Off the Shelf

A Proposed Diet for the U.S. Budget

BY HARRY HURT III

If you are going to buy just one book in this presidential election year, you might want to consider “Where Does the Money Go?: Your Guided Tour to the Federal Budget Crisis” by Scott Bittle and Jean Johnson (Collins, $16.95 in paperback). This is a book that manages to be entertaining and irreverent while serving as an informative primer on a subject that is crucial to the future of all Americans.

These words are neither politically partisan nor alarmist. Mr. Bittle, the executive editor of the Web site Public Agenda Online, and Ms. Johnson, executive vice president and a founder of the site, fault both Democrats and Republicans as racking up huge annual deficits and even more substantial long-term national debt. They provide easily understandable charts and statistics to support their overall case.

And they enliven their narrative with references to the Rolling Stones, the Barenaked Ladies, “Seinfeld” and “It’s a Wonderful Life,” placing them alongside more expected quotations from the likes of Ben S. Bernanke, the Federal Reserve chairman, and Robert E. Rubin, the former Treasury secretary.

Here are some of the most pertinent facts, as set out by Mr. Bittle and Ms. Johnson: In 31 of the last 35 years, the federal government has spent more money than it has taken in. (The exceptions were the budget surplus years 1998 to 2001.) Along the way, the government has amassed a debt that now exceeds $9 trillion. Over $2 trillion of that is owed to foreign banks and other international investors, with China holding $420 billion and the oil-exporting countries $113 billion, using figures from the 2006 budget.

Right now, these foreign investors consider U.S. government bonds one of the safest places in the world to put their money, but they could decide at some point that Europe or China or some other place is a better bet,” the authors observe. “This would be the global equivalent of a store clerk seizing your credit card and cutting it up.”

Alas, the asset side of the federal balance sheet is rather paltry, compared with the liability side. On paper, the government’s total assets, including facilities and inventory, are valued by the authors at about $1.4 trillion. If the government had to submit a standard financial statement of the type required of the average home buyer, it would show a negative net worth of $7.6 trillion.

Mr. Bittle and Ms. Johnson predict that even with continued foreign investment and financial forbearance, the nation may soon find it impossible to fulfill its existing and future commitments to its own citizens in the form of Social Security and Medicare payments. In 2006, Social Security, Medicare and Medicaid consumed 39.7 percent of the federal budget of $2.6 trillion, compared with 19.7 percent for defense.

In the future, the cost of entitlement programs will balloon as 78 million baby boomers age. In 2006, there were fewer than 50 million Social Security recipients; 12 years from now, there will be nearly 70 million. With health care costs rising faster than inflation, the part of Medicare that covers hospital costs for the elderly is

Here is the very pressing issue the book addresses: “The United States is seemingly addicted to spending more than it takes in,” the authors assert. With a staggering national debt, and expenses that will only grow as more baby boomers retire, they warn, “today’s problems will seem like a fender bender compared to the economic train wreck the country will face if we don’t get the nation’s finances under control.”
already paying out more than it takes in from payroll taxes.

“Unless something changes, we could see a time (around 2040, if nothing is done) when nearly every tax dollar collected will be needed to pay for retirement and health care for the elderly and interest on the debt,” the authors warn. “There will be almost no money for anything else, except maybe a basic national defense.”

Mr. Bittle and Ms. Johnson give the lie to notions that the budget can be balanced merely by cutting out “pork barrel” spending and scientific, cultural and social extravagances. In 2006, projects that Congressional watchdogs broadly define as “pork” accounted for only $29 billion out of a total deficit of $248 billion. Expenditures on science, space and technology; arts and the humanities; foreign aid and international relations; and the programs formerly known as welfare — all favorite targets of so-called budget hawks — accounted for only about 4 percent of total government expenditures.

The leading presidential contenders take traditional Republican and Democratic positions on important budget issues. Senator John McCain opposes universal health care and supports partial privatization of Social Security. Senators Hillary Rodham Clinton and Barack Obama support universal health care and oppose the privatization of Social Security. But none of the candidates have offered a detailed plan for balancing the budget or reducing the debt.

Mr. Bittle and Ms. Johnson do not offer a coherent plan for resolving the fiscal problems of the United States, but they propose several initiatives that they say would steer us in the right direction. These include raising to 70 the age at which people receive retirement benefits; making people pay more in Social Security taxes, as well as privatizing Social Security (“but very slowly”); rethinking the prescription drug program, is expected to add $518 billion in costs by 2013; redesigning Medicare so that people can shop around for the most effective coverage; and passing a national value-added tax to help pay for Social Security and Medicare.

For the time being, the globally respected “faith and credit” of our federal government are keeping the United States afloat financially. But if we are unwilling to swallow the kind of bitter medicine that Mr. Bittle and Ms. Johnson prescribe, our country may one day be unable to make even the interest payments on our $9 trillion debt, payments that are now $226.6 billion a year — and we would be forced to declare ourselves a bankrupt nation.