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Dear *Connection* Reader:

As announced in the latest *Connection* magazine, we have changed this year from a bimonthly to a quarterly publication. To help you receive timely information about justice advocacy, we have also created this update, which will be sent to you at the mid-point of each quarter. We have named this new communication the "InterConnection" because it is meant to strengthen our bond with you. It will include deeper reflections on what is happening in Washington than you normally get with our weekly legislative updates.

NETWORK
educates, organizes,
and lobbies
for economic and
social transformation.

In addition, we are very pleased to announce that we are in the process of redesigning our Web site. The new site will be rolled out soon and it will give you better access to up-to-date information and advocacy advice. We know that our social justice agenda will face challenges in Washington this year, and we trust that our new Web site and this *InterConnection*, along with the *Connection* and legislative updates, will help keep you strongly engaged!

We invite you to send us your comments. You can send them to connection@networklobby.org.

Peace.
Stephanie Niedringhaus, NETWORK Communications Coordinator

P.S. Future editions of the *InterConnection* may have a somewhat different look as we incorporate new design elements from our Web site. Its mission to strengthen our bond with you won't change, however!

ARTICLE

The National Debt - A Moral Issue
By Simone Campbell, SSS

As people of faith, we don't often discuss the national debt. We are more keenly focused on the economic and social needs of vulnerable people in our country and world. We value the dignity of every individual and strive to create justice through federal economic and social policies. Unless we address the issue of government debt, however, we will not be able to finance responsible programs to meet future societal needs. We could, in fact, bankrupt our country unless we apply our faith principles to the economy.

We must exercise fiscal responsibility as well as moral responsibility to ensure that the basic needs of all people are met. If we do not weigh in on this important issue, we will leave it to the bankers and Wall Street to decide. They do not put the needs of vulnerable people first.

As people of faith, we must engage the debt issue if we are to achieve anything approximating the common good. In this brief article I will discuss this stealth issue—including what the national debt is, why it's a problem, how we got here, and what we can do about it.

What Is The National Debt?

The National Debt is the amount of money that the U.S. government has had to borrow over the years to pay for the functioning of the government and its programs. It is now money that is owed

to others (foreign governments, individuals, corporations). Anyone who has bought “Treasury Bonds” or other instruments owns a piece of this debt, which includes the interest our government must pay on the debt.

A way to think of this is to analogize it to a monthly bill from my Visa credit card. I pay off my bill each month so I do not develop a debt. But let’s say that in November of last year I charged more than I could pay off. I carry this debt forward, trying to pay a little bit on it each month until I have paid it off. This is like the national debt that we can carry forward from year to year, paying off some of it as we go or just paying on the interest.

The national debt is not the same as the “budget deficit” we discuss each year in the budget cycle on Capitol Hill. The budget deficit is just the planned red ink that is approved by Congress in the process of passing the “ordinary” expenditures of the federal government. It is like my annual budget that I prepare for my community. I try to make sure that my expenditures are less than my revenue. My budget covers my ordinary predictable expenditures, but unexpected events happen sometimes (e.g. a trip because of a family emergency). They do not change my budget, but they certainly affect my expenditures and may lead to creating a debt if I can’t find a way to meet the expenses with my existing revenue.

According to the U.S. Treasury Department, our national debt is now well over \$12 trillion. (To determine the debt on any given day, go to <http://www.treasurydirect.gov/NP/NPGateway>.) We’ve known for a long time that such a large sum is cause for concern.

In the early 1990s, Congress enacted a law called “pay-as-you-go” (paygo) that required legislators to pay for new spending either through other savings or new revenues. This was in effect from 1993 through 2002, when the Republican Congress allowed it to expire. During the Clinton years, the annual budget deficits were significantly reduced and in 1998 through 2001 there were actual budget surpluses that allowed some of the debt to be paid off. These surpluses also gave rise to the 2001 Bush tax cuts and Congress’s incentive to disregard the paygo rules that were still on the books in 2001 and 2002.

Because the U.S. debt is expected to soon exceed the current \$12.4 trillion debt limit set in December 2009, President Obama signed a law on February 12 that raised the government’s borrowing authority to \$14.3 trillion while installing a new pay-as-you-go rule.

How Did We Get Into This Much Debt?

WARS ON A CREDIT CARD: After September 11, 2001, the U.S. entered into two wars, which the Bush administration never considered part of the “ordinary expenditures” of the government. So they never included the cost of the wars in the federal budget, and the costs never showed up in projected “budget deficits.” The Bush White House submitted the expenditures to Congress as “supplementals” outside of the regular budgeting process. In effect, this was like putting a family emergency (two wars) on a credit card and hoping to pay for it later. It should be noted that these two wars were waged just as the Bush tax cuts took effect. This combination created even more debt.

SKYROCKETING HEALTHCARE COSTS: Healthcare costs have dramatically increased at rates higher than the growth rate for the economy. Because of federal expenditures for Medicare and Medicaid, this growth rate has a large impact on the federal debt. I am keenly aware of this as my own healthcare costs skyrocket, but my salary has only grown a little—and in some years stayed stagnant. One way to handle this is to put the costs on my credit card and hope that I’ll be able to pay them down the road. I keep making minimal monthly payments, but never make a dent in the amount I owe. Another way to handle this personally is to cut spending, but Congress did not choose to do this.

DEEP RECESSION: Another aspect of the debt increase began with the recession in 2007. Actual federal revenues decreased at a time when the budget had predicted revenue increases. So the debt increased as more spending had to be put on the nation’s credit card. Stimulus bills that

people credit with saving our economy from the precipice added more debt. It should be noted that these expenditures actually generated some revenue for the government through increased employment. It is also projected that the stimulus bills will have little long-term impact on the debt because they were short-term payouts that generated economic growth and higher tax revenue.

INCREASED SOCIAL SECURITY PAYOUT: It is no surprise that Social Security expenditures increase dramatically as my generation of baby boomers reaches retirement age. Politicians, however, have been able to ignore this increase and delay dealing with it. This is no longer possible as the boomers begin to actually make claims on Social Security. The pressure will only rise to pay these obligations as the revenues generated by the workforce decrease with the aging population.

Why Is This Much Debt A Problem?

CONTRACTING ECONOMY: Since World War II, our country has managed its debt by continuing to grow the economy at record rates. In an expanding economy, tax revenues increase, and this allows for investment in the future by responsible borrowing. Personally, when my salary is growing regularly, I can put some costs on my credit card and pay them off as my salary goes up. But if my hours and salary are cut back I am less able to pay down my credit card bill, causing the debt to increase as additional interest accrues. Most economists caution that we should not significantly reduce federal expenditures until the recovery is further along. They recommend 2012 or 2013 as a realistic time to expect sufficient growth in the economy so we can more vigorously address the issue of debt.

RISING INTEREST RATES: As debt increases, the nation makes payments on that debt. As long as the U.S. can borrow money at low interest rates, these payments (called debt service) are not too onerous. However, low rates encourage people like me to keep using my money and not save it if I am only going to earn 1% interest or less. If the Federal Reserve thinks there is too much money in circulation and inflation is seen as a threat, they are likely to raise interest rates in order to encourage people like me to save money. If that happens, then the U.S. will have to pay more money to service the existing debt.

RISKY INVESTMENTS: Another potential scenario is that if purchasers of U.S. debt (e.g. China and Japan) begin to feel unsure about the capacity of the U.S. to repay our debt they will not purchase the debt at low interest rates. They will require a "risk premium" to protect against the possibility of default. This, too, will raise interest rates, and the cost of the debt service will increase. For this reason, if for no other, the U.S. has to be able to maintain its capacity to repay the debt and not raise international concern about the value of the dollar.

How Much Debt Is Okay?

Currently, the U.S. is carrying debt that is approximately 72% of our Gross Domestic Product (GDP). The last time the debt was so high was during the 1940s, when we were paying for World War II—and most of that debt was held by people in the U.S. who bought "war bonds." In 2002 (the last year there was a federal budget surplus), the debt was 33.6% of GDP. There seems to be a growing consensus that the U.S. can afford to carry a maximum debt of about 60% of our GDP. Why this amount? It is based on the interest. The target interest payment (called "debt service") is 2 to 3% of GDP.

The dramatic difference between our actual federal debt and the consensus debt target illustrates how much work we have to do to get control of our rising debt.

What Can Be Done To Change This Current Situation?

It is tempting to say, as the administration did in January 2010, that we need to "tighten our belt" as a nation. The White House proposed a three-year freeze of non-security discretionary spending. This turned out to be a freeze on less than 15% of the federal budget, and it included human

needs programs like housing for low-income people. While the politics might be good to draw attention to the debt problem, the proposal will not make a significant change in the debt. We know as people of faith that balancing the budget on the backs of poor people is not just. The measure of faith is how we care for people struggling at the margins of society.

There are two ways to decrease the federal debt: reduce spending and increase revenue. Because of the magnitude of the problem, we need to do both. Suggestions below do not target poor people as the focus for further belt-tightening. The proposals distribute costs to sectors of society that can best afford to pay them. They are proposals for the common good. None will be easy, however, and all will take at least five years to make a significant difference. But we must get started.

COST REDUCTIONS

1. Reform Healthcare and Control Long-term Costs

Perhaps the single most important cost containment policy is healthcare reform that reduces costs. This will significantly reduce federal expenditures for Medicare and Medicaid. In the short term, there will be some additional costs because of subsidies for low-income families, but getting everyone into our healthcare system, as proposed in the House and Senate bills, will result in lower overall costs.

2. Smart Security

We as a nation can no longer afford to just throw money at our fears. We have funded an amazing increase in “transportation security,” as those of us who fly know. And yet, the results have been described as “theater security”—done to give the impression of security without really improving security.

We have spent billions to build a border fence with Mexico while not addressing the real issues of undocumented migration (economics of the sending and receiving countries). We need smart border security that provides responsible ways for people to cross our borders in order to work in our country.

The Obama Administration has proposed scaling back or terminating many weapons programs and systems for the military. While a few notable victories were achieved in the 2010 budget cycle, many programs were continued because Members of Congress wanted money to flow into their districts. We no longer have the luxury of district-specific spending. The common good requires that we stop unnecessary programs now.

3. “Paygo” for Congressional Discipline

The return of “pay-as-you-go” rules, despite some loopholes, should help focus congressional attention on the need for fiscal discipline. Proponents say it was the single most important factor in achieving budget surpluses in the Clinton years, although the expanding economy also generated new revenue.

REVENUE INCREASES

1. Let the Bush Tax Cuts Expire

By allowing the Bush administration tax cuts to expire, Congress will generate more revenue for the ordinary functioning of the federal government and thus reduce the amount that will have to be borrowed. Even if cuts on just those making more than \$250,000 a year were allowed to expire, this would help.

2. Reform the Immigration System

If the estimated seven million people who are in the U.S. working without proper authorization had their status regularized and began to pay taxes through their salaries, there would be significantly more payroll tax revenue over the next 10 years.

3. Increase Social Security Revenue.

Currently, the amount that an individual pays into Social Security is capped, which means that someone earning millions of dollars pays the same amount as someone with a more modest income. One way to help Social Security is to either raise the cap, or eliminate it altogether. This would mean that people with higher salaries would pay more into the fund. This fix has been recommended by many who have studied the issue, but there has never been the political will to act. As noted above, there is little time left to fix this pending problem.

There is a second potential source for Social Security revenue: taxing investment income. Currently, only wages are taxed for Social Security. Wealthy people who only live on investment income do not pay into the system. This could be a revenue source that would not unduly burden wealthy individuals as it protects elderly poor people who depend on Social Security for their retirement.

Conclusion

A nation that responds to domestic and global needs must maintain a strong economy. As people of faith, we have a strong interest in promoting justice in our society through equitable distribution of resources. We need to attend to the needs of those who continue to struggle in our country and world, and in order to do that we need to bring our national debt down to manageable levels. It will not be easy to achieve this goal, but we must create the political will to make it happen.

We cannot continue putting our expenses on our national credit card and hoping that we will have a plan for paying it off at some date in the future. Our political agenda must be focused on the common good, not just for ourselves but, as our Constitution says, for "ourselves and our posterity." We need to begin now to address our mounting debt and be prepared to act responsibly in the coming years.

Simone Campbell, SSS, is the NETWORK Executive Director.

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www.networklobby.org/development/join/index.html

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