerned about imposing a debt on the next generation. Well, he may be concerned, but when you consider the numbers, his conviction is contradicted by reality.

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