David Hadley oped: The debt iceberg heading toward U.S.S. Ship of State

By David Hadley
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ONE hundred years ago this week - on April 15, 1912 - the RMS Titanic sank in the North Atlantic after hitting an iceberg. More than 1,500 lives were lost (not including Leonardo Di Caprio). The Titanic was brand new and the largest ship then afloat, but it was evidently not "too big to fail."

One century later, the U.S. steams toward an equally lethal iceberg, in our case financial armageddon. The debt our government has already run up ($15.6 trillion), our current rate of borrowing ($1.3 trillion per year) and the promises made to our people (especially Medicare and Social Security) will destroy us if we do not change course. And while more than 1,514 lives lost at sea are nothing to sneeze at, the suffering 310 million Americans will experience if we don't regain control of our finances will dwarf the Titanic's losses.

We face a different problem than the Titanic. The direct cause of the Titanic's demise was that by the time the lookout saw the iceberg, it was too late to avoid the threat.

The math of the Titanic's speed, its distance from the iceberg and the rate at which it could turn doomed the ship.

Our challenge is different. Our financial iceberg sits in plain sight and the coming catastrophe is obvious. And yet, most politicians and many voters eagerly seize on any pretext to avoid facing this inconvenient truth. So the lookout's job is not only to warn of the risk bearing down on us, but also to persuade you of the risk despite the voices of those who say there is nothing to worry about.

Examples of such wishful thinking abound. Wich of us subscribe to the following statements?

We can't afford to cut spending or raise revenes when the economy remains weak.

Yes, growth is anemic and 8.2 percent unemplyment far too high. But four years of stimulus and unprecedented U.S. government peacetime spending have coincided with perhaps the weakest recovery in American history. I believe our poor growth stems from the lingeing effects of the boom/bust/bailout, burdensome legislation and regulation and related uncertainty, and economic weakness among some of our trading partners. But if evidence means anything, dear reader, it is clear we cannot spend our way to recovery.

With interest rates so low, bond investors are telling us they will give us time to balance our books later.

The U.S. definitely benefited from investors' "flight to quality" during the panic of 2008-2009, and borrowed money at very low rates. Alarmingly, this dynamic has stalled. As former U.S. Treasury official Lawrence Goodman recently reported, 61 percent of U.S. government borrowing in 2011 came from the Federal Reserve. That means the Fed simply printed money to finance 61 percent of the U.S. budget deficit. Any thinking person knows this cannot continue.

We can balance our books by raising taxes on the rich.

Whether you would like this to be true or not, it is simply not the case. The U.S. already has the highest corporate income tax rate among major countries in the world, and the top 5 percent of taxpayers already provide approximately 70 percent of U.S. income tax revenue. President Obama says this is not enough, the rich must pay more. But his so-called solution - his "Buffett Rule," which calls for a tax rate of at least 30 percent for those whose incomes exceed $1 million - would raise only $47 billion over 10 years according to the Congressional Joint Committee on Taxation.

In other words, it would raise less in ten years than the U.S. government is borrowing every two weeks to fund its deficits. The simple math exposes President Obama's Buffett Rule as a political shell game, not a serious proposal.

These "why worry" arguments are often clever and sometimes have a ring of truth. Moreover, many Americans benefit from the status quo: defense contractors, public sector employees, green energy companies, 55-year-olds who have been told Medicare and Social Security are going to be there for them, bank CEO's and investors whose firms have been declared too big to fail, and more.

But sitting here in the crow's nest of the USS ship of state, it is clear we are heading directly toward a financial iceberg that is big enough to sink us. We still have time to change course and save the ship, but our margin for error is getting dangerously thin.

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