

What A Joke

White House press secretary Jay Carney today told reporters that Obama thinks there can be agreement on a deal to reduce debt by more than \$2 trillion over 10 years. You can count on the media to misrepresent this, just as Carney did.

Carney (and Obama) certainly do *not* mean that the *national debt* will be reduced by \$2 trillion over 10 years. No, he means only that the federal government's *annual deficits* will average \$200 billion less per year over the next 10 years as a result of negotiated spending cuts and tax increases. That is *not* total debt *reduction*. It is merely a slight lessening of the pace at which new debt is being accumulated.

Reducing spending and raising taxes by \$2 trillion over 10 years will have little impact on the increasing national debt when the federal government is running trillion dollar deficits *every year*. The national debt is currently in excess of \$14.3 trillion, and that total will continue to increase every year. If nothing is done to cut federal spending, the total national debt may perhaps be \$25–\$30 trillion 10 years from now. Reducing spending by \$2 trillion over 10 years means only that the national debt will instead be a “mere” \$23–\$28 trillion. *That* is the “debt reduction” Obama and Congress are negotiating.

Because the mind boggles at the thought of trillions of anything, here is an analogy to make the issue easier to comprehend:

Sam owes a total of \$50,000 on 10 credit cards. He agrees to “reduce his debt by \$20,000 over 10 years.” That’s a good thing, right?

No, it is not, because Sam does *not* mean that over 10 years he will reduce his outstanding \$50,000 *balance* by \$20,000, lowering his total debt to \$30,000. He means only that he will reduce his *new spending* by \$2,000 per year for the next 10 years. That is, rather than charge \$5,000 in new purchases per year he will charge “only” \$3,000 per year. Voila! Sam “reduces” his debt by \$20,000 over 10 years! But at the end of those 10 years he will certainly owe far more than \$50,000, because every year he will be adding \$3,000 to his total, *plus* the accumulating interest charges.

This is the game now being played in Washington, D.C. There is no deal between Obama, his fellow Democrats, and the Republicans that will reduce the total national debt. Any deal will only cause it to grow slightly less slowly. *The eventual “deal” will delay our arrival at the poor house by a few weeks or months, but arrive there we certainly will.*

While the politicians and the media fuss over whether the deal is \$2 trillion or \$3 trillion over 10 years, keep in mind that unless federal spending is slashed dramatically—at least \$500 billion per year—there is no point in worrying about whether the “winners” in the negotiations were the Democrats or the Republicans. The losers are all Americans.

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