

SNG-Overwhelmed by debt-12-24-18

Will debt overwhelm us?

By Jim Nowlan

In the past week or so, I have seen articles in the Wall Street Journal, the Economist, USA Today and elsewhere sounding alarms about debt, and of how it could overwhelm us, leaving us no wiggle room to fight the next recession with the stimulation that debt can provide.

My lame excuse for not paying more attention is that I relied on conservative Republican budget hawks to battle debt. But no longer. Your tax relief in 2019 from the GOP-led 2018 congressional tax cut bill is paid for just about dollar-for-dollar with increased debt, \$1.5 trillion of it.

The great English economist John Maynard Keynes theorized that if governments basically saved for a rainy day, nations could largely avoid the typical economic booms and busts endured by societies.

That was fine in theory, but elected officials have become addicted to debt as a way of doing things for people right now. Let the devil pay the bills later, probably long after the debt-happy elected officials have retired from public service

Instead, the new tax cuts stimulate an already stimulated economy, and beneficiaries enjoy the ride, while it lasts.

Debt can be good, of course. Debt built the U.S. economy, by making homes, autos and appliances possible via installment loans. And loans often built the railroads, bridges and infrastructure of our society.

Yet debt repayment is squeezing government and household budgets as never before (other than in World War II, which I would say was a rather good, if hard to avoid, investment).

If I have my figures right, total government and individual debt is about \$35 trillion, or more than \$100,000 for each man, woman, child in our country. And this debt is up more than three times in inflation-adjusted terms since 1990.

A CNBC report noted recently that consumers are spending 10 percent of their income monthly on debt servicing, and this does not include home mortgage payments.

As a broken-down professor, I am fascinated by a relatively new, major category of debt—college loan debt held by students and parents. Up dramatically in just the past couple of decades, student loan debt, at \$1.5 trillion, now exceeds that for either autos or credit cards.

Sixty percent of college students and their parents today incur an average of almost \$30,000 in debt by the time they graduate.

Why has college loan debt spiked in recent years? Several reasons: Federal and state government support for higher education and for grants to students has subsided, actually declined significantly in Illinois. At the same time, government loan money is now easier to come by.

For-profit colleges have profited big-time thanks to student loans. Also, as a result of both cutbacks in direct government support and increased spending by campuses, public universities have increased tuitions rapidly, especially so in Illinois; so, more loans taken out.

Further, private colleges have made loans a key element in financial aid packages that make attending ol' Siwash cost no more "out of pocket now" than attending the flagship public university competitors.

Most of this is anything but evil; it supports the education of students, especially low-income students.

Yet student debt loads often wreak havoc on the plans of young couples to start a family or buy a home. And low-income students, many of whom never graduate, or take longer to do so, have a harder time than others paying back debt incurred when the idea sounded so good.

So why don't elected officials pare back debt? Because politicians absolutely hate to pay back debt. For an elected official to pay back debt is an opportunity cost, that is, taking money he or she wants instead to spend now on current programs. In other words it is anti-gratification, and voters want immediate gratification from tax cuts and new programs.

We need a national blue ribbon (yes, I know) commission on debt reduction. Second, you and I must ask candidates for office about their philosophies and proposed actions regarding government debt, including college loans, which are, after all, government-encouraged.

Debt can be a critical counter-cyclical tool (squirrel money away in good times and use the savings to stimulate a society in recession). But if we pile on more and more debt in good times, as at present, we will have less borrowing capacity later to counter recession or depression.